Large Filing Separator Sheet

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accounting should be discontinued prospectively.

Ineffectiveness

SFAS No. 133 requires for any changes in fair value of a derivative instrument related to hedge ineffectiveness to be immediately recorded in earnings. DIG Issue No. K4, Miscellaneous: Income Statement Classification of Hedge Ineffectiveness and the Component of a Derivative's Gain or Loss Excluded from the Assessment of Hedge Effectiveness, has the following provisions related to the classification in the income statement of hedge ineffectiveness:

> Statement 133 does not provide guidance on the required income statement classification of the amount of hedge ineffectiveness...While Statement 133 does not specify whether certain income statement categories are either permitted or appropriate, the Statement does contain specific disclosure requirements for those items.

Therefore, the Company should ensure that similar hedged items which result in periodic ineffectiveness are classified in the Statement of Operations in a consistent manner.

De-designation of a Hedge by Choice

- Cash Flow Hedges

When de-designating or re-designating a cash flow hedge, that part of any change in fair value of the derivative that resides in AOCI shall remain in AOCI and shall not be immediately transferred to earnings until settlement of the original forecasted transaction that was being hedged. That part of the change in fair value of the derivative that was previously recorded in earnings (ineffectiveness, if any) shall remain in earnings. Prospectively, the derivative shall be MTM unless re-designated as another hedge.

- Fair Value Hedges

When de-designating a fair value hedge, changes in fair value of the hedged item shall no longer be recorded and the asset or liability reflecting the fair value as of the date of de-designation shall remain on the balance sheet until the hedged item affects earnings. The hedging instrument, which is now a freestanding derivative, shall be MTM. The Company, at its discretion, may re-designate the derivative as another fair value or cash flow hedge at which time hedge accounting will commence.

De-designation of a Hedge for Cause

- Cash Flow Hedges

If it becomes probable that a forecasted transaction in a cash flow hedge will NOT occur within the originally specified time period or within an additional two-month period of time thereafter, then the hedge shall be terminated and the net gain or loss in AOCI shall be immediately reclassified into earnings. There is one exception to this rule. In rare cases, the existence of extenuating circumstances that are related to the nature of the forecasted transaction and are outside of the control or influence of the reporting entity may cause the forecasted transaction to be probable on a date beyond the additional two-month period of time. In such a case, the original hedge must be terminated but the related derivative gain or loss in AOCI shall continue to remain in AOCI until the forecasted transaction occurs. A pattern of determining that hedged forecasted transactions are NOT probable of occurring shall call into question the ability to accurately predict forecasted transactions and the propriety of applying hedge accounting for similar forecasted transactions in the future.

- Fair Value Hedges

If it becomes probable that a firm commitment that is being hedged in a fair value hedge relationship will NOT occur within the originally specified time period, then the hedge relationship shall be terminated. This will result in the hedging instrument being MTM and the hedged item being accounted for as if the contract was not in a hedge relationship subsequent to the termination of the hedge relationship. Any asset or liability previously recognized as an adjustment to the carrying amount of the firm commitment shall be immediately derecognized with a gain or loss being recognized in earnings. In addition, if the fair value hedge is no longer expected to be "highly effective" in achieving offsetting changes in fair value to the hedged risk, adjustments to the carrying amount of the firm commitment shall not be recognized subsequent to the last date on which the hedge was considered "highly effective," unless a specific event or change in circumstances can be identified which caused the hedge to no longer be "highly effective" whereby the date of the specific event or change in circumstances will be utilized to prospectively discontinue hedge accounting.

Service Contracts

Most service contracts are not considered derivatives under SFAS No. 133 due to the scope exclusion in paragraph 10(e)(2). A service does not involve the delivery of a fungible asset and, therefore, is not readily convertible to cash as defined in paragraph 83(a) of FASB Concepts Statement No. 5, Recognition and Measurement in Financial Statements of Business Enterprises. Paragraph 10(e)(2) of SFAS No. 133 excludes from its scope any contract which is not exchange-traded as long as the underlying is the price or value of a nonfinancial asset which is not readily convertible to cash.

Embedded Derivative Instruments

Contracts that do not in their entirety meet the definition of a derivative instrument or contracts excluded from the scope of SFAS No. 133, may contain embedded derivative instruments. An embedded derivative typically includes implicit or explicit terms that affect some or all of the cash flows or the value of other exchanges required by the contract in a manner similar to a derivative instrument (i.e., some or all of the cash flows will be modified based on one or more underlyings). For example, although lease agreements are excluded from the scope of SFAS No. 133, a lease agreement may contain an embedded derivative such that the embedded derivative instrument will be subject to the requirements of SFAS No. 133.

An embedded derivative instrument shall be separated from the host contract (e.g. lease contract, debt contract, etc.) and accounted for as a derivative instrument per SFAS No. 133 if all the following occur: i) the economic characteristics and risks of the embedded derivative instrument are not clearly and closely related# to the economic characteristics and risks of the host contract; ii) the contract ("the hybrid instrument") that embodies both the embedded derivative instrument and the host contract is not remeasured at fair value with changes in value recorded in earnings as they occur (under otherwise applicable generally accepted accounting principles); and iii) a separate instrument with the same terms as the embedded derivative instrument would meet the three characteristics to qualify as a derivative instrument as discussed above. Please refer to the guidance in paragraph 61 of SFAS No. 133 in determining whether the economic characteristics and risks of an embedded derivative are clearly and closely related to the economic characteristics and risks of the host contract.

Foreign Currency Derivatives

Duke Energy may use foreign currency derivatives to manage its risk related to foreign currency fluctuations. A derivative instrument can be designated as hedging the changes in the fair value of an unrecognized firm commitment, a recognized asset or liability (or a specific portion thereof), or an available for sale debt security for which a foreign currency transaction gain or loss, attributable to foreign currency exchange rates, is recognized in earnings, per SFAS No. 52. As such, fair value hedge accounting as discussed above may be available for these types of derivative instruments for which a foreign currency transaction gain or loss is recorded in earnings. An available-for-sale equity security can be hedged for changes in the fair value attributable to changes in foreign currency exchange rates and qualify for fair value hedge accounting only if the fair value hedge criteria per SFAS No. 133 are met and the following two conditions are satisfied: i) the security is not traded on an exchange (or other established marketplace) on which trades are denominated in the investor's functional currency, and ii) dividends or other cash flows to holders of the security are all denominated in the same foreign currency as the currency expected to be received upon sale of the security. Per paragraph 38 of SFAS No. 133, the change in fair value of the hedged available-for-sale equity security attributable to foreign exchange risk shall be reported in earnings and not in AOCI.

Cash flow hedge accounting, as discussed above, may be available for a derivative instrument designated as hedging the foreign currency exposure to variability in the functional-currency-equivalent cash flows associated with a forecasted transaction (for example, a forecasted export sale to an unaffiliated entity with the price to be denominated in a foreign currency), a recognized asset or liability, an unrecognized firm commitment, or a forecasted intercompany transaction (for example, a forecasted sale to a foreign subsidiary or a forecasted royalty from a foreign subsidiary). The specific requirements are addressed in paragraph 40 of SFAS No. 133.

A derivative instrument or a nonderivative financial instrument that may give rise to a foreign currency transaction gain or loss per SFAS No. 52 can be designated as hedging the foreign currency exposure of a net investment in a foreign operation. The gain or loss on a hedging derivative instrument (or the foreign currency transaction gain or loss on the nonderivative hedging instrument) that is designated as, and is effective as, an economic hedge of the net investment in a foreign operation shall be reported in the same manner as a translation adjustment to the extent it is effective as a hedge. The hedged net investment shall be accounted for consistent with SFAS No. 52; the provisions of SFAS No. 133 for recognizing the gain or loss on assets designated as being hedged in a fair value hedge do not apply to the hedge of a net investment in a foreign operation. The translation results for a hedge of a net investment in a foreign operation shall remain in AOCI until the foreign operation is sold or liquidated.

If the above transactions qualify for hedge accounting, the respective hedge accounting documentation requirements discussed above shall be applied consistently.

Federal Energy Regulatory Commission (FERC) Order 627 (Regulated Entities)

FERC Order 627 provides guidance to entities under FERC jurisdiction related to the accounting and reporting of certain types of financial instruments and hedging activities. Entities subject to FERC guidelines should consider the provisions of FERC Order 627 when accounting for their risk management and hedging activities.

Valuation

All derivative instruments not designated and qualifying for the normal purchases and normal sales exception under SFAS No. 133, shall be recorded on the Consolidated Balance Sheets at their **fair value** at each reporting period as "Unrealized Gains or Unrealized Losses on Mark-to-Market and Hedging Transactions." Fair value accounting is applied within the context of an overall valuation framework. All new and existing transactions shall be valued using approved valuation techniques and market data, and discounted using an appropriate discount rate. When available, quoted market prices or prices obtained through external sources shall be used to measure a contract's fair value. However, market quotations for energy commodity contracts may not be available for illiquid periods or certain delivery locations. If no active trading market exists for a commodity or for a contract's duration, holders of these contracts must calculate fair value using internally developed valuation techniques or models. Key components used in these valuation techniques shall include price curves, volatility, correlation, interest rates and tenor. While volatility and correlation are the most subjective components, the price curve is generally the most significant component affecting the ultimate fair value for a contract subject to MTM accounting. Prices for illiquid periods or locations shall be established by extrapolating prices for correlated products, locations or periods. These relationships shall be routinely re-evaluated based on available market data, and changes in price relationships shall be reflected in price curves prospectively. Consideration should also be given to the analysis of market fundamentals when developing illiquid prices. A deviation in any of the components affecting fair value may significantly affect overall fair value.

Validation of a contract's calculated fair value shall be performed by the Corporate and/or Business Unit Risk Management Group. This group performs pricing model validation, back testing and stress testing of valuation techniques, prices and other variables. Validation of a contract's fair value may be done by comparison to actual market activity and negotiation of collateral requirements with third parties.

The following represents a general view on a hierarchy of valuation data and information (this hierarchy is pre-SFAS 157 as discussed above):

- Category 1: Quoted price in an active market with sufficient liquidity.
- Category 2: Comparable or proxy instrument with a quoted price in an active market with sufficient liquidity, if there is a high degree of correlation between the proxy and instrument being valued.
- Category 3: Conventional model based on direct "market" inputs.
- *Category 4: Conventional model based on indirect "market" inputs. Examples of indirect* market inputs include simple interpolation of market price curves, volatility assumptions, and proxy market inputs (e.g., observable gas prices and observable heat rates for electricity prices, if there is a high degree of correlation on the proxy market prices).
- Category 5: Proprietary model based on more subjective inputs. Some examples of more subjective inputs include estimates of volatility for options, econometric forward curves based on expected supply and demand of commodities, and extrapolation of price curves for terms beyond active market quotes.

The Company's policy is to follow the above hierarchy when determining the most appropriate sources of data for determining fair value of its hedging contracts. Therefore, sources in Category 1 would be the most useful, while sources of fair value in Category 5 would be the least useful in determining fair value.

Inception or "Day One" Gains

Using the hierarchy discussed above, contracts whose fair value is determined from information entirely in Categories 1-4 are generally considered to have sufficient market evidence to support profit recognition at inception. When a contract is entirely in Category 5, inception profit recognition would not be appropriate. Determination of profit recognition when a contract includes elements of Category 5 should be carefully evaluated to determine whether profit recognition is appropriate. Factors to weigh in the consideration include: (1) magnitude of fair value based on information in Category 5, (2) sensitivity of overall fair value to Category 5 factors, (3) qualitative assessment of Category 5 assumptions, and (4) other relevant factors. Full profit recognition at inception would be inappropriate if information from Category 5 has a more than de minimus impact on the fair value of the contract. The inception value determined by Duke Energy's internal models that cannot be recognized at inception shall be deferred on the balance sheet and amortized to earnings in a systematic and rationale manner to capture the appropriate value in earnings over time.

Reserves for Derivative Instruments

The following reserves, as appropriate, shall be used to adjust calculated values to arrive at estimates of fair value used to record derivative instruments:

1. Credit Reserves - costs associated with probable, future counterparty defaults. This category of reserves should be calculated based on current credit exposures with each respective counterparty that has an overall asset position.
2. Discount Reserve - costs associated with discounting future cash flows in accordance with time-value of money valuation principles. Note that the discount reserve is only required when all or a portion of the fair value of the derivative instrument are derived based upon

cash flows.

3. Liquidity Reserve – the cost of closing out a position relative to the overall market. At times, a discount will be required in order for the market to readily absorb certain positions. A reserve should be established for liquidity factors that are present in all markets.
4. Other Contractually-Specific Reserves – Each business unit may identify additional risk categories for which reserves will be established. While the above specific reserves are well documented as to their purpose and methodology, it must be understood additional risks may exist (e.g., legal/enforceability risk, etc.) which are not captured by one or more of the reserves indicated above.

Netting Arrangements

For reasons including reducing credit exposure, Duke Energy often seeks to enter into payment netting agreements with counterparties that permit Duke Energy to offset receivables and payables with such counterparties. Where Duke Energy's derivative instruments are subject to a master netting agreement and the criteria of FASB Interpretation No. 39, *Offsetting of Amounts Related to Certain Contracts ("FIN 39")* are met, Duke Energy shall present its derivative assets and liabilities, and accompanying receivables and payables, on a net basis (by counterparty) in the Consolidated Balance Sheets.

All-In-One Hedging

Under the provisions of DIG Issue No. G2, *Cash Flow Hedges: Hedged Transactions That Arise from Gross Settlement of a Derivative ("All-in-One" Hedges)*, an entity may designate a derivative instrument (which will result in gross settlement) as the hedging instrument in a cash flow hedge, which is referred to as an "all-in-one" hedge. For example, a forward purchase contract of a commodity (if the purchase contract meets the definition of a derivative under SFAS No. 133) could be designated as the hedging instrument in a cash flow hedge of the variability of amounts to be paid under the forecasted transaction or the commodity purchase. Contracts which are subject to net settlement (e.g., "bookout") cannot be designated as an "all-in-one" hedge.

Impairment Considerations

SFAS No. 133 contains impairment considerations for both fair value and cash flow hedges. Paragraph 27 of SFAS No. 133 has impairment provisions for the asset or liability which is designated as the hedged item (e.g. a fixed-rate asset):

27. An asset or liability that has been designated as being hedged and accounted for pursuant to paragraphs 22–24 remains subject to the applicable requirements in generally accepted accounting principles for assessing impairment for that type of asset or for recognizing an increased obligation for that type of liability. Those impairment requirements shall be applied after hedge accounting has been applied for the period and the carrying amount of the hedged asset or liability has been adjusted pursuant to paragraph 22 of this Statement. Because the hedging instrument is recognized separately as an asset or liability, its fair value or expected cash flows shall not be considered in applying those impairment requirements to the hedged asset or liability.

DIG Issue No. F4, *Fair Value Hedges: Interaction of Statement 133 and Statement 114*, has interpretative guidance on impairment considerations for fair value hedges and supports including the adjusted carrying amount of the hedged item in the impairment considerations of the hedged item under other guidance in GAAP.

Paragraphs 34 and 35 of SFAS No. 133 contain the following impairment provisions for cash flow hedges:

34. Existing requirements in generally accepted accounting principles for assessing asset impairment or recognizing an increased obligation apply to an asset or liability that gives rise to variable cash flows (such as a variable-rate financial instrument), for which the variable cash flows (the forecasted transactions) have been designated as being hedged and accounted for pursuant to paragraphs 30 and 31. Those impairment requirements shall be applied each period after hedge accounting has been applied for the period, pursuant to paragraphs 30 and 31 of this Statement. The fair value or expected cash flows of a hedging instrument shall not be considered in applying those requirements. The gain or loss on the hedging instrument in accumulated other comprehensive income shall, however, be accounted for as discussed in paragraph 31.
35. If, under existing requirements in generally accepted accounting principles, an impairment loss is recognized on an asset or an additional obligation is recognized on a liability to which a hedged forecasted transaction relates, any offsetting net gain related to that transaction in accumulated other comprehensive income shall be reclassified immediately into earnings. Similarly, if a recovery is recognized on the asset or liability to which the forecasted transaction relates, any offsetting net loss that has been accumulated in other comprehensive income shall be reclassified immediately into earnings.

Therefore, as paragraph 34 of SFAS No. 133 prohibits the fair value or expected cash flows from the hedging instrument in being considered in impairment considerations for other assets, the cash flows utilized for SFAS No. 144 recoverability purposes (for long-lived assets such as property, plant & equipment) should exclude cash flows related to hedging activities. However, if an asset or liability to which a hedged forecasted transaction relates is impaired under the provisions of SFAS No. 144 or other applicable GAAP and an impairment charge is recorded in earnings, any net gain deferred in AOCI related to cash flow hedges for the impaired asset or liability would be recognized in earnings. The amount of such net gain recognized is limited to the greater of the impairment charge recognized or the net gain deferred in AOCI.

Financial Statement Presentation and Disclosures

Balance Sheet Classification

Derivative instruments should be recorded at their fair value and classified as either current or noncurrent in accordance with the provisions of Accounting Research Bulletin (ARB) No. 43, *Restatement and Revision of Accounting Research Bulletins*, as follows:

Current Assets...are reasonably expected to be realized in cash or sold or consumed during the normal operating cycle of the business, which if not clearly defined, is one year.
Current Liabilities...obligations whose liquidation is reasonably expected to require the use of existing resources properly classifiable as current assets, or the creation of

other current liabilities.

Therefore, derivative instruments which do not meet the above criteria to be classified as a current asset or liability should be classified as a noncurrent asset or liability in the balance sheet. Classification of a derivative instrument between current and noncurrent should be based primarily upon the rights and obligations of the derivative instrument as well as the contractual maturity date of the derivative instrument.

Income Statement Classification

Effective January 1, 2003, in connection with the implementation of the remaining provisions of EITF Issue No. 02-03, Duke Energy designated all energy commodity derivatives as either trading or non-trading. For each of the Duke Energy's derivatives, the accounting method and presentation of gains and losses, or revenue and expense in the Consolidated Statements of Operations is shown below. See definition of "mark-to-market" and "accrual" methods earlier in this policy under ***Accounting for Types of Instruments by Activity***.

Classification of Contract	**Accounting Method**	**Presentation of Gains & Losses or Revenue & Expense**
Trading derivatives	Mark-to-market	Net basis in Non-regulated Electric, Natural Gas, Natural Gas Liquids, and Other
Non-trading derivatives:		
Cash flow hedge	Accrual	Gross basis in the same income statement category as the related hedged item
Fair value hedge	Accrual	Gross basis in the same income statement category as the related hedged item
Normal purchase or normal sale	Accrual	Gross basis upon settlement in the corresponding income statement category based on commodity type
Undesignated	Mark-to-market	Net basis in the related income statement category for interest rate, currency and commodity derivative.

Disclosures

For derivative instruments and hedging activities, the following items are required to be reported at each quarterly or annual reporting period:

• Disclose the objectives for holding derivative instruments and hedging instruments, and the risk management strategy for achieving those objectives.
o Distinguish between cash flow hedges, fair value hedges, foreign currency exposure hedges.
o Describe the Company's risk management policy for each type of hedge and those risks hedged.

• Derivative Instruments designated and qualified as fair value hedges:
o the net gain or loss recognized in earnings during the reporting period representing (a) the amount of the hedges' ineffectiveness and (b) the component of the derivative instruments' gain or loss, if any, excluded from the assessment of hedge effectiveness, and a description of where the net gain or loss is reported in the Consolidated Statement of Operations.
o the amount of net gain or loss recognized in earnings when a hedged firm commitment no longer qualifies as a fair value hedge.
• Derivative Instruments designated and qualified as cash flow hedges:
o the net gain or loss recognized in earnings during the reporting period representing (a) the amount of the hedges' ineffectiveness and (b) the component of the derivative instruments' gain or loss, if any, excluded from the assessment of hedge effectiveness, and a description of where the net gain or loss is reported in the statement of income or other statement of financial performance
o a description of the transactions or other events that will result in the reclassification into earnings of gains and losses that are reported in AOCI, and the estimated net amount of the existing gains or losses at the reporting date that is expected to be reclassified into earnings within the next 12 months.
o the maximum length of time over which the entity is hedging its exposure to the variability in future cash flows for forecasted transactions excluding those forecasted transactions related to the payment of variable interest on existing financial instruments.
o the amount of gains and losses reclassified into earnings as a result of the discontinuance of cash flow hedges because it is probable that the original forecasted transactions will not occur by the end of the originally specified time period or within the additional period of time.
• Derivative Instruments designated and qualified as hedges of the foreign currency exposure of a net investment in a foreign operation:
o the net amount of gains or losses included in the cumulative translation adjustment during the reporting period
• The fair value of trading contracts outstanding at the end of the period.
• The components representing the change in fair value from prior period.
• Provide quantitative information about market risk as of the end of the latest fiscal year,
o categorize market risk sensitive instruments into instruments entered into for trading purposes and instruments entered into for purposes other than trading purposes
o Within both the trading and other than trading portfolios, separate quantitative information shall be presented, to the extent material, for each market risk exposure category (i.e., interest rate risk, foreign currency exchange rate risk, commodity price risk, and other relevant market risks, such as equity price risk).
• The methodology utilized to determined fair value (e.g. external sources: quoted market prices, current market transactions; internal valuation models).
• For energy trading activities, all of the following shall be disclosed, in accordance with EITF Issue No. 02-3:
a. The applicability of Issue 98-10
b. The types of contracts that are accounted for as energy trading contracts
c. The fair values of its energy trading contracts, aggregated by source or method of estimating fair value and by maturity dates of the contracts
d. A description of the methods and significant assumptions used to estimate the fair value of its various classes of energy trading contracts
e. A reconciliation of the beginning and ending carrying values of its energy trading contracts, aggregated by source or method of estimating fair value, showing

separately the changes attributable to (1) unrealized gains and losses recognized at inception of a contract, (2) unrealized gains and losses recognized as a result of changes in valuation techniques and assumptions, (3) other unrealized gains and losses recognized during the period, and (4) realized gains and losses recognized during the period

f. The sensitivity of its estimates to changes in the near term.[1]

[1] Paragraph 14 of SOP 94-6 provides that "the disclosure should indicate the nature of the uncertainty and include an indication that it is at least reasonably possible that a change in the estimate will occur in the near term" (footnote references omitted).

Related Policies, Standards or Procedures

- Accounting for Regulated Entities (SFAS No. 71)
- Accounting for Asset Impairments, Assets Held for Sale and Discontinued Operations (SFAS No. 144)
- Revenue Recognition
- Commodity Risk Management
- Reclassification of Realized Income Statement Activity in Consolidation – Net vs. Gross
- *Other Comprehensive Income Accounting Procedures*

Key Terms

Capacity Contract[4]

An agreement by an owner of capacity to sell the right to that capacity to another party so that it can satisfy its obligations. For example, in the electric industry, capacity (sometimes referred to as installed capacity) is the capability to deliver electric power to the electric transmission system of an operating control area. A control area is a portion of the electric grid that schedules, dispatches, and controls generating resources to serve area load (ultimate users of electricity) and coordinates scheduling of the flow of electric power over the transmission system to neighboring control areas. A control area requires entities that serve load within the control area to demonstrate ownership or contractual rights to capacity sufficient to serve that load at time of peak demand and to provide a reserve margin to protect the integrity of the system against potential generating unit outages in the control area.

Clearly and Closely Related

"The phrase not clearly and closely related in paragraph 10(b) with respect to the normal purchases and normal sales scope exception is used to convey a different meaning than in paragraphs 12(a) and 60 of SFAS No. 133 with respect to the relationship between an embedded derivative and the host contract in which it is embedded. For purposes of determining whether a contract qualifies for the normal purchases and normal sales scope exception, the application of the phrase not clearly and closely related to the asset being sold or purchased should involve an analysis of both qualitative and quantitative considerations. The analysis is specific to the contract being considered for the normal purchases and normal sales scope exception and may include identification of the components of the asset being sold or purchased. The underlying in a price adjustment incorporated into a contract that otherwise satisfies the requirements for the normal purchases and normal sales exception would be considered to be not clearly and closely related to the asset being sold or purchased in any of the following three circumstances:

1. The underlying is extraneous (that is, irrelevant and not pertinent) to both the changes in the cost and the changes in the fair value of the asset being sold or purchased, including being extraneous to an ingredient or direct factor in the customary or specific production of that asset.
2. If the underlying is not extraneous as discussed in (1) above, the magnitude and direction of the impact of the price adjustment is not consistent with the relevancy of the underlying. That is, the magnitude of the price adjustment based on the underlying is significantly disproportionate to the impact of the underlying on the fair value or cost of the asset being purchased or sold (or of an ingredient or direct factor, as appropriate).
3. The underlying is a currency exchange rate involving a foreign currency that meets none of the criteria in paragraphs 15(a)-15(d) of Statement 133 (as amended) for that reporting entity. (The inclusion of this circumstance is consistent with the portion of paragraph 10(b) that states, "contracts that...are denominated in a foreign currency that meets none of the criteria in paragraphs 15(a)-15(d) shall not be considered normal purchases and normal sales.")" [DIG Issue C20]

"The test mandated by Question C20 for determining whether changes in the underlying are not irrelevant to changes in the fair value of the asset being purchased or sold under the contract is that there be an expectation that the price adjustment feature will impact the final sales price in line with market changes. Accordingly, a price adjustment feature based on a broad market index would be clearly and closely related to the item being sold under the contract assuming the impact of the price adjustment would be comparable to the actual market value changes of that item (or components of the item being sold or purchased)." [From ARM Interpretation 10b-4)
For embedded derivatives, paragraph 12 of SFAS No. 133 focuses on whether the economic characteristics and risks of the embedded derivative are clearly and closely related to the economic characteristics and risks of the host contract. If the host contract encompasses a residual interest in an entity, then its economic characteristics and risks should be considered that of an equity instrument and an embedded derivative would need to possess principally equity characteristics (related to the same entity) to be considered clearly and closely related to the host contract. However, most commonly, a financial instrument host contract will not embody a claim to the residual interest in an entity and, thus, the economic characteristics and risks of the host contract should be considered that of a debt instrument.

Fair value

The amount at which an asset (liability) could be bought (incurred) or sold (settled) in a current transaction between willing parties, that is, other than in a forced or liquidation sale. Quoted market prices in active markets are the best evidence of fair value and should be used as the basis for the measurement, if available. If a quoted market price is available, the fair value is the product of the number of trading units times that market price. If a quoted market price is not available, the estimate of fair value should be based on the best information available in the circumstances. The estimate of fair value should consider prices for similar assets or similar liabilities and the results of valuation techniques to the extent available in the circumstances. Examples of valuation techniques include the present value of estimated expected future cash flows using discount rates commensurate with the risks involved, option-pricing models, matrix pricing, option-adjusted spread models, and fundamental analysis. Valuation techniques for measuring assets and liabilities should be consistent with the objective of measuring fair value. Those techniques should incorporate assumptions that market participants would use in their estimates of values, future revenues, and future expenses, including assumptions about interest rates, default, prepayment, and volatility. In measuring forward contracts, such as foreign currency forward contracts, at fair value by discounting estimated future cash flows, an entity should base the estimate of future cash flows on the changes in the forward rate (rather than the spot rate). In measuring financial liabilities and nonfinancial derivatives that are liabilities at fair value by discounting estimated future cash flows (or equivalent outflows of other assets), an objective is to use discount rates at which those liabilities could be settled in an arm's-length transaction.

Financial Instrument

Cash, evidence of an ownership interest in an entity, or a contract that both:

a. Imposes on one entity a contractual obligation* (1) to deliver cash or another financial instrument to a second entity or (2) to exchange other financial instruments on potentially unfavorable terms with the second entity

* Contractual obligations encompass both those that are conditioned on the occurrence of a specified event and those that are not. All contractual obligations that are financial instruments meet the definition of liability set forth in Concepts Statement 6, although some may not be recognized as liabilities in financial statements - may be "off-balance-sheet" - because they fail to meet some other criterion for recognition. For some financial instruments, the obligation is owed to or by a group of entities rather than a single entity.

b. Conveys to that second entity a contractual right‡ (1) to receive cash or another financial instrument from the first entity or (2) to exchange other financial instruments on potentially favorable terms with the first entity.

‡ Contractual rights encompass both those that are conditioned on the occurrence of a specified event and those that are not. All contractual rights that are financial instruments meet the definition of asset set forth in Concepts Statement 6, although some may not be recognized as assets in financial statements - may be "off-balance-sheet" - *because they fail to meet some other criterion for recognition.*

For some financial instruments, the right is held by or the obligation is due from a group of entities rather than a single entity.

Firm commitment

An agreement with an unrelated party, binding on both parties and usually legally enforceable, with the following characteristics:

a. The agreement specifies all significant terms, including the quantity to be exchanged, the fixed price, and the timing of the transaction. The fixed price may be expressed as a specified amount of an entity's functional currency or of a foreign currency. It may also be expressed as a specified interest rate or specified effective yield.

b. The agreement includes a disincentive for nonperformance that is sufficiently large to make performance probable.

Forecasted transaction

A transaction that is expected to occur for which there is no firm commitment. Because no transaction or event has yet occurred and the transaction or event when it occurs will be at the prevailing market price, a forecasted transaction does not give an entity any present rights to future benefits or a present obligation for future sacrifices.

APPENDIX A

Application and Practice: Conclusions Reached Around Accounting for Risk Management Activities

Determination of Whether a Contract Contains a Notional

The determination as to whether a contract contains a notional under the provisions of SFAS No. 133 often requires significant judgment and interpretation of the accounting standards and is often based upon the facts and circumstances in each individual contract. However, the Company has developed certain interpretations related to the determination of a notional, which are discussed below.

1. *"System Firm" Provisions – Many electricity contracts have "system firm" provisions* whereby the seller's obligations to sell under the contract are subject to the availability of the system. "System firm" indicates that if electricity does not flow when called upon under a contract due to the fact that the transmission system is down, there are no damage or other payments as a result of such failure to perform. Therefore, the quantities deliverable under the contract could potentially be reduced to zero during the contractual term without the selling party incurring any penalties for nonperformance. This is an indicator that a notional does not exist, even though there may be a very low probability that such event would occur. However, partly due to the low probability of such failure to perform, it is the Company's policy to not solely base the notional conclusion on whether the contract contains "system firm" provisions.

2. Force Majeure Provisions – Most contracts have standard force majeure provisions, which are somewhat similar to the "system firm" provisions discussed above in that the seller's obligations under the contract are excused under unusual circumstances, such as fire, flood, and earthquakes, which prohibit the seller from being able to meet its obligations under the contract. Under these provisions, the seller does not owe any damages to the buyer due to failure to perform if such failure to perform is due to force majeure. Therefore, the quantities deliverable under the contract could potentially be reduced to zero during the contractual term without the selling party incurring any penalties for nonperformance. This is an indicator that a notional does not exist, even though there may be a very low probability that such event would

occur. However, similar to the conclusion noted above for "system firm" provisions, it is the Company's policy to not solely base the notional conclusion on whether the contract contains force majeure provisions.

3. Ability to "Economically Exercise" – Economic exercise is the ability to buy or take delivery of amounts under the contract solely based upon the contract being "in the money". This concept is in contrast to contracts which are only utilized to satisfy a buyer's own actual needs and excess amounts cannot be purchased in order to take advantage of an "in the money" situation whereby the contractual price is lower than the current market price. The ability to economically exercise a contract usually results in a determinable notional. However, if a contract is only available to meet an entity's own actual needs, whether or not there is a notional will depend upon other contractual provisions (such as liquidating damage and termination provisions, as discussed below).

4. Contract Liquidating Damages Provisions and Termination Provisions – Under the guidance given in DIG Issue A6(requirements contracts or contracts that cannot be economically exercised), the existence of liquidating damage and/or termination provisions under a contract may result in the contract having a notional. Normally, any liquidating damage or termination provision which requires the payment of a penalty based upon a determinable amount tied to the estimated volumes to be delivered under the contract will result in a determinable notional. Such liquidating damage or termination amounts paid can be either fixed or based upon a market-based formula. Additionally, contracts with a determinable minimum volume to be delivered have a notional equal to that minimum and contracts with a determinable maximum but no stated minimum volume to be delivered do not have a notional. If quantities deliverable under the contract can be reduced to zero without the seller or buyer incurring penalties for non-performance, there is not a determinable notional.

Determination of Whether a Contract Contains an Initial Net Investment

The determination as to whether a contract involves an initial net investment involves a level of judgment as there is no specific threshold specified in the accounting standards for when there is considered to be an initial net investment. If a contract is not fully prepaid by more than a minor amount (after adjustment for the time value of money), the contract is considered to have this characteristic of a derivative.

Determination of Whether a Contract Contains Net Settlement

The determination as to whether a contract contains net settlement under the provisions of SFAS No. 133 often requires significant judgment and interpretation of the accounting standards and is often based upon facts and circumstances related to the commodity or asset being purchased. However, the Company has developed certain interpretations related to the determination of net settlement, which are discussed below.

1. Explicit or implicit net cash settlement (paragraph 9(a) of SFAS No. 133) – As discussed in DIG Issue No. A8, *Definition of a Derivative: Asymmetrical Default Provisions*, asymmetrical default provisions in a contract do not result in net cash settlement under paragraph 9(a) of SFAS No. 133. An asymmetrical default provision is one in which the defaulting party has an obligation to compensate the counterparty's loss but the defaulting party does not have the right to demand any gain from the counterparty. Symmetrical default provisions may also not result in a

conclusion that the contract is a derivative if the provision does not grant a party the unilateral right to net settle.

2. Market mechanisms facilitate net settlement (paragraph 9(b) of SFAS No. 133) – In order to obtain net settlement under paragraph 9(b), there must be the ability for either party to the contract to be fully relieved of all of its rights and obligations under the contract (including credit risk under the contract). An exchange, such as the NYMEX exchange, often gives the ability for a party to be fully relieved of all its rights and obligations under the contract. If a market mechanism exists, the assignment provisions of the contract must be examined pursuant to the guidance given in DIG Issue No. A7, *Definition of a Derivative: Effect of Contractual Provisions on the Existence of a Market Mechanism That Facilitates Net Settlement.* If a contract is assignable only if approval of the counterparty is obtained, the probability of obtaining such consent from the counterparty must be assessed when determining whether there truly is net settlement under paragraph 9(b) of SFAS No. 133.

3. Readily convertible to cash (paragraph 9(c) of SFAS No. 133) – the asset deliverable under the contract (such as a commodity) must be readily convertible to cash in order to obtain net settlement under SFAS No. 133. The asset deliverable under the contract must be evaluated as to whether it is readily convertible to cash at the contractual delivery point (e.g. plant location, grid location, Hub location, etc). If the asset is not readily convertible to cash at the contractual delivery point, the Company must evaluate where is the location of the closest point of delivery (from the contractual delivery point) where the asset would be considered readily convertible to cash. DIG Issue No. A10, *Definition of a Derivative: Assets That Are Readily Convertible to Cash*, clarifies that if the cost to transport the asset from the contractual delivery point to the point of delivery where the asset is readily convertible to cash must be less than 10% of the sales price of the asset (at the readily convertible to cash delivery point) in order to consider the asset readily convertible to cash. Likewise, if the cost to transport the asset is equal to or greater than 10% of the sales price of the asset, the asset is not considered readily convertible to cash. For the seller,whether or not an asset deliverable under a contract is considered readily convertible to cash is not impacted by the buyer's ability to resell the underlying asset or commodity. The significance of the conversion costs should be performed only at inception of the contract.

APPENDIX B

CONTRACT TYPE ANALYSIS: DERIVATIVE VS. NON-DERIVATIVE

The following is a brief summary of certain transactions encountered by the Company in the normal course of business and discussion of the assessments that have been made regarding whether or not these transactions are usually considered derivatives pursuant to SFAS No. 133. Note that the discussion below is meant to be a guide and should not be used as a substitute for performing a detailed SFAS No. 133 analysis on a contract-by-contract basis (as contracts can contain unique provisions which may result in a different conclusion than as discussed below):

Tolling Agreement

"Tolling" contracts provide the holder the right, but not the obligation, to call on the power generation owner to provide a service to convert natural gas to electricity at a predefined heat conversion rate. An energy trader or risk manager may enter into a power tolling contract with a power generation owner in a geographical area where the energy trader has no power delivery commitments to take advantage of any market opportunity and to provide the power generation owner commodity price risk protection. The owner of the power generation plant owns, operates, and dispatches the facilities under the terms of the agreement. The tolling contract provides the energy trader with the ability to convert natural gas to electricity in exchange for a monthly capacity payment or fixed fee from the energy trader (sometimes referred to as the capacity or demand charge). The terms of the contract require the power generation owner to deliver power to the energy trader at a predefined delivery point and may provide for alternative delivery points with applicable basis adjustments.

Tolling agreements should first be assessed to determine if they represent leases under EITF Issue No. 01-08 and SFAS No. 13. If they are not leases, most tolling agreements generally satisfy certain characteristics of a SFAS No. 133 derivative. Specifically, a tolling agreement is likely to have 1) an underlying, which is the price for fuel and/or electricity; 2) no initial net investment as the capacity payment is paid monthly throughout the term of the contract and 3) net settlement since the commodity delivered (i.e. power) is generally considered to have a spot market and thus would be readily convertible to cash in accordance with DIG Issue No. A19, *Definition of a Derivative: Impact of a Multiple Delivery Long-Term Supply Contract on Assessment of Whether an Asset Is Readily Convertible to Cash*. It is the buyer's ability to turn the power into cash that constitutes de facto net settlement for SFAS No. 133 purposes. However, the remaining characteristic of a derivative - a notional or fixed payment provision - may not be present in all tolling agreements. Whether or not a toll contains a notional will be based partially upon whether or not the parties to the transaction can "economically exercise" their rights under the contract and what the liquidating damages (LD) and/or termination provisions are under the guidance given in DIG Issue A6.

Tolling agreements should also be considered for analysis under FIN 46 (revised December 2003), *Consolidation of Variable Interest Entities*.

Tolling Agreements – Firm Liquidated Damages (LD) Products

Certain tolling agreements are firm products whereby the buyer of the toll is protected from any and all risks associated with physical operations of a plant. The seller of the toll has effectively guaranteed 100% availability of the contracted power along with a fixed, guaranteed heat rate. For example, if the plant experiences an unplanned outage when the buyer has called upon the power, the seller must buy power in the market to cover the buyer's call order or pay market-based replacement value for any losses incurred by the buyer to keep the buyer whole for their short position created by the seller's default. These tolls behave very similar to financial options because the buyer assumes no unit contingent/operational plant risk. For these types of tolling agreements, a notional exists since the liquidating damages provision calls for a variable payment that is expected to reimburse the harmed party for market price movements (see DIG A6 discussion). In other words, the contract provides for the delivery of either power or market-based liquidating damages that are not substantially different. Thus, the toll would most likely be classified as a derivative.

Tolling Agreements – Unit Contingent Products

Other tolling agreements require the buyer to take on some level of plant-specific risk. These tolling agreements are viewed commonly in the industry as "unit contingent" products. They are structured similarly to the firm LD products mentioned above, with the exception that the buyer is assuming availability risk, heat rate risk, and/or other types of risk that is associated with owning, controlling, or operating a power generation facility. The operational risk assumed by the buyer may or may not ultimately be more than that inherent in firm LD products that are characterized similar to financial options. It is the uniqueness of unit contingent tolling agreements that necessitates a facts-and-circumstances analysis to determine whether such agreement is or is not a derivative.

An example of this type of unit contingent tolling agreement (which, as noted above, would first need to be assessed to determine if it is a lease) includes a contract whereby the seller has guaranteed a heat rate and the plant availability is guaranteed for 90% of the year, except for scheduled maintenance in which the buyer is notified prior that the plant will not be available. This structure is very common for unit contingent tolling agreements. In this example, there may be a 100MW plant whereby a minimum notional of 788,400 MWh (computed based on 90% of 100 MW capacity multiplied by 24 hours times 365 days) may be computed. However, this minimum notional may be challenged and overcome if certain factors regarding the liquidating damages provisions and force majeure provisions are met.

Specifically, tolling agreements address what compensation the buyer is to receive in the event of non-performance. This compensation may be in the form of replacement energy (i.e. market-based liquidating damages), formulaic (non-market based) reduction to the overall capacity payment, no compensation, or some variation thereof. Generally, if a unit contingent toll contains a provision for replacement cost (market based) liquidating damages, the contract is deemed to be a derivative because the contract would be analogous to the firm liquidated damages toll described above. However, if the liquidating damages are non-existent or not market-based and are not deemed to be significant, the existence of the minimum notional may be successfully challenged and the contract deemed not a derivative. Consideration may also need to be given to the buyer's ability to "economically exercise" their rights under the contract.

In addition to the liquidating damages provisions, broad force majeure provisions evident in the tolling agreements may indicate that no notional exists. Force majeure clauses generally bear certain characteristics such as acts of God, war, etc. However, if the force majeure provision contained in the tolling agreement is overly broad to the extent that it includes operational provisions, such as labor or material shortages, and either liquidating damages are not required during the force majeure period or the liquidating damages are not significant, the contract may be deemed to not have a notional and hence not be a derivative.

The determination as to whether a tolling agreement is a derivative is inherently based partially on the subjective judgment of the evaluator. While the determination of "significant" liquidating damages and "broad" force majeure clauses may vary from individual to individual, Duke Energy will maintain documentation at the appropriate business unit on the analysis of all tolls to ensure that consistent application of these definitions are applied, especially within a business unit. While we have segregated certain general types of tolling agreements in this document to help facilitate the definition of a derivative, we will continue to evaluate whether any tolling agreement is a derivative on a contract-by-contract basis.

Transportation Contracts

Transportation or pipeline capacity contracts provide the holders of the capacity the opportunity, but not the obligation, to transport physical quantities of gas from one location to another on a daily basis. The holder of the capacity has the choice as to whether to ship and use the capacity, or not, based upon various factors relevant to its operations, including gas usage estimates for its operations or its customers, as well as the difference between the price of gas at the pipeline receipt and delivery points. The payment or settlement with the pipeline company by the capacity holder has a fixed and a variable component. The fixed payments, known as demand charges, are made to the pipeline company each month, whether or not the holder uses the capacity. That variable component is paid to the pipeline owner for capacity actually used by the holder during the month.

In 1992, FERC Order 636 implemented restructuring of interstate pipeline operations, and the 2000 FERC Order 637 further deregulated the natural gas industry by refining the remaining pipeline regulations to address inefficiencies in the capacity release market. The effects of the order allowed the development of natural gas commodities. Order 636 required pipeline companies to unbundle, or separate, natural gas sales operations from pipeline transportation activities and set up separate transportation and trading affiliates. This supported the development of natural gas marketing, which was deregulated and opened to competition. This order led to the development of the secondary transportation market, where shippers can purchase pipeline capacity from other shippers that have temporarily or permanently spare capacity. The secondary market, known as the capacity release market, required each pipeline to set up an electronic bulletin board and institute rules by which holders of unwanted transport capacity may take bids from others who wish to lease or buy it. Order 636 was followed by a series of measures by the FERC that were designed to promote competition in the natural gas market and increase flexibility in pipeline transportation. In Order No. 637, issued February 9, 2000, the Commission (a) suspended until September 30, 2002 the operation of the price caps on capacity release sales of less than one year, and (b) authorized certain other policy changes in the pipeline ratemaking area.

As of January 1, 2003, a transportation contract does not meet the definition of a derivative because there is no provision for net settlement (all other defining characteristics are met). For the period Order No. 637 was effective, certain industry experts have indicated that there existed a market mechanism for natural gas transportation contracts because the lifting of the price cap and the posting and bidding process required by the bulletin boards facilitated a free market that was evidenced by the Electronic Bulletin Board. However, these same industry experts now believe that since the effective period for Order No. 637 expired on September 30, 2002, such market mechanism has been eliminated, as a party does not have the ability to relieve itself of all rights and obligations through a "market".
While we would agree that there is no market mechanism to facilitate net settlement, Duke Energy also believes that transportation contracts do not require delivery of an asset that is readily convertible to cash. The readily-convertible-to-cash criterion is not satisfied, as there are no quoted prices available in an active market that can rapidly absorb the quantity held by the entity without significantly affecting the price. Because the underlying on which contract settlement is based (the price or value of the right to receive transportation) is a non-financial asset (see definition of "financial asset" under "Key Terms" above) that is not readily convertible to cash, paragraph 10(e) of SFAS No. 133 provides that the contract is not subject to the requirements of SFAS No.133. Further, in the discussions and deliberations of EITF Issue 02-3, the Task Force discussed that transportation contracts may not meet the definition of a derivative due to the significant service element included in the contract as well as the contract not being readily convertible to cash. Although the pricing of these contracts may be very similar to the pricing of a basis swap, the service element is pervasive

and, therefore, transportation contracts are considered to be executory contracts.

Freight Contracts

Due to the significant service element involved, railroad contracts (usually used for coal deliveries) are not considered to be derivatives. Likewise, trucking contracts are not considered to be derivatives.

Storage contracts

Storage contracts provide the contract holder the right but not the obligation to store physical quantities of gas. Such contracts enable a contract holder to take advantage of an anticipated time spread differential and supply an existing delivery commitment when the estimated price spread differential less cost of storing the natural gas is favorable. The contract holder may use the storage rights, or not, and will base that decision on various factors relevant to its operations, including gas usage estimates for its operations or its customers, as well the difference between the price of gas during the injection period and the projected price of gas during the withdrawal period (similar to a time spread option). Consistent with transportation contracts, storage contracts do not meet the definition of a SFAS 133 derivative because they fail the net settlement provision (they do meet the remaining requirements). Storage contracts provide for the conversion of time and do not provide for delivery of an asset that is readily convertible to cash and are therefore excluded from SFAS No. 133 (see paragraph 10(e) of SFAS No. 133). Similar to the transportation contracts discussed above, the EITF discussed that storage contracts are not derivatives due to the significant service element included in the contract as well as the contract not being readily convertible to cash. Therefore, these contracts are normally considered executory contracts.

Full Requirements Contracts and Load-following arrangements

Full requirements contracts are contracts whereby the seller agrees to provide all of the commodity needs of a buyer. For example, Company A enters into a forward contract with Company B to provide as many barrels of oil at a fixed price that are required by Company B to satisfy their needs during the next twelve-month period. Similar to a full requirements contract, a load-following contract is a type of requirements contract in which the plant provides only a portion of the buyer's overall commodity needs. For example, Company A agrees to provide 30% of Company B's barrels of oil needs over the next 24 months.

Commodity contracts generally specify a fixed number of units of a commodity to be purchased or sold under a contract. However, some contracts, such as requirements contracts, do not specify a fixed number of units to be exchanged and, instead, specify either a maximum number of units, minimum number of units, or range of units to be purchased or sold during a specified period. DIG Issue No. A6, *Definition of a Derivative: Notional Amounts of Commodity Contracts*, provides that a requirements contract has a notional amount only if a reliable means to determine such a quantity exists.

DIG Issue A6 further states that in many contracts, even though the notional amount is not specified, it can be reliably determined based on other provisions within the contract or within agreements contemporaneous to the contract. One technique to quantify and validate the notional amount in a requirements contract is to base the estimated volumes on the contract's settlement and default provisions. Often the default provisions of requirements contracts will specifically refer to anticipated quantities to utilize in the calculation of penalty amounts in the event of nonperformance. Other default provisions stipulate penalty amounts in the event of nonperformance based on average historical usage quantities of the buyer. If those amounts are determinable, they should be considered the notional amount of the contract.

The identification of a requirements contract's notional amount may require consideration of volumes or formulas contained in attachments or appendices to the contract or other legally binding side agreements. The determination of a requirements contract's notional amount must be performed over the life of the contract and could result in the fluctuation of the notional amount if, for instance, the default provisions reference a rolling cumulative average of historical usage.

In circumstances where the notional amount is not determinable, making the quantification of such an amount highly subjective and relatively unreliable (for example, if a contract does not contain settlement and default provisions that explicitly reference quantities or provide a formula based on historical usage), such contracts are considered not to contain a notional amount as that term is used in SFAS No. 133.

The determination as to whether a full requirements or load-following agreement has a notional will be made on a contract-by-contract basis. Certain requirements contracts and load-following contracts at the Company do not provide the buyer the ability to take quantities in excess of its need and resale these excess quantities and do not contain a stated minimum, default or other provisions in them that indicate the presence of a notional amount and thus are not SFAS No. 133 derivatives.

Electricity Capacity Contracts

Capacity contracts, (for electric power), typically allow the buyer to take as much power as needed, up to the contract maximum. Unless the contract is a lease, whereby the seller allows the buyer to control a specific generation facility, the contract may require SFAS No. 133 derivative treatment. Capacity contracts are generally considered to be derivatives, due to the existence of a notional. The buyer is not normally restricted from selling their excess capacity on the open market if the price is right. Accordingly, such contracts are deemed to have a notional since they are economically exercisable. However, if the buyer is restricted from selling excess capacity on the open market (can only purchase power to meet its own needs), the termination and liquidating damage provisions of the contract need to be examined to determine whether a notional exists, under the guidance given in DIG Issue A6. Seller capacity or demand charges as well as energy charges are normally not prepaid at the inception of the contract; therefore, these contracts normally have no initial net investment. Since electricity is generally considered to be readily convertible to cash, these contracts have net settlement, assuming transmissions costs from the delivery point to an active market are less than 10%.

Derivative capacity contracts customarily qualify for the normal purchase normal sale exemption under paragraph 10(b)(4) of SFAS No. 133. The rules in paragraph 58(b) of SFAS No. 133 and DIG Issue No. C15, *Scope Exceptions: Normal Purchases and Normal Sales Exception for Option-Type Contracts and Forward Contracts in Electricity*, allow power producers selling from a specific plant to end users to qualify for the exemption.

Electric Transmission and Ancillary Services

Electric transmission and ancillary services are services necessary to deliver power from the generation source to the end user as well as the other services necessary to maintain the operational security and the integrity of the electric grid. These are generally negotiated between principals and carry significant operational risk. These contracts are non-standard and are not traded actively. These contracts are not SFAS 133 derivatives, as they do not meet any of the requirements for net settlement. These contracts are considered "service contracts" and are, therefore, excluded from the scope of SFAS No. 133 under paragraph 10(e)(2).

Natural Gas Producer Purchase or Processing Contracts

The DEGT segment purchases natural gas from producers through a variety of structured contracts. These contracts are also reviewed under FASB Interpretation No. ("FIN") 46 (revised December 2003), *Consolidation of Variable Interest Entities*:

1. Percentage-of-Proceeds Contracts — Under these contracts, DEGT receives as a fee a negotiated percentage of the residue natural gas and NGLs value derived from DEGT' gathering and processing activities, with the producer retaining the remainder of the value or product. These types of contracts permit DEGT and the producers to share proportionately in commodity price changes. Essentially, in these contracts, DEGT purchases raw gas from the producer at the wellhead (title transfers to DEGT at the producer's wellhead). DEGT then gathers and processes the gas and sells the resulting NGLs and processed natural gas and remits the negotiated percentage back to the producers as payment. Typically, DEGT remits approximately 80% of the natural gas sales price back to the producer and 80% of the NGLs sales price back to the producer.
2. Fee-Based Contracts — Under these contracts DEGT receives a set fee for gathering, processing and/or treating raw natural gas. DEGT's revenue stream from these contracts is correlated with the level of gathering and processing activity and is not directly dependent on commodity prices. Under these contracts, DEGT does not take title to the raw gas, as it simply gathers and processes the raw gas for a service fee. ###
3. Keep-Whole Contracts – Under the terms of a keep-whole processing contract, DEGT gathers raw natural gas from the producer for processing and markets the NGLs (for which, title essentially transfers upon the completion of production) and returns to the producer residue natural gas (the processed gas with the NGLs removed plus additional natural gas that DEGT purchases from the market, as required) with a Btu content equivalent to the Btu content of the raw natural gas gathered. This arrangement keeps the producer whole to the thermal value of the raw natural gas DEGT received. Under these types of contracts DEGT is exposed to the frac spread. The frac spread is the difference between the value of the NGLs extracted from processing and the value of the Btu equivalent of the residue natural gas. Under

keep-whole contracts, DEGT gathers and processes the gas. DEGT then returns to the producer the residual natural gas and is able to sell the NGLs extracted from the gas. DEGT then has to purchase natural gas in the amount of Btu content that was removed and sold as NGLs and return that to the producer in addition to the residual natural gas to "keep them whole"

4. Wellhead Purchase Contracts - Under the terms of a wellhead purchase contract, DEGT purchases raw natural gas from the producer and title transfers at the wellhead or defined receipt point for processing and then sells the resulting NGLs and residue gas at market prices. Essentially, under wellhead purchase contracts, DEGT buys a producer's production under market based pricing. DEGT then processes the gas and sells the resulting NGLs and natural gas.

The above producer gas purchase or processing arrangements are not normally considered derivatives because there is no minimum notional amount, and they typically do not have net settlement provisions.

Other Energy Related Contracts

From time to time, the Company may enter into other energy related contracts not described above. Examples of these types of contracts are rack sales and transmix splitters. While these contracts generally do not meet the definition of a derivative due to the lack of net settlement, any energy related contract executed that is not specifically provided for herein will be reviewed individually to determine if such contract meets the definition of a derivative.

DERIVATIVE ONLY CONTRACT TYPES

Forward-Based Derivatives

Forward contracts. The simplest derivative is the forward contract. A forward contract obligates one counterparty to buy, and the other to sell, a specific underlying at a specific price, amounts (i.e. notional) and date in the future. The change in the value of a forward contract is roughly proportional to the change in the value of its underlying. Typically, no net investment is required. Forward contracts are customized with terms and conditions tailored to fit the particular business, financial, or risk management objectives of the counterparties. Negotiations often take place with respect to contract size, delivery locations, delivery dates, and credit terms. Forwards, in other words, are not standardized. Forward contracts for power and gas are traded in the over-the-counter (OTC) market, which is mature enough to facilitate net settlement, as the underlying commodities are readily convertible to cash, especially for short-term contracts. Longer term contracts may lack liquidity; however, subject to DIG Issue A19, Duke Energy's forward contracts in the power or gas markets are deemed to net settle as there is a current spot market for these commodities and the market is presumed to perpetuate. Forward contracts meet all of the requirements of a SFAS 133 derivative.

Swap Transactions. As the name implies, a swap transaction obligates the two parties to the contract to exchange a series of cash flows or a commodity, such as gas or power, that is readily convertible to cash at specified intervals or a single date. The cash flows of a swap are either fixed, or calculated for each settlement date by multiplying the quantity of the underlying (notional amount) by specified reference rates or prices. The notional amount is only used to calculate the payment stream, but it is not exchanged. Payments are generally netted, with the difference being paid by one party to the other. As described in paragraph 9a, swap contracts have an explicit net settlement provision – e.g. neither party is required to deliver an asset that is associated with the underlying, only net price change differences. Therefore, similar to forward contracts, swap transactions meet the requirements of a SFAS 133 derivative.

Futures contracts. The basic form of a futures contract is similar to that of a forward contract. A futures contract obligates its owner to buy a specified underlying at a specified price on the contract maturity date (or settle the value for cash). Despite the similarity in payoff profiles, important economic differences distinguish futures from forwards and swaps. The contract terms of futures describing the quantity and quality of the underlying, the time and place of delivery, and the method of payment are fully standardized. Price is the only variable left to be determined. This full standardization leads to fungibility-that is, contracts of the same maturity are perfect substitutes. These characteristics are designed to facilitate anonymous trading in an active and liquid exchange market. Futures differ from forwards and swaps in that the contractual obligations under the futures contracts are entered into directly with the exchange clearinghouse and are generally satisfied through offset – the cancellation of an existing futures position though the acquisition of an equal but opposite position. Because of the existence of an actual exchange, as described by paragraph 9b, futures contracts have a market mechanism. Consistent with forwards and swaps, futures contracts meet all of the requirements of a SFAS 133 derivative.

Option-Based Derivatives

Option transactions. In exchange for payment of a premium (a small net investment), an option contract gives the option holder the right but not the obligation to buy or sell the underlying (or settle the value for cash) at a price, called the strike price, during a period or on a specific date. Thus, the owner of the option can choose not to exercise the option and let it expire. The buyer benefits from favorable movements in the price of the underlying but is not exposed to corresponding losses. Option contracts are another building block of derivatives. Options contain a notional, require a small net investment and are net settled, as the underlying commodities, typically gas or power, are readily convertible to cash. Duke Energy holds that generally all options and subcategories of options, such as the following contract types meet the requirements of a SFAS 133 derivative unless specifically exempted. Paragraphs 20(c) and 28(c) of SFAS No. 133 give certain restrictions for obtaining hedge accounting for a written option.

Caps, Floors and Collars. Just as forwards can be bundled to create swaps, options can be bundled to create other option-based contracts called, caps, floors, and collars. The buyer of the cap pays a premium, normally at inception. At each payment date, the seller must pay the buyer an amount based on the difference, if positive, between the reference and strike rate (cap). A cap therefore protects a floating-rate borrower against a rise in prices above the cap. A floor contract is the opposite of a cap in that payment is made only if the difference is negative. A floor therefore protects an index price investor against a decline in prices below the floor. Buying a collar is equivalent to buying a cap and selling a floor.

Swaptions. A swaption (or swap option) is an option on a swap. It gives the buyer the right, but not the obligation, to enter into a specified swap contract at a future date. In this case, the asset underlying the option contract is another derivative transactions (i.e., a swap). A swaption is usually considered a written option for the holder of the swap.

Documentation and Consultation for Significant Accounting or Reporting Matters

Applicability: Applies to Enterprise
Originator: Finance
Approval: Corporate Controller

Effective Date: 12/15/2004
Revision Date: 02/01/2007
Reissue Date: 12/15/2004

Statement of Purpose and Philosophy

To ensure ethicality and consistency, this policy was developed to provide guidelines related to (1) the documentation of significant accounting or reporting matters and (2) the consultation protocol for interacting with the Corporate Accounting Research Group ("CARG"), a unit of the Corporate Controller's Department, and the external auditor regarding significant accounting and reporting matters. This policy is applicable to all Business/Corporate Units of Duke Energy Corporation and its consolidated subsidiaries ("Duke Energy" or "the Company"). The objectives of this policy include describing the appropriate components of a memo for a significant accounting or reporting matter and best practices for documentation; addressing reporting, consultation and review requirements; and developing consistency in the documentation throughout Duke Energy. Duke Energy internal consultation requirements and protocol are further defined in the related policy entitled "Roles and Responsibilities in Accounting for Major Transactions, New Accounting Issues, and Significant Non-recurring Entries", and the Company's Accounting Function roles and responsibilities are also discussed in the "Duke Energy Finance Entity Level Controls Documentation".

Policy Expectations

This policy applies to the documentation of any accounting or reporting matter that is specifically discussed with a member of the CARG or with Duke Energy's external auditors. In addition, this policy is encouraged to apply to any other accounting or reporting matters that may require documentation based on Business/Corporate unit judgment but not consultation with CARG and/or the external auditors.

Accountability: Roles and Responsibilities

Corporate Controller Department:

- Review this policy periodically, identify any areas of improvement and communicate any changes to Business/Corporate Unit controller.
- Maintain CARG Research Matters Lotus Notes database and file all documentation subject

to this policy in the database in a timely manner.

- Either the Corporate Controller or the head of CARG is required to approve, or concur with, conclusions reached on all matters that require CARG involvement as indicated in the policy entitled "Roles and Responsibilities in Accounting for Major Transactions, New Accounting Issues, and Significant Non-recurring Entries."
- Provide feedback to Business/Corporate Unit controller regarding areas of non-compliance with this policy for any particular matter in a timely manner.

Business/Corporate Unit Controller:

- Ensure Business/Corporate Unit personnel abide by documentation requirements and consultation protocol as stated herein.

Standards/Requirements

Documentation Guidelines

Documentation of an accounting or reporting matter should be comprised in order of the following general sections:

- Purpose
- Background
- Issue(s)
- Accounting Guidance and Discussion
- Conclusion
- Attachments

A description of each of the above sections is as follows:

Purpose - The purpose section describes why the memo has been written. It typically is brief in nature (1-3 sentences) and alerts the reader as to the key subject matter.

Background - The background section describes information leading up to the issue to be discussed. It provides information regarding key personnel, decisions made regarding related business and economic events and why such decisions are important to the matter under evaluation. The Background section provides the context needed to understand and evaluate the accounting or reporting matter to be addressed. Depending on the nature of the matter, this section may range from a few sentences to several paragraphs.

Issue - The issue section describes the specific accounting or reporting matter or matters to be addressed. An issue should be specific in nature and, if appropriate, multiple issues should be separately listed and separately addressed in the memo. Documentation of this section may be accomplished in the form of a question (e.g., how should Duke Energy account for a particular transaction?) or in the form of an assertive position (e.g., Duke Energy should account for a particular transaction in this manner).

Accounting Guidance and Discussion - The accounting guidance and discussion section describes the applicable literature related to the issue and an explanation of the applicability of such guidance to the issue being addressed. Documentation should include specific citations of the accounting references used and excerpts, as applicable. This section should discuss the accounting literature that is in support of any desired accounting treatment as well as any literature that might point to a different conclusion. The purpose of this section is to ensure that all applicable accounting literature has been identified and appropriately considered.

Conclusion - The conclusion section draws on the information provided in the previous section to provide a final resolution on the issue being addressed. It is typically fairly brief in nature and should often be evident based on the discussion above.

Attachments - The attachments section contains information referenced in the body of the memo. Such information includes supporting documentation, calculations, other related memos, examples, etc. Depending on the nature of the memo, this section may or may not exist.

Documentation of all matters prepared in accordance with this policy should contain the following attributes:

- Memo included on related Duke Energy Business/Corporate Unit letterhead
- Memo should include the caption "Draft- for discussion purposes only" until such memo is approved by business/corporate unit management, external auditors, and CARG if appropriate.
- Memo should include a date indicator, version number or some other identifier to indicate the progression of initial and revised documentation.
- Memo should include the name of external auditor personnel to whom the memo was provided as well as the name(s) of CARG and any other Duke Energy personnel (including Business/Corporate Unit management) copied on the memo

In addition, documentation style of internal memos should be consistent among Business/Corporate Units. When preparing documentation in accordance with this policy, the following best practices should be employed:

- Always assume the documentation will be delivered to a third party (e.g., SEC)
- Focus on the facts
- Avoid extraneous comments and discussion
- Use short and complete sentences with action verbs
- Include relevant dates and Duke Energy personnel involved
- Define terms and acronyms
- Use "Duke Energy" or "the Company" instead of "I" or "you"
- Perform a thorough self-review with each draft memo
- For sensitive matters, obtain input from Duke Energy legal department regarding privileged information

Reporting, Consultation and Review Protocol

Assess the need for CARG involvement - the policy entitled "Roles and Responsibilities in Accounting for Major Transactions, New Accounting Issues, and Significant Non-recurring Entries" discusses the involvement of CARG and contains, in part, the following:

"**CARG Involvement:** This denotes whether involvement of CARG is mandatory or optional. All B.U.s should use their judgment when deciding when to use CARG if their involvement is optional. It is highly advisable to use CARG if a matter requires consultation with the external auditor, includes significant assumptions or subjectivity, has little or no accounting guidance, or requires significant interpretation of available accounting guidance. Additionally, if an item does not initially meet the threshold for CARG involvement, but future activity is anticipated that will bring the total amount to the threshold, the B.U. is required to involve CARG, to avoid restatements and different interpretations in later periods. Regardless of the consultation activity, any and all position papers must be logged into the Corporate database. If a position does not require CARG input or consultation, the final position paper should note that CARG has not reviewed or approved the position. CARG "Involvement" encompasses both (1) consultation with and review by CARG and (2) approval or agreement from CARG. Any matters for which CARG is involved but does not agree with or approve of the position of the B.U. will be elevated to the Corporate Controller for resolution as discussed in "Resolution of issues" above."

For items for which CARG involvement is deemed appropriate, the reporting, consultation and review protocol may be summarized into the following general steps:

- Notify CARG of accounting or reporting matter
- Provide documentation of accounting or reporting matter (as discussed above) to CARG
- Submit revisions to documentation as a result of CARG review
- Coordinate external auditor review with CARG
- File documentation within Business/Corporate Unit files
- Provide a copy of final documentation, including any attachments, to CARG in electronic format

For items for which CARG is not involved, the procedures should generally follow these same steps, substituting the references to "CARG" with "external auditor." For matters for which CARG was not involved, a final version of any documentation should be provided to CARG, as discussed in "Provide a copy of final documentation to CARG" below.

An explanation of each of the above steps is as follows:

<u>Notify CARG of accounting or reporting matter</u> - Upon identification of an accounting or reporting matter within the Business/Corporate Unit, a Business/Corporate Unit contact (the "Contact") should be established and such individual should inform a member of CARG regarding the matter to be addressed.

<u>Provide documentation of accounting or reporting matter to CARG</u> - Upon discussion of the matter with CARG, the Contact and CARG will jointly determine the nature and timing of the documentation to be provided and any assistance that the Business/Corporate Unit may require from CARG. While assistance may be provided from CARG, responsibility of all documentation will reside with the Business/Corporate Unit unless expressly agreed with CARG. All documentation submitted by the Contact should receive local management approval prior to being sent to CARG

for review. CARG members will consult internally and with others as they deem appropriate based upon the facts and circumstances surrounding each matter (e.g., materiality, level of judgment required, any potential impact on prior periods, etc.).

The author of each memo is responsible to ensure that any other policies have been complied with, including the policy on "Preparing & Reviewing Financial Schedules, Statements, or Reports." While each issues memo is not required to undergo a formal "prepare/review" process, any financial information in an issues memo, or in any corresponding attachment to a memo, authored by anyone outside of CARG should be subjected to the procedures in the "Preparing & Reviewing Financial Schedules, Statements, or Reports" policy, including the documentation requirements of this policy. For any memos authored by members of CARG, since any financial information used by CARG usually comes from a corporate or business unit, any financial information in an issues memo, or in any attachments, should be verified to CARG's source of the information by another member of CARG. The performance of these procedures by CARG should be documented when "final" versions of memos are placed in the CARG Research Matters Lotus Notes database (including the name of the person who verified any financial or other quantitative information).

Submit revisions to documentation as a result of CARG review - As mentioned above, upon Business/Corporate Unit approval, an initial draft memo will be presented to CARG. Depending on the nature of the matter, documentation may be reviewed by one or more members of CARG. A version of the memo containing comments or proposed revisions will be provided to the Contact within the established time frame. The Contact should process proposed revisions or indicate why such revisions should not be processed and address all questions posed by CARG. Upon completion of review, the Contact should submit a revised version of the documentation to CARG. This process may repeat, as necessary, until approval is received from CARG. CARG will also coordinate any other review deemed appropriate (e.g., Corporate Controller).

Coordinate external auditor review with CARG - Upon notification of the accounting or reporting matter to CARG, CARG will coordinate with the Business/Corporate Unit regarding responsibility for communications with the external auditor for both the corporate and local teams. The standard procedure on matters requiring documentation will be for the Business/Corporate unit (or CARG if requested by the Business/Corporate unit) to initially inform the external audit team in the respective location. The Business/Corporate Unit and CARG will also coordinate the timing for communications with the external auditor, with concurrent communications permitted for matters of a time sensitive nature.

File documentation within Business/Corporate Unit files - If CARG involvement is determined to be appropriate by the Business/Corporate unit, no documentation subject to this policy will be considered final until indicated, or signed-off, by CARG. Either the Corporate Controller or the head of CARG is required to approve, or concur with, conclusions reached on all matters that require CARG involvement as indicated in the policy entitled "Roles and Responsibilities in Accounting for Major Transactions, New Accounting Issues, and Significant Non-recurring Entries."

Upon finalization of the documentation of a significant accounting or reporting matter, the Contact should remove the draft stamp, ensure the date of documentation is appropriate, and modify electronic file name, as appropriate. All previous drafts should be disposed in accordance with Duke Energy's documentation retention policies. An electronic copy of the final documentation should reside in a designated folder on the local Business/Corporate Unit's server. Discretion may be applied to storage of hard copy documentation by local management.

Provide a copy of final documentation to CARG - Upon finalization of the documentation of a significant accounting or reporting matter, provide an electronic copy of the final documentation, including any attachments, in electronic format to the CARG representative for filing in the CARG Research Matters Lotus Notes database. When indicating a matter as "final" in the CARG Research Matters Lotus Notes database, the CARG member should indicate whether the Corporate Controller or the head of CARG, or both, approved, or concurred with, the documented conclusion. Also, as discussed above, when filing a memo in the database, the CARG member should also indicate the name of the person who verified any financial or other quantitative information included in the memo, or in any attachments to the memo, that was prepared by a member of CARG.

Copies of all documentation of significant accounting or reporting matters subject to this policy should be submitted to CARG. The procedures for matters in which CARG is involved are outlined above. For matters for which CARG was not involved, a final version of the documentation should be provided to a member of CARG for filing in the CARG Research Matters Lotus Notes database. If a position does not require CARG input or consultation, the final position paper should note that CARG has not reviewed or approved the position. CARG members may choose to read such documentation submitted to them for filing purposes and any CARG questions or comments should be resolved prior to filing the documentation as final.

Financial Statement Disclosure of Related Party Transactions

Applicability:	Applies to Enterprise
Originator:	Corporate Controller
Approval:	Corporate Controller
Effective Date:	12/15/2004
Revision Date:	12/15/2006
Reissue Date:	12/15/2006

Statement of Purpose and Philosophy

Transactions between related parties commonly occur in the normal course of business. These transactions include, but are not limited to, sales, purchases, loans, transfers, leasing arrangements, guarantees, and other commercial transactions. To assist investors in understanding the impact of these transactions on the financial statements ,U.S. generally accepted accounting principles (GAAP), specifically Statement of Financial Accounting Standards ("SFAS") No. 57, "Related Party Disclosures", and SEC Regulation S-X Rule 4-08(k)(1), require the disclosure of certain control relationships and related party transactions. This policy provides guidance for identifying, appropriately accounting for, and reporting related party transactions.

Policy Expectations

This policy is designed to help ensure consistent application of the accounting rules and disclosure provisions for related party transactions across the consolidated Duke Energy group. All Business Units and Corporate areas must follow U.S. GAAP with respect to accounting for and reporting related party transactions and maintain adequate internal processes to ensure compliance.

Accountability: Roles and Responsibilities

Business Units/Corporate Areas ("Units")

- Ensure appropriate unit personnel understand the definitions and requirements of the accounting for and reporting of related party transactions, as evidenced through unit communications, training of personnel, etc.
- Appropriately account for, based upon the economic substance, any known related party transactions in accordance with GAAP
- Report related party transactions in accordance with the instructions provided by the Corporate Controller's Department
- Review enterprise list of related parties for Duke Energy Corporation (DEC) at least quarterly and provide updates of related parties to the Corporate Controller's Department
- Maintain enterprise list of related parties for any registrant that reports to the unit. Consult World Records database to find consolidated subsidiaries of DEC

Corporate Controller's Department

- Provide interpretation of accounting guidance as to whether or not a person is considered a related party (Corporate Accounting Research) and whether or not a transaction is considered material (Reporting & Analysis)
- Obtain information about related parties and related party transactions from the DEC Business Units/Corporate areas and Corporate Legal Department (Reporting & Analysis)
- Report material related party transactions as appropriate in the periodic SEC filings (Reporting & Analysis)
- Maintain the enterprise list of related parties for DEC (Reporting & Analysis)
- Distribute list of related parties to the Business Units/Corporate areas quarterly (Reporting & Analysis)

Standards/Requirements

Background and Related Accounting & Reporting Guidance

Statement of Financial Accounting Standards ("SFAS") No. 57, "Related Party Disclosures", and SEC Regulation S-X Rule 4-08(k)(1) require disclosure in the consolidated financial statements and periodic (e.g., quarterly) filings of certain relationships and transactions between an entity (or registrant) and its related parties, as appropriately defined, so that users of an entity's financial statements have a full and clear picture of the financial position and results of operations of that entity when making an investment and/or lending decision.

Based on the guidance in SFAS No. 57 and S-X Rule 1-02, related parties are generally understood to be one of the following (refer to Key Terms below for Duke Energy Corporation's guidance regarding these definitions):

1. Affiliates - an affiliate is a person that controls, is controlled by, or is under common control with another person. Control may be direct or indirect and may be exercised through one or more intermediaries

2. Management- any person with responsibility for achieving objectives of the organization and requisite authority to make decisions that pursue those objectives. Management normally includes members of the board of directors, chief executive officers, chief operating officer, any vice president in charge of a principal business function (such as sales, administration, or finance), and any other individual who performs a similar policy making function

3. Principal owners - a person who owns more than 10% of any class of equity securities of an entity. Such ownership may be direct or indirect and includes beneficial ownership as well as ownership through one or more affiliates. Principal owners include owners, each of whose individual holdings is 10% or less of the voting interest but whose combined holdings are more than 10%, if such owners are acting in concert with respect to a transaction or transactions with the reporting entity

4. Promoter - a person who receives 10% or more of the stock of an entity in connection with its founding or organization

5. Immediate family members - family members whom a principal owner or member of management might control or influence or by whom they might be controlled or influenced because of the family relationship

The above items do not necessarily represent an all inclusive listing. The determination of whether a person or an entity is a related party to a reporting entity is generally a determination of fact. Such determination does, in certain cases, require the exercise of professional judgment. When certain persons (or person) have the ability to exert significant influence over the terms of a transaction between two parties, those parties could be considered related. For example, if Entity A's CEO's immediate family member is the owner of Entity B and those two entities enter into transactions with each other, those entities could be considered related parties, as significant influence is presumed to exist between the CEO and his/her immediate family member as to the price and other terms that would not be present between unrelated parties. In contrast, if the CEO's immediate family member is an employee of Entity B with no ability to exert any influence over the terms of the transaction(s), those parties would generally not be considered related. An additional example would be a situation in which a member of the board of directors of Entity A is the CEO of Entity B, transactions between Entity A and Entity B would be considered related party transactions to both entities, as that director/CEO is presumed to have the ability to exercise significant influence over the terms to those transactions.

Related party transactions are any direct or indirect transactions between the reporting entity and a related party, as defined above. Related party transactions generally include transactions between:

- A parent company and its subsidiaries (transactions eliminated in consolidation are not required to be disclosed under SFAS No. 57 as they are not included in the consolidated financial statements, but they remain related party transactions nonetheless)
- Subsidiaries of a common parent (e.g., Duke Capital LLC and Duke Energy Carolinas, LLC are under the common control of Duke Energy)

The reporting entity and:

- Other affiliated businesses
- Management (including directors and members of their immediate families), excluding compensation arrangements
- Principal owners (including members of their immediate families), excluding compensation arrangements
- Pension and profit-sharing trusts managed by or under the trusteeship of management
- Investees accounted for on the equity method of accounting (see below for guidance regarding equity method investees of a reporting entity's equity method investee)
- Promoters
- Other interests having the ability to exert significant influence (see above for examples)

As discussed above, the determination of whether a person or an entity is a related party to a reporting entity requires significant judgment. From the accounting guidance discussed above, it is clear that an equity method investee of a reporting entity is considered a related party. However, it is less clear as to whether an equity method investee of a reporting entity's equity method investee (referred to as a "second tier" equity investee) should be considered a related party. Such determination will depend upon the level of involvement the reporting entity has with the second tier equity investee. For example, the reporting entity may have a 50% owned equity investee (investee A) which has a 50% owned equity investee (investee B). Therefore, the reporting entity has an indirect ownership of 25% in investee B. Normally, direct ownership in an entity of 20% or greater results in a presumption that the investee should be accounted for under the equity method and, therefore, would be considered a related party. The determination as to whether or not the second tier equity investee is considered a related party to the reporting entity will depend upon such factors such as the level of influence over operating and financial decisions of investee B held by investee A and, indirectly, the reporting entity (such as board representation, contractual arrangements, etc).

Established accounting principles ordinarily do not require transactions with related parties to be accounted for on a different basis from that which would be appropriate if the parties were not related. Related party transactions should be considered satisfactorily accounted for when:

- The substance of the transaction is accounted for in conformity with existing authoritative accounting literature and the accounting principles selected are appropriate in the circumstances, and
- When the requisite disclosures (material transactions and relationships) are made in accordance with the requirements of SFAS No. 57 and S-X Rule 4-08

Disclosures required by paragraphs 2-4 of SFAS No. 57 include the following:

2. Financial statements shall include disclosures of material related party transactions, other than compensation arrangements, expense allowances, and other similar items in the ordinary course of business. However, disclosure of transactions that are eliminated in the preparation of consolidated or combined financial statements is not required in those statements. The disclosures shall include:

a. The nature of the relationship(s) involved

b. A description of the transactions, including transactions to which no amounts or nominal amounts were ascribed, for each of the periods for which income statements are presented, and such other information deemed necessary to an understanding of the effects of the transactions on the financial statements

c. The dollar amounts of transactions for each of the periods for which income statements are presented and the effects of any change in the method of establishing the terms from that used in the preceding period

d. Amounts due from or to related parties as of the date of each balance sheet presented and, if not otherwise apparent, the terms and manner of settlement

e. The information required by paragraph 49 of SFAS No. 109, "Accounting for Income Taxes" (see below)

3. Transactions involving related parties cannot be presumed to be carried out on an arm's-length basis, as the requisite conditions of competitive, free-market dealings may not exist.

Representations about transactions with related parties, if made, shall not imply that the related party transactions were consummated on terms equivalent to those that prevail in arm's-length transactions unless such representations can be substantiated.

4. If the reporting enterprise and one or more other enterprises are under common ownership or management control and the existence of that control could result in operating results or financial position of the reporting enterprise significantly different from those that would have been obtained if the enterprises were autonomous, the nature of the control relationship shall be disclosed even though there are no transactions between the enterprises.

Paragraph 49 of SFAS No. 109, "Accounting for Income Taxes", states the following:

49. An entity that is a member of a group that files a consolidated tax return shall disclose in its separately issued financial statements:

a. The aggregate amount of current and deferred tax expense for each statement of earnings presented and the amount of any tax-related balances due to or from affiliates as of the date of each statement of financial position presented

b. The principal provisions of the method by which the consolidated amount of current and deferred tax expense is allocated to members of the group and the nature and effect of any changes in that method (and in determining related balances to or from affiliates) during the years for which the disclosures in (a) above are presented.

Regulation S-X Rule 4-08(k) requires the following:

(1) Related party transactions should be identified and the amounts stated on the face of the balance sheet, income statement, or statement of cash flows.

(2) In cases where separate financial statements are presented for the registrant, certain investees, or subsidiaries, separate disclosure shall be made in such statements of the amounts in the related consolidated financial statements that are (i) eliminated and (ii) not eliminated. Also, any intercompany profits or losses resulting from transactions with related parties and not eliminated and the effects thereof shall be disclosed.

For purposes of applying the provisions of SFAS No. 57 and Regulation S-X Rule 4-08, only those transactions that are material need be disclosed. See Staff Accounting Bulletin ("SAB") No. 99 for guidance in determining materiality. Also, for stand-alone financial statements of Duke Energy subsidiaries (e.g., Duke Capital LLC), the guidance found in SAB, Topic 1B, should be followed with respect to the allocation of expenses from a parent to a subsidiary and the related required disclosures.

Procedure for Reporting Related Party Transactions

In order to appropriately account for and disclose related party transactions at the Duke Energy level, the following policy/procedure is to be followed at the Corporate/Business unit level

- Corporate Controller's Department will distribute DEC enterprise list of related parties to appropriate personnel within the Corporate/Business units quarterly
- Business Units/Corporate Areas will provide updates to the DEC enterprise list of related parties to the Corporate Controller's Department quarterly or when there are significant changes
- Business Units/Corporate Areas will report related party transactions in accordance with this policy and the instructions contained in the annual data reporting package distributed by the Corporate Controller's Department. Related party transactions with one entity that are less than $1 million in aggregate need not be reported to the Corporate Controller's Department. The units must report any material changes to the information disclosed in Form 10-K regarding related parties and related party transactions when they become aware of these changes. The units should consult with the Corporate Controller's Department (Reporting and Analysis) on questions of materiality.
- When developing the enterprise list of related parties for DEC's subsidiary registrants (such as Duke Energy Carolinas, LLC), the unit will need to consult the World Records database to identify consolidated entities of DEC which are not included in the subsidiary registrant's consolidated financial statements as these entities will not be on the DEC enterprise list of related parties. The "ownership" tab in the World Records database will indicate the parent entity. The consolidated subsidiaries are eliminated in the DEC consolidation, but may not be eliminated in the consolidation of the subsidiary registrant.

Key Terms

Compensation Arrangements - salary, bonus, deferred compensation, pension, profit sharing, stock options and awards, expense allowances, director fees, and other similar items that are paid or incurred in the ordinary course of business. Compensation arrangements also may include other items pursuant to company policy, such as providing low-cost financing for shares acquired through a stock option plan.

Control - the power to direct or cause the direction of the management and policies of a specified person. Control may be exercised directly or indirectly through ownership, contract, or by other means.

Enterprise - registrant

Immediate Family - a person's spouse; parent; child; sibling; parent-, child-, sibling-in-law; and anyone who shares a person's home in a non-employee capacity

Ordinary Course of Business - Paragraph 1 of SFAS No. 57 gives the following examples of items that are considered in the ordinary course of business:

Some examples of common types of transactions with related parties are: sales, purchases, and transfers of realty and personal property; services received or furnished, for example, accounting, management, engineering, and legal services; use of property and equipment by lease or otherwise; borrowings and lendings; guarantees; maintenance of bank balances as compensating balances for the benefit of another; intercompany billings based on allocations of common costs; and filings of consolidated tax returns.

Management - refers to management of the registrant (i.e., the board of directors and executive officers of the registrant)

Person - an individual, corporation (excluding 501(c)(3) tax-exempt organizations), partnership, association, joint-stock company, business trust, or unincorporated organization.

Form 8-K Requirements and Filing Procedure

Applicability:	Applies to Enterprise
Originator:	Corporate Controller
Approval:	Corporate Controller
Effective Date:	08/23/2004
Revision Date:	06/01/2006
Reissue Date:	06/01/2006

Statement of Purpose and Philosophy

The Securities and Exchange Commission (SEC) requires U.S. companies with publicly traded securities to disclose certain specified material corporate events on a current basis on SEC Form 8-K, generally four business days after the event has occurred. Currently, these requirements apply to the following Duke Energy entities: Duke Energy Corporation (DEC); Duke Capital LLC; Duke Power Company LLC; Cinergy Corp.; The Cincinnati Gas & Electric Company, PSI Energy, Inc. and Union Light, Heat and Power Company. The events requiring disclosure are shown on Attachment A. This policy outlines the Company's expectations regarding compliance with Form 8-K reporting requirements and the related disclosure controls.

Policy Expectations

All Business Units/Corporate areas should understand the Form 8-K reporting requirements and ensure that their disclosure controls and procedures are adequate and are monitored to ensure compliance.

Accountability: Roles and Responsibilities

Business Units/Corporate Areas:

- Ensure appropriate staff are familiar with Form 8-K reporting requirements
- Identify events and transactions that could be deemed reportable for Form 8-K purposes before the event/transaction occurs
- Communicate on a timely basis to the Corporate Controller's or Corporate Legal Departments (Corporate Department) when a Form 8-K reportable event may occur or has occurred at the unit. Refer to Attachment A to determine which Corporate Department to contact and designated contact individuals, based on the type of event/transaction. This communication should be made for any event that could potentially be reportable at any registrant level
- Upon confirmation that a Form 8-K filing is required, prepare initial draft of disclosure language, including any documents required or appropriate to be filed as an exhibit to the Form 8-K, and provide to the appropriate Corporate Department for review, edit, approval and filing in a timely manner
- Ensure disclosure controls and procedures remain updated for matters related to Form 8-K filings

Corporate Controller and Legal Departments:

- Based on the type of event/transaction, either the Corporate Controller's Department or the Corporate Legal Department will lead the decision process (refer to Attachment A) as to whether or not it is necessary to file a Form 8-K and will review the decision and coordinate with the other Corporate Department
- Confirm the existence of an event of the type required to be reported on Form 8-K, evaluate the materiality of the event, and determine disclosure requirements, if any
- Contact/consult with appropriate internal and external parties, as necessary
- Ensure that Form 10-Q/K incorporates any information that was required to be reported, but was not previously reported, on Form 8-K

Corporate Controller's Department:

- Obtain draft of Form 8-K, circulate for review and approval and coordinate filing with the Corporate Legal Department
- Convene Disclosure Committee (or subcommittee as approved by the Disclosure Committee charter) and other meetings, as necessary

Standards/Requirements

- Refer to Attachment A for a list of items that must be disclosed in Form 8-K. For further information, consult the SEC release http://www.sec.gov/rules/final/33-8400.htm
- Before a Form 10-Q/K is filed, the Company must specifically assess whether required Form 8-K filings were made on a timely basis and whether those filings contained appropriate disclosures. If needed, the Company will include disclosures in the current Form 10-Q/K and/or file a late Form 8-K

Identification

- On or before the date of the event, but as far in advance as possible:
    - Business Unit/Corporate area determines that an event is likely to occur, or has or may have occurred
    - CFO or Controller of Business Unit, or person with similar responsibility in Corporate area, contacts the designated individuals within the Corporate Department (refer to Attachment A) to confirm need to file Form 8-K

Confirmation

- As promptly as practicable after identification, if event has already occurred:
    - Corporate Controllers' Department may contact external auditor, as appropriate
    - Corporate Legal Department may contact external legal counsel, as appropriate
    - Corporate Department assesses need to file and confirms decision to file or not file with Corporate Legal Department contact or Corporate Controller, according to which department is responsible as the contact
    - Corporate Department communicates decision as to whether Form 8-K will be filed back to originating Business Unit or Corporate area
    - Corporate Controller's Department establishes filing deadline and schedules any meetings required for Review and Approval stage
- When a decision has been made to file a Form 8-K, the Corporate Department will immediately notify Corporate Communications and Investor Relations, to the extent necessary, to ensure coordinated external message

Drafting

- Immediately upon confirmation of decision to file Form 8-K, the Corporate Controller's Department requests draft of appropriate 8-K disclosure language from responsible Business Unit or Corporate area
- Business Unit CFO or Controller, or person with similar responsibility in Corporate area, as the case may be, is responsible for completion and submission of Form 8-K draft, with consultation from Corporate Legal and Corporate Controller's Departments
- Drafting includes responsibility to provide to Corporate Controller's Department definitive documentation including any documents required or appropriate to be filed as an exhibit to the Form 8-K

Review and Approval

- Corporate Controller's Department, via Chairman of Disclosure Committee, convenes Disclosure Committee (or a subcommittee thereof) for approval of Form 8-K prior to filing
- The lead Corporate Department approves content of Form 8-K

Execution and Filing

- Lead Corporate Department will submit Form 8-K to SEC by filing deadline

Key Terms

Designated Contact Individuals in Corporate Departments

Corporate Controller's Department: General Manager, Financial Reporting and Analysis

Corporate Legal Department: Associate General Counsel - Corporate and Securities (SEC Reporting)

Journal Entry Creation and Approval Requirements for Non-System Generated Journals

Applicability:	Applies to Enterprise
Originator:	Corporate Controller
Approval:	Corporate Controller
Effective Date:	09/30/2003
Revision Date:	01/22/2007
Reissue Date:	01/22/2007

Purpose

The intent of this policy is to provide minimum standards to be used in the preparation and approval of "non-system generated journal entries" (journal entries). Properly documenting and approving journal entries mitigates the risk of material misstatement to our financial statements and provides the Company with internal and external auditable documents supporting financial statements and other reporting requirements.

Terms

Create - To initiate a journal entry.
Valid - The stage in the journal entry process when a journal has been initiated and accounting has been validated (i.e., no chartfield errors and application of GAAP is accurate).
Approve - A journal is marked for approval to post to the general ledger.
Post - The action of reflecting the journal entry in the general ledger.
Pencils Down - Date specified when that all business unit and corporate accounting departments have made all necessary journal entries. After this time, the Corporate Consolidations group updates the consolidated financial statements.
Un-post - The action of reversing a journal which has been posted to the general ledger.

Expectations

All Business Units and Corporate areas which create journal entries must follow this policy.

Roles Associated with Journal Entry Creating and Reviewing

There are two distinct roles associated with processing a journal entry: Creating and Reviewing. Transactions recorded in the company's general ledger must be consistent with the direction and decisions of management. Each individual associated with the journal entry process is expected to have an understanding, appropriate to his or her role, as to whether the entry is reasonable, relevant, complete, complies with GAAP and properly referenced. The performance of the Reviewer responsibilities must not be a perfunctory exercise. An independent party should be able to conclude that the performance of these responsibilities is meaningful and appropriate.

The following section designates specific accountabilities of the roles associated with each journal:

Creator

- Prepares the journal entry, attaches the appropriate supporting documentation and references it to the journal entry, or if supporting documentation is filed separately, indicates the location. See Attachment A for recommended guidelines for journal entry referencing.
- Ensures information received from others is appropriate or is derived from someone with appropriate authority (See related policy, "Preparing and Reviewing Schedules, Statements, or Reports").
- Completes the journal line description field.
- Prepares a written summary of the purpose of the journal on the face of the journal entry or separate page, referencing any applicable accounting literature or pronouncement (e.g. a FASB pronouncement, APB Opinion, FERC Code of Federal Regulations section, etc.).
- Ensures the journal is Valid.
- Loads the journal in the financial application via the appropriate mechanism.
- Acts as the steward during the journal entry process flow to ensure the timeliness and completion of journal entry responsibilities.

Reviewer

- Cannot organizationally report to the Creator of the journal entry.
- Ensures proper accounting for the journal entry.
- Verifies journal entry is being recorded to the appropriate accounting period.
- Checks or confirms calculations (e.g., foot/cross-foot, multiplication, division, etc.).
- Has the appropriate technical or functional expertise to perform the review responsibilities.
- Verifies adequate documentation is attached to the journal to substantiate the entry.
- Performs final verification that the journal does not require further review or approval by management - See "Roles and Responsibilities in Accounting for Major Transactions, New Accounting Issues, and Significant Non-recurring entries" Policy.
- Approves the journal for posting.

Electronic date, time and signature stamps are the evidence of creation and review. Financial applications used to process journal entries are required to have a system-enforced segregation of duties which requires action from two individuals - journal entry Creator and Approver (to post). The Approver (to post) is required to be the Reviewer.

Assembling the Journal

The journal and supporting documents should be organized in a reasonable and appropriate manner and include the following:

- Journal Entry reports
- Written summary of the purpose of the journal entry
- Supporting documentation, appropriately referenced

Recurring Journal Entries

Journal entries which are "Recurring" are designated as such in the initial journal setup in the financial application. These entries are set up initially and are created each month automatically by the financial application. An appropriate individual must approve the entry to post. Because this entry is created by the financial application and review is maintained in the financial application, it is not required to maintain hard copy documentation of the Create and Approve process. The initial setup requires two steps when initially set up, but only one step, posting, in subsequent months. A journal which is manually initiated each month, although the Business Unit or Corporate area may regard the entry as recurring, is not considered a "Recurring" journal entry for purposes of this policy since the designation is not maintained in the financial application and accordingly such entries are subject to this policy.

Statistical Journal

Statistical journals impacting the general ledger, or journals which impact rates used for allocations, loading factors for overheads, etc., must have two individuals perform the initial setup or change, but do not require monthly manual approval until a change is initiated.

Reporting Overrides

An override represents any failure to comply with this policy. Overrides must be reported to the Manager, Internal Controls in the Corporate Controller's department no later than 4 business days after "pencils down" of the close cycle. See Attachment B for the Journal Create/Review Override report.

Requesting an Exception to this Policy

An exception request for any aspect of this policy is requested using the form shown in Attachment C. No exceptions to this policy are authorized until approval from the Corporate Controller's Department is received. Any failure to comply with this policy prior to receipt of an approved exception constitutes an override which must be reported.

Accountability: Roles and Responsibilities

Creator and Reviewer:

- Process journal entry in compliance with this policy.
- Have appropriate expertise and understanding of the journal entry and supporting documentation.

Business Unit Finance and Corporate Department Management:

- Ensure the appropriate individuals in their respective Business Unit or Corporate department are aware of the requirements of this policy.
- Report overrides to the Manager of Internal Controls, Corporate Controller's Department.
- Address a request for an exception to this policy to the Director of Internal Controls, Corporate Controller's Department.

Corporate Controller's Department:

- Internal Controls department reviews overrides for reasonableness and reports to Corporate Controller.
- Controller reviews and approves, if appropriate, requests for an exception to this policy.

Other Comprehensive Income Accounting Procedures

Applicability:	Applies to Enterprise
Originator:	Director, Benefits & Allocations
Approval:	General Manager, Corporate Accounting
Effective Date:	12/31/2003
Revision Date:	03/01/2007
Reissue Date:	03/01/2007

Statement of Purpose and Philosophy:
The purpose of this procedure is to provide guidelines for recording the detail activity within Other Comprehensive Income (OCI) in order to minimize and validate the manual collection of data necessary to properly create a Consolidated Statement of Cash Flows and Consolidated Statement of Comprehensive Income.

Expectations:
In order to distinguish between cash and non-cash activity in OCI and to get more detail directly from the general ledger, it is necessary to standardize the accounts to use for Other Comprehensive Income. In addition, certain accounts have been designated to capture the tax effect entries separately from *gross* activity for hedge, pension, and available for sale securities. By segregating the activity between cash flow hedges, interest rate hedges, and available for sale securities, more detail will be available within the general ledger. See attachment A for specific accounts to use and accounts to cease using.
Proper application of this procedure will reduce the dependence on off-system data collection.

Accountability: Roles and Responsibilities

Corporate Accounting Department

- Ensure by policy, guidelines and review that business/corporate units record OCI activity and reconcile to data collected off-system.

Business Unit Accounting; Business/Corporate Management

- Ensure business/corporate unit procedures, at a minimum, comply with the requirements of this policy.
- Ensure the off-system data submitted is accurate and timely, and management adequately monitors results.
- Implement procedures sufficient to ensure new accounts, where necessary, are requested in a timely manner.

Attachment A

Account #	Description	Book Taxes Here?	Notes
0216101	Foreign Currency Translation	No	
0216111	For Curr Trans-Tax Effect	Yes	In case future guidance requires foreign currency to be tax-effected
0216112	FX-Net Investment Hedge	No	All current year and prior period activity
0216113	FX- Tax Effect - Net Inv Hedge	Yes	All tax-effects for Net Investment Hedges
0219001	Other Comprehensive Income (OCI)	No	To be used by BU's that need to record miscellaneous OCI such as Grantor / Rabbi trust activity
0211017	Tax effect - Other Comprehensive Income (OCI)	Yes	Tax-effects for miscellaneous OCI activities
0219002	OCI- Commodity Hedges	No	All current year and prior period activity
0219003	OCI-Interest Rate Hedges	No	All current year and prior period activity
0219004	OCI-Tax Effect-Commodity	Yes	Tax-effects for commodity hedges, including cash hedges
0219005	OCI-Tax Effect-Interest Rate	Yes	Tax-effects for interest rate hedges, including cash hedges
0219008	OCI-Minimum Pension Liability	No	
0219009	OCI-Available for Sale Securities	No	
0219010	OCI-Tax Effect-Pension	Yes	All tax-effects for Pension Liability
0219011	OCI-Tax Effect-Available Securities	Yes	All tax-effects for Avail. for Sale Securities
0219012	OCI-Cash Commodity Hedges	No	Settled commodity hedge transactions remaining in OCI
0219013	OCI-Cash Interest Rate Hedges	No	Settled interest rate transactions remaining in OCI
0219100	OCI-FAS 87 Prior Svc Cost	No	Pension - FAS158 transition
0219014	OCI-FAS 87 Prior Svc Cost Tax effect	Yes	Pension - FAS158 transition – taxes

0219101	OCI-FAS 87 Actuarial gain/loss	No	Pension - FAS158 transition
0219015	OCI-Tax effect - FAS 87 Actuarial gain/loss	Yes	Pension - FAS158 transition – taxes
0219102	OCI-NQ FAS 87 Prior Svc Cost	No	Pension - FAS158 transition
0219016	OCI-NQ FAS 87 Prior Svc Cost Tax effect	Yes	Pension - FAS158 transition – taxes
0219103	OCI-NQ FAS 87 Actuarial gain/loss	No	Pension - FAS158 transition
0219017	OCI-Tax effect -NQ FAS 87 Actuarial gain/loss	Yes	Pension - FAS158 transition – taxes
0219104	OCI-FAS 106 transition asset/liab	No	Pension - FAS158 transition
0219018	OCI-Tax effect - FAS 106 transition asset/liab	Yes	Pension - FAS158 transition – taxes
0219105	OCI-FAS 106 Prior Svc Cost	No	Pension - FAS158 transition
0219019	OCI-Tax effect -FAS 106 Prior Svc Cost	Yes	Pension - FAS158 transition – taxes
0219106	OCI-FAS 106 Actuarial gain/loss	No	Pension - FAS158 transition
0219020	OCI-Tax effect - FAS 106 Actuarial gain/loss	Yes	Pension - FAS158 transition – taxes

NOTES:

- Specific accounts are available for tax-effect entries (i.e. - 0219004 should have the tax-effect for 0219002 and 0219012). The tax department has determined this to be the fewest accounts needed to facilitate their objectives. Should you encounter a situation requiring a new detail account to be added, you may use 0219001 as a temporary account until the new account is available.
- Consolidations will ensure that the Account EBIT Barrs tree is also set up for the new accounts.

Preparing and Reviewing Financial Schedules, Statements, or Reports

Applicability:	Applies to Enterprise
Originator:	Corporate Controller
Approval:	Corporate Controller
Effective Date:	03/31/2004
Revision Date:	01/22/2007
Reissue Date:	01/22/2007

Purpose

The intent of this policy is to provide minimum standards expected for information prepared or supplied for use in financial statements or reports, including information supplied in support of a journal entry. Proper preparation, review and approval mitigates the risk of a material misstatement in Duke Energy's financial statements.

(Note: *Create/Review process for manual journal entries is covered by the* Journal Entry Creation and Approval Requirements for Non-System Generated Journals policy).

Terms

Finance Function - Individuals or departments which are either direct reports or have a dotted-line relationship to the Duke Energy Chief Financial Officer.

Expectations

All Business Units and Corporate areas must follow this policy, including those outside the Finance function.

Information Prepared Outside the Finance Function

- *Information supplied to Finance personnel which is used to record a journal entry, prepare* financial statements or be included in footnote disclosures is required to be appropriately verified and authorized by the provider. Verified includes confirming calculations and ensuring the data is accurate and complete. The information supplied is required to be from someone authorized, either from:
    - an individual with the appropriate level of authority; or
    - a designee, provided the individual with the appropriate level of authority is knowledgeable that the data is being supplied.
- When an individual in the Finance function receives information or data used in preparing financial statements or journal entries from an individual outside the Finance function, he or she is expected to verify that the information is appropriate and/or is provided from someone with the appropriate level of authority.

Information Prepared Within Finance Function

- Within the Finance function, data or information which is used directly in the publicly issued financial statements or disclosures should have a Prepare and Review performed. At a *minimum, the following reports or schedules should have a Prepare and Review:*
    - Data used in Financial Statements

- Data used in Footnote Disclosures
- Data supplied in response to Corporate Accounting's data requests
- Corporate Forecast

Roles Associated with the Prepare and Review within the Finance Function:

Two individuals should be involved in preparing and reviewing all financial schedules, statements, or reports.

- **Preparer** - This individual accurately prepares the document and has the appropriate understanding of why the document is required. Documents and workpapers are to be appropriately referenced (For guidelines for workpaper referencing, see Attachment A). The preparer signs/initials and dates the document or separate page.
- **Reviewer** - This individual is expected to have the appropriate technical or functional expertise to perform the review responsibilities. The Reviewer is responsible for understanding and verifying the document/workpapers, including checking calculations. The Reviewer also ensures that source material is adequate. The Reviewer provides an overall verification for accuracy, consistency and support for the document/workpapers. The Reviewer determines if another level of review or approval is needed, based on the nature/complexity of the document being reviewed. Once the review is complete, the Reviewer signs/initials and dates to confirm the document/workpapers were reviewed.

Reporting Overrides

An override represents any failure to comply with the requirements of this policy. On the first business day of the month, a report must be sent to the Corporate Controller to report any overrides to this policy that occurred during the previous calendar month. The report (Attachment E) should be sent to the Manager of Internal Controls, Corporate Controller's Department.

Requesting an Exception to this Policy

An exception request for any aspect of this policy is requested using the form shown in Attachment F. No exceptions to this policy are authorized until approval from the Corporate Controller's Department is received. Any failure to comply with this policy prior to receipt of an approved exception constitutes an override which must be reported.

Accountability: Roles and Responsibilities

All individuals who prepare or supply information for use in financial statements or reports:

- Comply with this policy

Business Unit Finance and Corporate Department Management:

- Ensure the appropriate individuals in their respective Business Unit or Corporate department are aware of the requirements of this policy.
- Report overrides to the Manager of Internal Controls, Corporate Controller's Department
- Address a request for an exception to this policy to the Director of Internal Controls, Corporate Controller's Department.

Corporate Controller's Department:

- Internal Controls department reviews overrides for reasonableness and reports to Corporate Controller.
- Controller reviews and approves, if appropriate, requests for an exception to this policy.

Property/Business Interruption Reserve Eliminations in Consolidation

Applicability:	Applies to Enterprise
Originator:	Corp. Controller's Dept. - Corporate Accounting
Approval:	Corporate Controller
Effective Date:	12/31/2004
Revision Date:	03/01/2007
Reissue Date:	03/01/2007

Statement of Purpose and Philosophy

The purpose of this policy is to provide guidelines for recording elimination entries in the consolidated Duke Energy Corporation financial statements related to transactions with Duke's wholly-owned captive insurance entities (Bison Insurance Company Limited and NorthSouth Insurance Company Limited).

Policy Expectations and Scope

This policy is applicable to the Corporate Accounting Group in the Corporate Controller's Department. This policy will ensure the proper elimination of captive insurance entity transactions and balances in consolidation related to claims established by the captive insurance entities. The elimination entries necessary for consolidation fall into two categories 1) Entries recorded to Consolidation Accounts by both the Captive and the Business Unit related to a particular claim and 2) Entries recorded by the Captive, but not by the Business Unit.

The scope of this policy covers losses/claims between the captive insurance entity and the insured party (Duke Business Unit) and does not address the elimination of premium expense recorded by the Business Unit and premium revenue recorded by the Captive. The accounting for premium expense and premium revenue is covered in separate guidance titled "Accounting Process to Record Intercompany Insurance Activity".

This policy is meant to identify the transactions that need to be eliminated in consolidation and the method of compiling the data to make the proper elimination entry.

Materiality

FASB Statements note that "The provisions of this Statement need not be applied to immaterial items." However, since this policy will be used to ensure the proper elimination or consolidation of affiliated transactions, materiality thresholds should not be applied to this policy.

Accountability: Roles and Responsibilities

Corporate Controller's Department

The Corporate Accounting Group of the Corporate Controller's Department is responsible for applying this policy since they have the responsibility for entering the captive insurance entity financial information into the general ledger and ensuring the appropriate elimination of intercompany transactions and balances in consolidation. Through the use of PeopleSoft queries and data received from Continuity, Insurance, and Security Services (CISS), the Corporate Accounting Group will make the appropriate elimination entries in consolidation.

Business/Corporate Unit Controllers

The business/corporate unit is responsible for compliance with the Corporate Policy entitled "Accounting for Claims between Captive Insurer and Affiliates" in recording insured events and claims for recovery with the Duke captive insurer.

Background

Duke Energy has two wholly-owned captive insurance entities (hereafter referred to as the "Captives"), which primarily provide insurance coverage to Duke Energy affiliated entities. Captive insurance is by definition a limited purpose insurance company established with the specific objective of primarily insuring risks of its parent company and affiliates. A brief description of each Captive is contained below:

Bison Insurance Company Limited (Bison)

Bison is a captive insurance company and a wholly-owned subsidiary of Duke Energy domiciled in Bermuda. The three primary categories of insurance covered by Bison are business interruption, property, and general liability. Bison uses reinsurance, or insuring with third parties, in order to further limit financial risk over specific dollar levels, by type of coverage. Bison's contractual policy is to indemnify Duke affiliates after an insurable event has occurred and has been settled by the affiliate. Each affiliate may choose a range of deductibles with Bison, thus providing them some control over their premium expense.

NorthSouth Insurance Company Limited (NorthSouth)

NorthSouth was formed on December 31, 2002, and insures exposures of Duke Power Company. NorthSouth is wholly-owned by Bison and is domiciled in Bermuda. All insured risks covered by NorthSouth have been fully reinsured by Bison.

As these Captives primarily provide insurance coverage to Duke Affiliates, it is necessary to eliminate all intercompany transactions and balances between the Captive and the Duke Business Units. In addition, there are some transactions recorded by the Captive that will not be recorded by the Business Unit that also have to be removed in consolidation to the extent they do not represent valid reserves to the consolidated financial statements. There are two types of reserves recorded by the Captives, both of which meet the definition of SFAS No. 5; however, for insurance management purposes there is a distinction.

Incurred But Not Reported Reserve (IBNR)

An IBNR reserve is an estimate based on an actuarial study for claims for events that have occurred prior to the reporting end period, but are not yet specifically known or estimable by the Captive. *Losses in this category can be substantial due to the delay and length of time it can take for the* Captive to be notified of a loss and for the loss to be fully developed.

Outstanding Loss Reserves (OSLR)

An OSLR reserve is a reserve that exists once an insured event is known and can be estimated by a claims adjuster. Although an OSLR payable is created by simply a reclassification out of the IBNR payable, the initial offset (debit) is to Expense when the IBNR reserve is established.

Procedural Details

The elimination entries necessary for consolidation assume that the Captives and the Business Units (insured party) have recorded the proper entries on their respective books related to insured events. The following outlines the entries that should be recorded on the Captive's books by Corporate Accounting and the elimination entries that will be necessary for the consolidated financial statements. See related policy which details the procedures to be followed by the Business Units (Insured party) titled, "Accounting for Claims between Captive Insurer and Affiliates".

The following procedures will be performed on a monthly basis:

Step #1

Increase in the Captives IBNR for losses incurred during the month

A/C #			Dr	Cr
0417101	Loss Expense (IBNR)		xxx	
0253116		Loss Reserve (IBNR)		xxx

This entry is required on a monthly basis and based upon detail provided by the Captives. For non-quarter ending months, this entry will be based upon an estimate as provided by the Captives. On a quarterly basis, the IBNR reserve balance will be required to be "trued up" based upon the current estimate of actual IBNR reserves.

Note that IBNR reserves recorded by the Captive are not reclassified to intercompany accounts as IBNR amounts are not recorded by the insured party (Business Unit). As IBNR reserves related to non-property (Duke property) and non-business interruption losses are valid reserves on the consolidated financial statements, they are not eliminated. See below procedure for the elimination of IBNR reserves related to property and business interruption losses.

Step #2

Increase in the Captives OSLR reserves for property (including replacement, repairs, and 3rd party property), business interruption, and general liability claim amounts quantified during the month.

A/C #		Dr	Cr
0253116	Loss Reserve (IBNR)	xxx	
0242994	A/P Affiliates		xxx

This entry is required to be recorded as the Captive entities do not currently provide Corporate Accounting with detailed OSLR reserves on a monthly basis (this detail is only provided on a quarterly basis). Therefore, Corporate Accounting must make this entry in order to properly eliminate with the Business Units on a monthly basis. The system will generate the proper eliminations for amounts in the intercompany accounts. This is done through the use of G/L accounts that roll up to the Consolidation Node.

The source of the amount to reclass will be a Business Object Query Report run by the intercompany receivable accounts (0146960 - A/R Non Prop/Non-BI Interco and 0146990 - A/R Prop/BI Interco) to obtain the amount reported by the Business Unit. The Business Unit numbers indicated in the report will be used in the Affiliate field in the journal entry on the Captive's books.

Step #3

Reduction of reserves related to payments made by the Captive during the month

A/C #		Dr	Cr
0242994	A/P Affiliates	xxx	
xxx-xx	Cash		xxx

This entry is required to be recorded as the Captive entities do not currently provide Corporate Accounting with detailed OSLR reserves on a monthly basis (this detail is only provided on a quarterly basis). Therefore, Corporate Accounting must make this journal entry to ensure amounts properly eliminate with the Business Units on a monthly basis.

The source of the amount to reclass will be a Business Object Query Report run by the intercompany receivable accounts (0146960 - A/R Non Prop/Non-BI Interco and 0146990 - A/R Prop/BI Interco) as well as a detail of payments made provided by the Captives. The change in the intercompany receivable account will be analyzed to identify any cash payments received by the Business Unit from the Captive. While analyzing the change in the receivable account, if a non-cash adjustment of the receivable is noted, the Captive will adjust its intercompany payable and loss expense accordingly. Receipts of cash will be identified by a label of "c" noted in the claim description field (see related policy titled, "Accounting for Claims between Captive Insurer and Affiliates").

Step #4

Related to property claims whereby the Business Unit has recorded an involuntary conversion gain on their financial statements (an intercompany gain account pursuant to the policy "Accounting for Claims between Captive Insurer and Affiliates"), the expense recognized by the Captive must be eliminated against this gain as there should only be a net expense to the consolidated entity as a result of the write-off of the damaged property.

Scenario A-Claim Does Not Meet the Captive's Retention

Reclass the expense on the Captive's books to an intercompany account to eliminate against the gain recorded by the Business Unit:

A/C #		Dr	Cr
0501002	Operating Expense Affiliate	xxx	
0417101	Loss Expense		xxx

Scenario B- Claim Exceeds the Captive's Retention but All Contingencies Related to the Involuntary Conversion Gain Have Not Been Resolved

Reclass the BU's Involuntary Conversion Gain on the Captive's books to an intercompany expense account and eliminate the Captive's reinsurance receivable until all contingencies related to the reinsurance receivable have been resolved.

A/C #		Dr	Cr	
0501002	Operating Expense Affiliate (a)	xxx		
0417101	Loss Expense (b)		xxx	
XX-XX	Reinsurance Receivable			xxx

a. Business Unit Involuntary Conversion Gain

b. Business Unit Involuntary Conversion Gain less Captive's Reinsurance Recoverable

Scenario C- Claim Exceeds the Captive's Retention and All Contingencies Related to the Involuntary Conversion Gain Have Been Resolved

Reclass the BU's Involuntary Conversion Gain on the Captive's books to an intercompany expense account and recognize the involuntary conversion gain on the Captive's books.

A/C #		Dr		Cr
0501002	Operating Expense Affiliate (a)	xxx		
0417101	Loss Expense (b)		xxx	
XX-XX	Involuntary Conversion Gain			xxx

(a) Business Unit Involuntary Conversion Gain

(b) Additional expense Captive needs to meet its retention level

Operating Expenses are reclassed to an intercompany expense account (0501002 - Operating Expense Affiliate) that will eliminate with the revenue recorded on the BU's books. The system will generate the proper eliminations for amounts in the intercompany accounts. This is done through the use of G/L accounts that roll up to the Elimination Node.

The source of the amount to record this entry will be a Business Object Query Report run by the intercompany gain account (0421120 - Captiv Invol'tary Cnvsn Clm) to obtain the amount of the gain recognized by the Business Unit. The business unit numbers indicated in the report will be used in the Affiliate field in the journal entry on the Captive's books.

Step #5

Related to business interruption losses, the Business Units classify reimbursements received by the Captive as a credit to intercompany revenue while the offset is recorded by the Captive in expenses. Therefore, the Captive expense needs to be reclassified to an intercompany balance to ensure proper elimination of these amounts in consolidation.

Reclass of Captive operating expenses to intercompany expenses to ensure elimination:

A/C #		Dr	Cr
0501002	Operating Expense Affiliate	xxx	
0417101	Loss Expense		xxx

Operating Expenses are reclassed to an intercompany expense account (0501002 - Operating Expense Affiliate) that will eliminate with the revenue recorded on the BU's books. The system will generate the proper eliminations for amounts in the intercompany accounts. This is done through the use of G/L accounts that roll up to the Elimination Node.

The source of the amount to record will be a Business Object Query Report run by the intercompany revenue accounts (0495030 - Captive Revenue BI Interco and 0421040 - Captive Rev BI Interco) to obtain the amount of the revenue recognized by the Business Unit for Business Interruption. The business unit numbers indicated in the report will be used in the Affiliate field in the journal entry on the Captive's books.

Elimination of the Excess OSLR Related to Property Claims (Including Business Interruption)

The above entries (Step 1 to Step 5) eliminate the intercompany transactions related to Property and Business Interruption where the Business Unit has recorded a receivable on their books. To the extent that the BU has not recorded a receivable, the amount in the OSLR Reserve related to Property and Business Interruption needs to be eliminated. The following steps outline the formula that should be used to determine the elimination amounts for each individual Property and Business Interruption claim:

Total OSLR (Gross) for Property (Business Interruption is included in the Property total)

Less: Any amounts identified as 3rd party property reserves (e.g., unconsolidated entities)

Less: Any amounts recorded by the Business Units as receivables (a/c # 0146990) related to intercompany property losses

Equals: Adjustment to Losses Payable (OSLR)

Less: The lesser of: 1) Any amounts recorded as Reinsurance Receivables by the Captive related to non-3rd party OSLR property reserves (including business interruption), or 2) The gross affiliated OSLR less the amount recorded by the Business Units as a receivable.

Equals: Adjustment to Operating Expense

Once the above calculation is done, the journal entry for elimination is as follows:

A/C #		Dr	Cr
0253935	Loss Reserve (OSLR)	xxx	
0426510	Loss Expense	xxx	
0124310	Reinsurance Receivable		xxx

Elimination of IBNR Related to Property Claims (Including Business Interruption)

The IBNR reserve on the Captive's books represents the estimated reserve established based on an actuarial study. The IBNR reserve is established to cover losses under all of the Captive's policies including Business Interruption and Property Damage. Property and Business Interruption claims are unique in that there is normally not a 3rd party liability or claim associated with either of these types of coverage (except for claims related to 3rd parties). Amounts of property IBNR reserves not related to 3rd party claims are intercompany transactions. Therefore, these balances recorded by the Captive must be eliminated (because the reserve is classified as IBNR, the Business Unit would not have recorded anything).

In order to calculate the amount of the property IBNR reserve to eliminate, the total IBNR must be separated by policy type (property, general liability, etc). This information is required to be provided by CISS on a quarterly basis.

Entry Required in Consolidation:

A/C #		Dr	Cr
0253935	Loss Reserve (IBNR)	xxx	
0426510	Loss Expense (IBNR)		xxx

The amount to eliminate in the above entry will be calculated as a percentage of the IBNR balance for Property and Business Interruption which represent intercompany transactions. The total IBNR Reserve for Property will be provided by CISS quarterly. The percentage used will be based on an analysis of historical third party claims and affiliate claims identified in the CISS claims reports. The percentage to use represents an estimate of the intercompany transactions. This percentage will need to be updated and tracked for any changes on a quarterly basis.

Reclassification of Realized Income Statement Activity in Consolidation -- Net vs. Gross

Applicability:	Applies to Enterprise
Originator:	Corporate Controller
Approval:	Senior Vice President and Controller
Effective Date:	09/30/2003
Revision Date:	04/01/2007
Reissue Date:	04/01/2007

Statement of Purpose and Philosophy

The purpose of this policy is to provide guidelines related to the reclassification of Income Statement activity between affiliates which is classified as trading for one affiliate and hedging for the other affiliate. Duke Energy is committed to providing financial information with the utmost integrity. To facilitate this corporate value, the Corporate Controller's Department will approve policies to ensure the accuracy of books and records (as detailed in the Code of Business Ethics). This policy is applicable to all business/corporate units of Duke Energy Corporation and its consolidated subsidiaries ("Duke Energy" or "the Company").

Policy Expectations

In connection with the development and formalization of interpretive accounting issues related to Emerging Issues Task Force (EITF) Issue No. 02-03, "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and for Contracts Involved in Energy Trading and Risk Management Activities," and EITF Issue No. 03-11, "Reporting Realized Gains and Losses on Derivative Instruments That Are Subject to Financial Accounting Standards Board (FASB) Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, and Not Held for Trading Purposes." Duke Energy determined the need for a formal process for reclassifying certain activity between affiliates. The objective of this reclassification is to present revenues properly on Duke Energy's Consolidated Statements of Income. For further discussion of the specific issues and assumptions surrounding this matter, refer to the accounting memo from September 30, 2003 entitled "Reclassification of Realized Income Statement Activity in Consolidation - Net vs. Gross." As noted in the memo, there are specific situations in which activity between affiliates is classified as trading for one affiliate and hedging for the other affiliate. This category of inter-company activity requires special handling for consolidated financial reporting. Therefore, specific roles and responsibilities are established in the following section to ensure proper representation in the financial statements of the company.

Accountability: Roles and Responsibilities

Overall

1. Written procedures, including this policy, will be reviewed and approved in accordance with enterprise and Controller's department policy before any entries are booked.
2. Inter-company activity will be recorded to inter-company accounts.
3. Business Units will need to work together to identify cases in which activity between affiliates is classified as trading for one affiliate and hedging for the other affiliate.
4. The Corporate Controller's Department and Business Unit Controllers are responsible for documenting the basis of the reclassification and gathering appropriate support.

Corporate Controller department

1. Identify the accounts which will be used to capture specified activity **between** segments.

An analyst in the Corporate Consolidations group will query the specified accounts to determine if any reclassification to third-party accounts is required. The Director of Corporate Consolidations will ensure that any necessary entry is recorded properly into the book of record.

Business Unit Controller

1. Notify Corporate Controller's Department of any trading activity between Business Units and contact other Business Unit Controllers to understand the classification of such activity on each party's books.
2. Identify the accounts which will be used to capture specified activity **within** their segment.
3. Coordinate and book on-top reclassification entry for activity within the segment (i.e., - between DENA and DETM) in appropriate third-party accounts.

Duke Energy
Duke Energy Policy Statement

Revenue and Accounts Receivable Policy

Originator: Corporate Controller
Sponsor: Corporate Controller
Approval: Corporate Controller

Approval Date: 08/31/00
Revision Date:

Statement- This policy covers revenue and collection processes and systems used by business/corporate units. The policy describes the minimum controls required. *The business/corporate unit should implement additional procedures* and controls as needed to ensure an appropriate level of control exists for revenue and collection processes and systems.

Roles and Responsibilities-

Business/Corporate Unit-

Sales and Accounts Receivable

- Sales and receivable transactions must be recorded promptly.
- Four criteria must be met in order to recognize revenue.
  - There must be persuasive evidence of an arrangement
  - Delivery must have occurred or services must have been rendered
  - The selling price must be fixed or determinable
  - Collectibility must be reasonably assured
- The general ledger revenue and receivable accounts should be reconciled to detail sub-ledgers at least monthly. Corrections should be made within one month of identifying a reconciliation difference.
- Accounts receivable adjustments, write-offs, and adequate provisions for bad debt must be documented and approved by management.
- Overdue accounts receivables should be promptly reviewed with customers.

Guidelines-

- Persons responsible for billing transactions should not have access to cash receipts or collection records. When these duties cannot be separated, additional management review of transactions should be implemented.

- An accounts receivable aging schedule should be prepared and reviewed.
- Collection efforts for overdue accounts receivable should be undertaken by persons independent of the department originating the sale.

Cash Receipts

- Customers and others owing funds should be instructed to send payments directly to the designated central collection area or treasury personnel.
- Checks payable to Duke Energy or its affiliates which are received by an area not designated for collections or a non-treasury area should be promptly forwarded to the appropriate collections area.
- Receipts must be recorded, deposited, and balanced with general ledger and bank statement amounts in a timely manner. Corrections should be made within one month of identifying a reconciliation difference.
- Gross receipts must be deposited with no amounts deducted for refunds or other expenses.
- Received checks must be protectively stamped.
- Reconciliation of cash book deposits, bank statements and the general ledger must be reviewed by management.

Guidelines-

- Cash and checks received should be entered on a cash received list.
- Receipts should be physically secured at all times under the control of a specific individual with clear accountability when funds are transferred.
- Access to receipts by personnel other than the primary person responsible should require two people to gain access to funds.
- Personnel assigned to handle cash receipts or make bank deposits should be independent of those balancing bank deposits with the cash receipts list, as well as those reconciling bank statements with the general ledger. When these duties cannot be separated, additional management review of transactions must be implemented. In addition, the functions of handling cash and reconciling bank statements must be segregated between at least two people.
- The cash received list should be balanced to the daily deposit and to the daily cash receipts journal entry.

Refunds and account balance transfers should have management authorization.

Revenue Recognition

Applicability:	Applies to Enterprise
Originator:	Corporate Controller
Approval:	Corporate Controller
Effective Date:	12/01/2004
Revision Date:	12/15/2006
Reissue Date:	12/15/2006

Statement of Purpose and Philosophy

The purpose of this policy is to provide guidelines for applying the general principles of revenue recognition for Duke Energy Corporation and its subsidiaries. Duke Energy is committed to preparing and providing financial information with the utmost integrity. To facilitate this corporate value, the Corporate Controller's Department will approve policies to ensure the accuracy of books and records (as detailed in the Code of Business Ethics).

Policy Expectations and Scope

All business/corporate units should understand the requirements for revenue recognition under U.S. GAAP and SEC requirements and ensure that these requirements are applied appropriately per this policy. This policy contains a high-level summary of the key requirements of U. S. GAAP as it applies to Duke Energy, including any significant interpretations or policy elections made by Duke Energy, but is not intended to be a substitute for the detail requirements of authoritative GAAP literature for specific issues or matters that may arise.

This policy is applicable to all business/corporate units of Duke Energy Corporation and its consolidated subsidiaries ("Duke Energy" or "the Company"). This policy should help ensure consistent application of the accounting for revenue recognition across the consolidated Duke Energy group.

Materiality

FASB Statements note that "The provisions of this Statement need not be applied to immaterial items." Accordingly, materiality should be considered when applying this policy. However, materiality must be assessed at the business/corporate unit level, as well as at the consolidated level(s), and involves consideration of both quantitative as well as qualitative factors. Any questions regarding materiality should be directed to the Corporate Controller's Department.

Accountability: Roles and Responsibilities

Corporate Controller's Department -

- Maintain an accounting policy for revenue recognition available on the Duke Energy portal to help ensure that business/corporate units are aware of the criteria for recognizing revenue.
- Accumulate the information necessary to fulfill the Company's periodic reporting obligations (e.g., SEC Forms 10-K and 10-Q).
- Ensure that all necessary disclosures are made in the Company's consolidated financial statements with respect to the policies for recognizing revenue, including any necessary discussion in critical accounting policies.
- As requested, or as the accounting literature changes, provide guidance/assistance to business/corporate units on recognizing revenue.
- Provide guidance on the consideration of materiality as may be requested by the business/corporate units.

Business/Corporate Unit -

- Ensure that the recognition of revenue is in accordance with this policy.
- Ensure proper documentation exists for the recognition of revenue, especially from any non-standard transactions, such as any with multiple-element arrangements.
- Ensure that the recognition of revenue is consistent within the Business/Corporate Unit and between reporting periods.
- Ensure that discussion in the Company's consolidated financial statements and SEC filings appropriately address the significant business unit/corporate revenue recognition issues.

Standards/Requirements

This section contains discussion of the following topics:

- Background
- Supporting Guidance
- Accounting Policy:
    - General Principles
    - Other considerations common to Duke Energy
    - Specialized industry accounting applicable to Duke Energy
    - Multiple Element Arrangements
    - Additional Regulatory Considerations
    - Reporting and Disclosure Requirements

Background

Generally, the determination of when to recognize revenue involves a considerable amount of professional judgment based upon certain guiding principles, and in certain instances, specific authoritative literature. In Staff Accounting Bulletin ("SAB") No. 101, the Securities and Exchange Commission ("SEC") Staff explained that the accounting literature on revenue recognition includes both broad conceptual discussions as well as certain industry-specific guidance. As with SAB No. 101, the policy contained herein focuses on the general guiding principles in existing authoritative literature as well as the broad revenue recognition criteria specified in the Financial Accounting Standards Board's ("FASB") conceptual framework. This policy also discusses revenue recognition for certain specific transactions that are common to Duke Energy, as well as the general reporting and disclosure requirements related to revenue recognition.

Supporting Guidance

This section primarily contains references to, and excerpts from, the most significant or applicable GAAP authoritative literature. Matters specific or unique to Duke Energy are primarily discussed in the "Accounting Policy" section below.

In SAB No. 101, "Revenue Recognition in Financial Statements", the SEC Staff provided the basic guiding principles of revenue recognition based upon their interpretation of Statement of Financial Accounting Concepts ("SFAC") No. 5, "Recognition and Measurement in Financial Statements of Business Enterprises", paragraphs 83 and 84. The basic guiding principles of revenue recognition are that revenue is to be recognized when it is both realized or realizable and earned. SAB No. 101 states:

Revenue should not be recognized until it is realized or realizable and earned. SFAC No. 5, paragraph 83(b) states that "an entity's revenue-earning activities involve delivering or producing goods, rendering services, or other activities that constitute its ongoing major or central operations, and revenues are considered to have been earned when the entity has substantially accomplished what it must do to be entitled to the benefits represented by the revenues" [footnote reference omitted]. Paragraph 84(a) continues "the two conditions (being realized or realizable and being earned) are usually met by the time product or merchandise is delivered or services are rendered to customers, and revenues from manufacturing and selling activities and gains and losses from sales of other assets are commonly recognized at time of sale (usually meaning delivery)" [footnote reference omitted]. In addition, paragraph 84(d) states that "If services are rendered or rights to use assets extend continuously over time (for example, interest or rent), reliable measures based on contractual prices established in advance are commonly available, and revenues may be recognized as earned as time passes.

The staff believes that revenue generally is realized or realizable and earned when all of the following criteria are met:

- Persuasive evidence of an arrangement exists,
- Delivery has occurred or services have been rendered,
- The seller's price to the buyer is fixed or determinable, and
- Collectibility is reasonably assured.

In December 2003, the SEC Staff amended SAB No. 101 with the issuance of SAB No. 104, "Revenue Recognition", which added the consensus guidance contained in the FASB's Emerging Issues Task Force ("EITF") Issue No. 00-21 regarding revenue recognition for multiple-element revenue arrangements (a "multiple-element" arrangement represents an arrangement that involves multiple revenue-generating activities or multiple deliverables – Exhibit B to EITF Issue 00-21 contains a number of examples of how and when to recognize revenue for multiple-element arrangements). In this policy, SAB 101 refers to SAB 101 as amended by SAB 104. The SEC Staff also issued a Frequently Asked Questions ("FAQ") document along with SAB 101 to give registrants additional interpretive guidance. It is now, as a result of the issuance of SAB 104, incorporated within SAB Topic 13 (codification of SAB 101).

SFAC 5, paragraphs 83 and 84, states the following, which is referred to above in SAB No. 101:

83. *Further guidance for recognition of revenues and gains is intended to provide an* acceptable level of assurance of the existence and amounts of revenues and gains before they are recognized. Revenues and gains of an enterprise during a period are generally measured by the exchange values of the assets (goods or services) or liabilities involved, and recognition involves consideration of two factors (a) being realized or realizable and (b) being earned, with sometimes one and sometimes the other being the more important consideration.

a. Realized or realizable. Revenues and gains generally are not recognized until realized or realizable. Revenues and gains are realized when products (goods or services), merchandise, or other assets are exchanged for cash or claims to cash. Revenues and gains are realizable when related assets received or held are readily convertible to known amounts of cash or claims to cash. Readily convertible assets have (i) interchangeable (fungible) units and (ii) quoted prices available in an active market that can rapidly absorb the quantity held by the entity without significantly affecting the price.

b. Earned. Revenues are not recognized until earned. An entity's revenue-earning activities involve delivering or producing goods, rendering services, or other activities that constitute its ongoing major or central operations, and revenues are considered to have been earned when the entity has substantially accomplished what it must do to be entitled to the benefits represented by the revenues. Gains commonly result from transactions and other events that involve no "earning process," and for recognizing gains, being earned is generally less significant than being *realized or realizable*.

84. In recognizing revenues and gains:

a. The two conditions (being realized or realizable and being earned) are usually met by the time product or merchandise is delivered or services are rendered to customers, and revenues from manufacturing and selling activities and gains and losses from sales of other assets are commonly recognized at time of sale (usually meaning delivery).

b. If sale or cash receipt (or both) precedes production and delivery (for example, magazine subscriptions), revenues may be recognized as earned by production and delivery.

c. If product is contracted for before production, revenues may be recognized by a percentage-of-completion method as earned-as production takes place-provided reasonable estimates of results at completion and reliable measures of progress are available.

d. If services are rendered or rights to use assets extend continuously over time (for example, interest or rent), reliable measures based on contractual prices established in advance are commonly available, and revenues may be recognized as earned as time passes.

e. If products or other assets are readily realizable because they are salable at reliably determinable prices without significant effort (for example, certain agricultural products, precious metals, and marketable securities), revenues and some gains or losses may be recognized at completion of production or when prices of the assets change. Paragraph 83(a) describes readily realizable (convertible) assets.

f. If product, services, or other assets are exchanged for nonmonetary assets that are not readily convertible into cash, revenues or gains or losses may be recognized on the basis that they have been earned and the transaction is completed. Gains or losses may also be recognized if nonmonetary assets are received or distributed in

nonreciprocal transactions. Recognition in both kinds of transactions depends on the provision that the fair values involved can be determined within reasonable limits.
g. If collectibility of assets received for product, services, or other assets is doubtful, revenues and gains may be recognized on the basis of cash received.

EITF Issue No. 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent". In EITF Issue 99-19 the Task Force set forth certain indicators, while not determinative, of whether revenue should be accounted for gross or net. EITF Issue 99-19 excludes from its scope income statement display issues related to (a) shipping and handling fees and costs, (b) rebates, coupons, incentives and free products, and (c) multiple-element arrangements. EITF Issue 99-19 does apply, however, to derivative contracts that are accounted for under the normal purchase and normal sale exception. See below for further discussion.

EITF Issue No. 00-21, "Accounting for Multiple Element Revenue Arrangements". EITF Issue 00-21 governs how to identify whether goods or services or both that are to be delivered separately in bundled sales arrangement should be accounted for separately. See below for further discussion.

EITF Issue No. 02-3, "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities". In EITF Issue 02-3, the Task Force stated the following with respect to the presentation of revenues related to energy trading contracts:

On Issue 1, the Task Force reached a consensus that all gains and losses (realized and unrealized) on energy trading contracts should be shown net in the income statement whether or not settled physically. An entity should disclose the gross transaction volumes for those energy trading contracts that are physically settled.

(Note: See the Accounting for Risk Management and Hedging Activities Policy for guidance on determining whether a contract is an energy trading contract).

See below for further discussion.

Accounting Policy

General principles

In the absence of specific accounting literature (e.g., software revenue recognition and other industry specific guidance), revenue shall be recognized when it is realized or realizable and earned. Per the guidance in SAB 101, revenue is realized or realizable and earned when all of the following criteria are met:

- Persuasive evidence of an arrangement exists,
- Delivery has occurred or services have been rendered,
- Sales price is fixed or determinable, and
- Collectibility is reasonably assured.

Persuasive evidence of an arrangement exists

In the context of revenue recognition, arrangement is generally understood to be the final understanding between the parties as to the specific nature and terms of the agreed-upon transaction. Persuasive evidence is generally to be determined based upon a Business Unit's customary business practices. For example, if written contracts are typically sought out by a Business Unit in an arrangement, then persuasive evidence of such arrangement does not exist until a signed and enforceable contract is in place.

Delivery has occurred or services have been rendered

Delivery is generally considered to have occurred when the customer takes title and assumes the risks and rewards of ownership of the products specified in the arrangement. Services have been rendered when the service provider has performed the activities specified by the customer in their mutually agreed-upon arrangement. Usually it is upon delivery of a product or performance of a service that the customer either pays the seller/provider or becomes obligated to pay. Generally, revenue should not be recognized before the customer becomes obligated to pay the seller/provider. See the discussion below on title transfer for additional guidance.

Sales price is fixed or determinable

The amount or price must be either fixed by the agreement or it must be determinable in order to meet the criteria for revenue recognition. An important consideration in determining whether the price is fixed or determinable is whether a customer has the unilateral right to terminate or cancel the contract and receive a cash refund. Generally, prices that are conditional on the occurrence of a future event are not fixed or determinable from the perspective of revenue recognition. However, as discussed FAS No. 48, "Revenue Recognition when Right of Return Exists", paragraphs 6-8, if a reliable estimate of returns can be made, revenues, net of the expected returns, can be recognized. Absent this ability, revenue recognition shall be deferred until the future event has occurred or is certain not to occur. Paragraphs 26-31 of SOP 97-2, "Software Revenue Recognition," provide guidance that can be useful by analogy for determining whether a sales price is fixed or determinable.

Collectibility is reasonably assured

As noted in SFAC 5, in order to recognize revenue, the revenue must be realized or realizable. Thus, cash or a claim to cash must be received. In order to determine whether a claim to cash has been realized, collectibility of that claim must be established and reasonably assured of occurring.

If all of the above criteria are met, then revenue is generally considered to be realized or realizable and earned and it should be recognized in Duke Energy's consolidated financial statements.

Other considerations common to Duke Energy

Title transfer

SAB 101 indicates that delivery is not considered to have occurred unless the customer has taken title to the product(s) and assumed the risks and rewards of ownership. Typically, the determination of transfer of title depends upon the terms of shipment, whether the customer assumes ownership upon shipment (FOB shipping point) or upon delivery (FOB destination). SAB 101 intends the FOB terms and title transfer to be essential in determining when the risks and rewards of ownership are deemed to be transferred to the customer. Therefore, for purposes of determining when title and the related risks and rewards of ownership have passed to the customer, Duke Energy shall refer to the relevant shipping terms (FOB shipping point and FOB destination), except in sales type lease transactions accounted for under FAS No. 13, "Accounting for Leases", and certain transactions outside the U.S. where title is retained for security interest purposes only (see SAB 101, Question No. 1).

Customer acceptance

In the FAQ that accompanied SAB 101, the SEC Staff referred to SFAC 5, paragraph 83(b) and AICPA Statement of Position No. 97-2, paragraph 20 with respect to the issue of customer acceptance, which state that "a seller should substantially complete or fulfill the terms specified in the sales arrangement" and "after delivery or performance, if uncertainty exists about customer acceptance, revenue should not be recognized until acceptance occurs," respectively. Therefore, unless any remaining obligation to the customer is inconsequential or perfunctory, generally revenue shall not be recognized until customer acceptance, as defined in the sales agreement, has occurred.

Unbilled and estimated revenues

Unbilled revenues on sales of electricity, primarily at Duke Power, shall be estimated by applying an average revenue/kilowatt hour for all customer classes to the number of kilowatt hours delivered but not billed. Revenues that are billed or invoiced in a pattern that does not match the earnings process (e.g., Duke Power's Equal Payment Plan, which bills customers on a monthly basis one-eleventh of their annual historical electric bill with a true-up in the twelfth month) should be adjusted at each reporting period, as needed, so that the amount reported as revenues match the earnings process for that period as described in this accounting policy.

Revenues related to sales of natural gas, natural gas transportation, storage and distribution as well as sales of petroleum products not yet billed shall be estimated each month. These estimates are to be based on contract data, regulatory information, estimated distribution usage based on historical data adjusted for heating degree days, commodity prices and preliminary throughput and allocation measurements.

"Tracker" Revenues for Operations not under SFAS No. 71

The Company has certain operations that do not qualify for deferral accounting under SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation" (SFAS 71), but some of which are nonetheless subject to at least some level of regulatory oversight of the rates charged to certain classes of customers. These operations include non-regulated generation of Duke Energy Ohio and certain gas operations. For certain operations, certain components of costs get billed to customers based on estimates of amounts to be incurred, with adjustments reflected in billings for subsequent periods, once actual amounts are known, reflecting any amounts under-or over-collected in the billings that reflected the estimates (the tracking mechanisms used to monitor the estimated vs. actual amounts are referred to herein as "trackers"). Due to changes in customers (e.g., through customers switching to different providers, customers moving into or out of the service territory, etc.), especially fof the Ohio generation operations, the billings containing the adjustments for the actual costs may not be to the same customers who received the billings that contained the estimated costs. Accordingly, any "under collected" amounts as of any given date do not represent amounts due from any specific customers, and therefore are generally not reflected as revenues or receivables until billed. The same applies for any "over collected" amounts.

As these operations do not qualify for the accounting methods outlined in SFAS 71, these operations are prohibited from establishing regulatory assets and liabilities (see the separate Accounting for Regulated Entities Policy (SFAS No. 71) for further guidance for establishing regulatory assets and liabilities). For these "non-SFAS 71" operations, costs and expenses of operations should be expensed as incurred, and revenue for items subject to "trackers" should generally be recorded as billed. However, for items subject to "trackers," any "over collected" or "under collected" positions should be monitored to determine if any additional analysis or changes to the accounting for these items is warranted.

Trading and marketing revenues

The recognition of income related to certain derivative activity is primarily dependent on whether the accrual method or mark-to-market ("MTM") method of accounting is applied. Under the MTM method of accounting, an asset or liability is recognized at fair value on the balance sheet and the change in the fair value of that asset or liability is recognized in income. Under the accrual method of accounting, an asset or liability is recognized when a right to an asset has been established or obligation has occurred. With the implementation of EITF Issue 02-03, the use of MTM accounting is to be restricted to contracts classified as derivatives pursuant to FAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended. Contracts that do not meet the definition of a derivative are subject to the accrual method of accounting. While the MTM method of accounting is the default method of accounting for all FAS No. 133 derivatives, FAS No. 133 allows for the use of accrual accounting for derivatives designated as hedges and certain scope exceptions, including the normal purchase and normal sale exception. Duke Energy designates a derivative as a hedge or a normal purchase or normal sale contract in accordance with internal hedge guidelines and the requirements provided by FAS No. 133.

For further guidance on accounting for these instruments, see the separate Accounting for Risk Management and Hedging Activities Policy.

Specialized industry accounting applicable to Duke Energy

Services accounting

Service transactions, as defined by the American Institute of Certified Public Accountants in its "white paper" on the subject, generally involve transactions between a seller and a purchaser in which, for a mutually agreed to price, the seller agrees to perform an act or acts, including permitting others to use enterprise resources, that do not alone provide a tangible commodity or product as the principal intended result. Service transactions are common to Duke Energy, specifically the provision of electricity to customers and the transmission of natural gas, petroleum and other products to end users. In the Interpretive Response to Question 6 in SAB 101, the SEC Staff stipulated "that, provided all other revenue recognition criteria are met, service revenue should be recognized on a straight-line basis, unless evidence suggests that the revenue is earned or obligations are fulfilled in a different pattern, over the contractual term of the arrangement or the expected period during which those specified services will be performed."

Sales of Real Estate

As part of the Duke Energy group of companies, Crescent Resources, LLC ("Crescent"), routinely develops real estate, including commercial, residential and multi-family projects, for resale. Revenue recognition in transactions involving the sale of real estate is governed by specific accounting literature, FAS No. 66, "Accounting for Sales of Real Estate", as amended by FAS No. 98. It is important to note that FAS No. 66 applies to all sales of real estate, not just those made by a real estate developer (Crescent), and therefore, the principles enumerated below should be followed by all of Duke Energy's Business Units whenever a sale of real estate occurs.

Note: Crescent recognizes revenue from sales of residential real estate only, and thus, this policy applies to those types of transactions. Sales of all other real estate projects including commercial and multi-family are recognized as gains on sale of real estate in the consolidated statements of operations as those projects are considered to be productive assets at the time of sale, and appropriately, the cash flows associated with the purchase and sale of commercial and multi-family projects are classified as investing cash flows.

FAS No. 66, paragraph 3, states the following as to recognition of revenue in a real estate transaction, other than retail land sales:

3. Profit shall be recognized in full when real estate is sold, provided (a) the profit is determinable, that is, the collectibility of the sales price is reasonably assured or the amount that will not be collectible can be estimated, and (b) the earnings process is virtually complete, that is, the seller is not obliged to perform significant activities after the sale to earn the profit. Unless both conditions exist, recognition of all or part of the profit shall be postponed. Recognition of all of the profit at the time of sale or at some later date when both conditions exist is referred to as the full accrual method in this Statement.

With respect to collectibility, paragraph 4 of FAS No. 66 has the following provisions:

4. ...collectibility of the sales price is demonstrated by the buyer's commitment to pay, which in turn is supported by substantial initial and continuing investments that give the buyer a stake in the property sufficient that the risk of loss through default

motivates the buyer to honor its obligation to the seller. Collectibility shall also be assessed by considering factors such as the credit standing of the buyer, age and location of the property, and adequacy of cash flow from the property.

If the buyer does not demonstrate a commitment to pay that is supported by substantial initial and continuing investments then profit recognition (i.e., revenue recognition) shall not occur.

As stated in paragraph 3, in other than retail land sales, the full accrual method is to be used. Profit shall not be recognized under the full accrual method until all of the following criteria are met as stated in paragraph 5 (further guidance):

a. A sale is consummated (paragraph 6).

b. The buyer's initial and continuing investments are adequate to demonstrate a commitment to pay for the property (paragraphs 8-16).

c. The seller's receivable is not subject to future subordination (paragraph 17).

d. The seller has transferred to the buyer the usual risks and rewards of ownership in a transaction that is in substance a sale and does not have a substantial continuing involvement with the property (paragraph 18).

If a real estate sales transaction does not satisfy the criteria in paragraphs 3-5 (with guidance contained in paragraphs 6-18) for recognition of profit by the full accrual method, the transaction shall generally be accounted for using the deposit, installment, percentage-of-completion, or the cost-recovery method, as appropriate.

(Note: There are separate measurement and recognition criteria in FAS 66 for "retail land sales", however, Duke Energy does not currently enter into such sales, which are defined in paragraph 100 of Appendix E to FAS 66)

Lease Revenue

FAS No. 13, "Accounting for Leases", paragraphs 17 through 19 govern the accounting for revenue related to sales-type, direct financing and operating leases. The following discussion covers the recognition of revenue related to these types of leases; however, it is not intended to cover the determination of whether a lease will meet the criteria for treatment as such.

Revenue recognition related to leases would be as follows:

Direct financing

1. Amortization of unearned income and initial direct costs as interest income over the lease term so as to produce a constant periodic rate of return on the net investment in the lease.

Sales-type leases

1. Recognition of revenue from sales-type leases at the commencement date of the lease term. *The amount recognized as sales revenue from a sales-type lease would exclude the*

present value of the unguaranteed residuals.

2. Amortization of unearned income as interest income over the lease term so as to produce a constant periodic rate of return on the net investment in the lease.

Operating leases

1. Rental revenue is recognized on a straight-line basis regardless of the lease provisions, unless another systematic and rational basis is more representative of the timing pattern in which use benefit from the leased property is diminished.

Leases Involving Real Estate

Paragraph 22(f) of FAS 98, "*Accounting for Leases, an amendment of FASB Statements No. 13, 66* and 91 and a Rescission of FASB Statement No. 26 and Technical Bulletin No. 79-11", states the following with respect to the treatment of real estate leases:

The first two sentences of paragraph 8 and paragraph 8(a) [of FAS 13] are superseded by the following:
From the standpoint of the lessor, a lease involving real estate shall be classified as a sales-type lease only if it meets the criterion in paragraph 7(a) as appropriate under paragraph 6(b)(i). Otherwise, if the lease at inception meets any one of the four criteria in paragraph 7 and in addition meets both of the following criteria, it shall be classified as a sales-type lease, a direct financing lease, a leveraged lease, or an operating lease as appropriate under paragraph 6(b). If the lease does not meet any of the criteria of paragraph 7 or both of the following criteria, the lease shall be classified as an operating lease.
a. Collectibility of the minimum lease payments is reasonably predictable. A lessor shall not be precluded from classifying a lease as a sales-type lease, a direct financing lease, or a leveraged lease simply because the receivable is subject to an estimate of uncollectibility based on experience with groups of similar receivables.

Indefeasible Right to Use ("IRU's")

Duke Energy, through its wholly-owned subsidiary, DukeNet, sells capacity related to its fiber optic cable network to third parties as part of its core business. The indefeasible right to use such network capacity is often referred to as an "IRU". Pursuant to an IRU, an entity purchasing network capacity has the exclusive right to use a specified amount of capacity for a period of time. In determining when to recognize revenue related to an IRU, a network capacity provider must determine whether the IRU represents a lease or a service contract. If the IRU is in substance a lease, and it is determined to be a sales-type lease, the recognition provisions enumerated above would apply and likewise if it is an operating lease. If the IRU is a service contract then revenue would generally be recognized straight-line over the life of the contract (see above for further guidance related to revenue recognition with respect to services).

Long-Term Power Purchase Arrangements

In EITF Issue No. 91-6, "Revenue Recognition of Long-Term Power Sales Contracts", the EITF issued guidance for "non-utility generators" ("NUGs") as to the appropriate recognition of revenue from certain long-term power sales arrangements, i.e., electricity sales contracts. EITF Issue 91-6 applies only to those entities that do not meet the criteria for application of SFAS 71. It is also important to note that long-term power supply contracts that would qualify for lease accounting pursuant to FAS 13, including EITF Issue 01-8, are also outside the scope of EITF Issue 91-6. The issues identified by the EITF in determining revenue recognition from long-term power sales contracts are as follows:

1. Whether revenue on a power sales contract that contains scheduled price changes should be recognized based on the scheduled prices or ratably over the term of the contract
2. Whether the accounting prescribed in Issue 1 changes if the power sales contract provides that total revenues for the term of the contract are determined by a separate, formula-based pricing arrangement
3. Whether the accounting prescribed in Issue 1 changes if the power sales contract provides that total revenues for the term of the contract are limited by a separate, formula-based pricing arrangement.

The consensus reached on these issues is as follows:

The Task Force reached a consensus that a NUG should recognize as revenue the lesser of (1) the amount billable under the contract or (2) an amount determined by the kWhs made available during the period multiplied by the estimated average revenue per kWh over the term of the contract. The determination of the lesser amount should be made annually based on the cumulative amounts that would have been recognized had each method been consistently applied from the beginning of the contract term.
The Task Force reached a consensus on Issues 2 and 3 that a NUG should recognize revenue in each period determined under the separate, formula-based pricing arrangement if it determines or limits total revenues billed under the contract. The separate, formula-based pricing arrangement should not be used to recognize revenue if its only purpose is to establish liquidating damages. The Task Force indicated that the NUG should recognize a receivable only if the contract requires a payment to the NUG at the end of the contract term and such payment is probable of recovery. A receivable arises when amounts billed are less than the amount computed pursuant to the formula-based pricing arrangement.

However, the FASB in FAS No. 133, as amended, partially nullified the consensus above as stated below in the status section of EITF Issue 91-6:

If a long-term power sales contract meets the definition of a derivative under Statement 133, then it would be marked to fair value through earnings, unless designated as a hedging instrument in certain types of hedging relationships. Otherwise, the consensus in Issue 91-6 would apply. Some long-term power sales contracts that meet the definition of a derivative may qualify for the normal purchases and normal sales scope exception contained in paragraph 10(b), in which case the long-term power sales contract would be accounted for under this consensus in Issue 91-6. Long-term power sales contracts that are accounted for as derivatives may possibly qualify as hedging instruments in all-in-one hedges (as described in Statement 133 Implementation Issue No. G2, "Hedged Transactions That Arise from Gross Settlement of a Derivative 'All in One Hedges'). The guidance in Statement 133 Implementation Issue No. A6, "Notional Amounts of Commodity Contracts," may be relevant.

Additionally, in EITF Issue 96-17, "Revenue Recognition under Long-Term Power Sales Contracts that Contain both Fixed and Variable Pricing Terms", the Task Force reached a consensus on how revenue should be recognized on a long-term power sales contract that contains separate, specified terms for (1) a fixed or scheduled price per kilowatt hour (kWh) for one period of time and (2) a variable price per kWh (based on market prices, actual avoided costs, or formula-based pricing arrangements) for a different period of time, where neither a tracker account nor any other form of adjustment determines or limits the total revenues to be billed under the contract over its entire period. The EITF reached a consensus that:

...the long-term power sales contracts covered by this Issue should be bifurcated and accounted for as follows:

1. The revenue associated with the fixed or scheduled price period of the contract should be recognized in accordance with the consensus reached for Issue 1 of Issue 91-6 (that is, the lesser of (a) the amount billable under the contract or (b) an amount determined by the kWhs made available during the period multiplied by the estimated average revenue per kWh over the term of the contract). The determination of the lesser amount should be made annually based on the cumulative amounts that would have been recognized had each method been consistently applied from the beginning of the contract term.
2. The revenue associated with the variable price period of the contract should be recognized as billed, in accordance with the provisions of the contract for that period.

The Task Force noted that if the contractual terms during the separate fixed and variable portions of the contract are not representative of the expected market rates at the inception of the contract, the revenue associated with the entire contract should be recognized in accordance with the consensus reached for Issue 1 of Issue 91-6.

The Task Force observed that the long-term power sales contract should be periodically reviewed to determine whether it is a loss contract in which the loss should be recognized immediately.

As with EITF Issue 91-6, FAS No. 133, as amended, partially nullified the consensus in EITF Issue 96-17 as stated in its status section:

If a long-term power sales contract meets the definition of a derivative under Statement 133, then it would be marked to fair value through earnings, unless designated as a hedging instrument in certain types of hedging relationships. Otherwise, the consensus in Issue 96-17 would apply. Some long-term power sales contracts that meet the definition of a derivative may qualify for the normal purchases and normal sales scope exception contained in paragraph 10(b), in which case the long-term power sales contract would be accounted for under the consensus in Issue 96-17. Long-term power sales contracts that are accounted for as derivatives may possibly qualify as hedging instruments in all-in-one hedges. (Refer to Statement 133 Implementation Issues No. A6, "Notional Amounts of Commodity Contracts," and No. G2, "Hedged Transactions That Arise from Gross Settlement of a Derivative ('All in One' Hedges).")

Multiple element arrangements

Scope & Applicability

In EITF Issue 00-21, the Task Force addressed the identification of separate units of accounting in revenue arrangements with multiple deliverables. It is important to note that per EITF Issue 00-21 paragraph 3:

3. This Issue does not address when the criteria for revenue recognition are met or provide guidance on the appropriate revenue recognition convention for a given unit of accounting. For example, this Issue does not address when revenue attributable to a unit of accounting should be recognized based on proportional performance. The timing of revenue recognition for a given unit of accounting will depend on the nature of the deliverable(s) composing that unit of accounting (and the corresponding revenue recognition convention) and whether the general conditions for revenue recognition have been met.

Therefore, revenue should be recognized from those separate units of accounting, as identified or not, based upon the principles set forth above (specific literature or SAB 101). In applying the provisions of EITF Issue 00-21, paragraph 2 states that "separate contracts with the same entity or related parties that are entered into at or near the same time are presumed to have been negotiated as a package and should, therefore, be evaluated as a single arrangement in considering whether there are one or more units of accounting. That presumption may be overcome if there is sufficient evidence to the contrary."

There may be instances where higher level authoritative literature governs the allocation of consideration to multiple-element arrangements, such as SFAS No. 13, 45 and 66 (see paragraph 4a (i) and (ii)). Paragraph 4a (iii) states that:

iii. If higher-level literature provides no guidance regarding the separation of the deliverables within the scope of higher-level literature from those deliverables that are not or the allocation of arrangement consideration to deliverables within the scope of the higher-level literature and to those that are not, then the guidance in this Issue should be followed for purposes of such separation and allocation. In such circumstances, it is possible that a deliverable subject to the guidance of higher-level literature does not meet the criteria in paragraph 9 of this Issue to be considered a separate unit of accounting. In that event, the arrangement consideration allocable to such deliverable should be combined with the amount allocable to the other applicable undelivered item(s) within the arrangement. The appropriate recognition of revenue should then be determined for those combined deliverables as a single unit of accounting.

Principles

EITF Issue 00-21 specifies certain general principles with respect to the accounting for multiple-element arrangements, they are:

1. Revenue arrangements with multiple deliverables should be divided into separate units of accounting if the deliverables in the arrangement meet the criteria in paragraph 9 of EITF Issue 00-21.
2. Arrangement consideration should be allocated among the separate units of accounting based on their relative fair values (or as otherwise provided in paragraph 12). The amount allocated to the delivered item(s) is limited as discussed in paragraph 14 of EITF Issue 00-21.
3. Applicable revenue recognition criteria should be considered separately for separate units of accounting.

Paragraph 9 states the following:

In an arrangement with multiple deliverables, the delivered item(s) should be considered a separate unit of accounting if all of the following criteria are met:
a. The delivered item(s) has value to the customer on a standalone basis. That item(s) has value on a standalone basis if it is sold separately by any vendor or the customer could resell the delivered item(s) on a standalone basis. In the context of a customer's ability to resell the delivered item(s), the Task Force observed that this criterion does not require the existence of an observable market for that deliverable(s).
b. There is objective and reliable evidence of the fair value of the undelivered item(s).
c. If the arrangement includes a general right of return relative to the delivered item, delivery or performance of the undelivered item(s) is considered probable and substantially in the control of the vendor.

Additional Regulatory Considerations

In SFAS 71, paragraph 11, the FASB put forth certain instances in which a regulatory liability should be recognized. They include:

a. A regulator may require refunds to customers. Refunds that meet the criteria of paragraph 8 (accrual of loss contingencies) of FASB Statement No. 5, Accounting for Contingencies, shall be recorded as liabilities and as reductions of revenue or as expenses of the regulated enterprise.
b. A regulator can provide current rates intended to recover costs that are expected to be incurred in the future with the understanding that if those costs are not incurred future rates will be reduced by corresponding amounts. If current rates are intended to recover such costs and the regulator requires the enterprise to remain accountable for any amounts charged pursuant to such rates and not yet expended for the intended purpose, the enterprise shall not recognize as revenues amounts charged pursuant to such rates. Those amounts shall be recognized as liabilities and taken to income only when the associated costs are incurred.
c. A regulator can require that a gain or other reduction of net allowable costs be given to customers over future periods. That would be accomplished, for rate-making purposes, by amortizing the gain or other reduction of net allowable costs over those future periods and reducing rates to reduce revenues in approximately the amount of the amortization. If a gain or other reduction of net allowable costs is to be amortized over future periods for rate-making purposes, the regulated enterprise shall not recognize that gain or other reduction of net allowable costs in income of

the current period. Instead, it shall record it as a liability for future reductions of charges to customers that are expected to result.

Thus, in certain instances in which revenue is or may be recognized related to the Company's regulated operations (e.g., Duke Power and Duke Energy Gas Transmission) a regulatory liability may be required to be recognized under paragraph 11 of SFAS No. 71. See the separate Accounting for Regulated Entities Policy (SFAS No. 71) for further guidance as to when such a liability should be recognized, and how it is to be accreted into income.

Reporting & Disclosure Requirements

Gross versus net presentation

In EITF Issue 99-19, the Task Force set forth a number of indicators that should be considered in evaluating whether to record revenues gross versus net (gross meaning revenue presented separately from the related costs). The Task force also stated that the decision is a matter of professional judgment and is dependent upon the relevant facts and circumstances. None of the indicators should be considered presumptive or determinative; rather, the relative strength of each indicator should be considered.

EITF Issue 99-19 Indicators of Gross Reporting:

1. The Company is the primary obligor in the arrangement
2. The Company has general inventory risk (before customer order is placed or upon customer return)
3. The Company has latitude in establishing price
4. The Company changes the product or performs part of the service
5. The Company has discretion in supplier selection
6. The Company is involved in the determination of product or service specifications
7. The Company has physical loss of inventory risk (after customer order or during shipping)
8. The Company has credit risk.

EITF Issue 99-19 Indicators of Net Reporting:

1. The supplier is the primary obligor in the arrangement
2. The amount the Company earns is fixed
3. The supplier has credit risk.

For a contract that is deemed to be an energy trading contract under EITF Issue 02-3, the related gains or losses should be presented net in the income statement whether or not settled physically. Also, the gross transaction volumes for those energy trading contracts that are to be physically settled should be disclosed. For those contracts that are accounted for under FAS 133's normal purchase and sale exception, evaluation of gross versus net presentation should be made under the indicators mentioned above.

Financial statement disclosures

APB No. 22 requires disclosures of "...important judgments as to appropriateness of principles relating to the recognition of revenue." SAB 101 expresses the opinion of the SEC Staff that because revenue recognition generally involves the exercise of judgment, companies are always required to disclose their revenue recognition policies. SAB 101 also provides that, when applicable, the notes the financial statements shall include disclosure of:

1. The revenue recognition policy for each type of material transaction
2. If the Company were to enter into multiple-element sales arrangements, the method of accounting for each element and the method used to determine each element and value it
3. Material changes in estimates of returns in accordance with SFAS No. 48, if applicable.

The SEC Staff, in Financial Reporting Release ("FRR") No. 60, "Cautionary Advice Regarding *Disclosure about Critical Accounting Policies", strongly suggested that companies disclose in their* filings with the SEC, their accounting policies that required a significant level of management estimate and judgment in their application. The Staff, as mentioned above, believes that revenue recognition involves the exercise of judgment. Thus, they would in turn expect to see revenue recognition discussed in light of FRR No. 60 as a critical accounting policy. Therefore, Duke Energy shall discuss, in Management's Discussion and Analysis, its policies related to revenue recognition that contain significant estimates and judgments.

In addition, SEC Regulation S-X requires that each of the following categories of revenue (and the related costs), if applicable, be stated separately on the face of the income statement:

1. Sales of tangible products
2. Operating revenues of public utilities
3. Income from rentals
4. Revenue from services
5. Other revenues.

Currently, income from rentals (primarily from Crescent) are immaterial to Duke Energy and Duke Capital, and therefore are not stated separately on the statement of operations (they are included in the non-regulated and other line). Duke Energy, on an elective basis, presents separately its regulated revenue (electric and natural gas are presented separately) from its non-regulated revenues. Both regulated and non-regulated contain revenue from services, and sales of tangible products. Regulated contains operating revenues of public utilities. If any of the other types of revenue as listed above were to become material, then they shall be stated separately in the statement of operations.

Roles and Responsibilities in Accounting for Major Transactions, New Accounting Issues, and Significant Non-recurring Entries

Applicability:	Applies to Enterprise
Originator:	Corporate Controller
Approval:	*Chief Financial Officer*
Effective Date:	09/30/2004
Revision Date:	07/01/2004
Reissue Date:	10/12/2004

Statement of Purpose and Philosophy

The intent of this policy is to document the roles and responsibilities in accounting for major transactions, new accounting guidelines / pronouncements / issues, and significant, non-recurring transactions. The roles and responsibilities include:

1. *Identification and communication of the issues*
2. Research of accounting issues and application
3. Documentation of decisions
4. Recording the entries
5. Coordination with transaction sources (e.g., Mergers & Acquisitions or Business Unit team), and other relevant participants (e.g., Treasury, Tax).

This policy applies to all Business Units (B.U.) and Corporate Groups responsible for accounting entries, the Corporate Accounting Research Group (CARG), and the remainder of the Corporate Controller's area. Other areas which may generate transactions (e.g., M&A or B.U. team, Tax, Treasury, etc.) are also addressed as potential sources of transactions requiring application of the policy. This policy specifically addresses Corporate versus Business Unit roles, as opposed to how Business Units will manage the processes internally.

The types of transactions this policy pertains to are as follows:

1. Significant transactions generated either by a Business Unit (asset acquisitions or divestitures, business expansion, etc.) or by Corporate (e.g., divestiture or acquisition of business units) that are outside of the normal course of business.
2. Significant transactions generated by other areas (e.g., tax, treasury, HR, etc.) that are outside of the normal course of business.
3. Significant, non-recurring entries or issues (i.e., those that are anticipated to occur singularly or infrequently; e.g., impairments, restructuring charges, severance charges, etc.)
4. New accounting pronouncements or interpretations (e.g., new guidance from FASB, internal or external reinterpretation of existing guidelines, reclassifications, etc.)

Accountability: Roles and Responsibilities

- See Roles and Responsibilities Matrix below

Standards and Requirements

Identification of Issues / Transactions:

- See Roles and Responsibilities Matrix below
- Issues should be addressed on an ongoing basis throughout the year as they arise. For issues pending during a quarter close, they should be identified at the kickoff of the quarter-close process, at the meeting called to specifically identify pending and open issues. For issues closed during the quarter, those issues should be identified, and resolution communicated at the kickoff meeting.
- At the meeting, or at other times as appropriate, assignment of the issues will take place based on the matrix below. An individual will be assigned accountability, and will be responsible for updating the quarter close project manager and all other parties as defined in the matrix. This individual will act as the "Issue Project Manager" or IPM in managing through the deliverables and timelines. The IPM will use the matrix to determine who is responsible for each of the tasks defined.
- Deadlines and accountabilities will also be established at the pre-close meeting, and the IPM will have the responsibility of adhering to deadlines and schedules and keeping the quarter close project manager informed of any issues that will jeopardize meeting the deadline for resolution, documentation, and approval. Deadlines for submission for approval, if needed, will allow sufficient time for the review and approval process at Corporate (CARG / Corporate Controller). This review time will be established up front, and CARG and the Corporate Controller will be held accountable for adhering to it and updating the quarter close project manager and IPM of any issues that will jeopardize meeting the deadlines established.

Resolution of issues:

- IPM will submit all required documentation and facts for approval, including opinion of local D&T reps, as necessary to CARG and /or the Corporate Controller, with an informational copy to the quarter-close project manager.
- Corporate Controller / CARG will review in time period allotted. Approval or agreement by Corporate Controller / CARG will be communicated to the B.U, or any disagreement with the interpretation of GAAP or other guidelines will be addressed immediately with the submitting B.U. and D&T via meetings or conference calls.
- For B.U. specific issues < $10M, for which the B.U. is wholly responsible, copies of the documentation will be filed in the corporate database. The documentation should indicate approval up through the B.U. Informational only copies of the outcome and documentation will be sent to the quarter-close project manager, CARG and the Corporate Controller. CARG will review informational copies to ensure that there is not applicability across other B.U.s. If the issue is applicable to other B.U.s, the proper protocol per the matrix must be applied.
- **Ultimate decision making authority rests with the Corporate Controller and Corporate CFO for all accounting decisions and interpretations covered per the matrix.** The IPM should allow time for dispute resolution, and ultimate concurrence among all parties is the goal. However, if a B.U. does not agree with the ultimate decision made, that position can be noted in the quarterly internal management representation letter signed by the B.U. for the 302 certification process.
- In the extremely rare instance that consensus on an accounting decision is not reached for an entity that has separately certified financial statements, the decision will ultimately be made by the audit committee for each legal entity (i.e., Duke Energy and the separate subsidiary).

Related Policies, Standards, or Procedures

- Any applicable policies regarding closing schedules and cutoff dates for entries.

- Documentation and Consultation for Significant Accounting or Reporting Matters - for instructions as to proper documentation procedures and content.
- Any applicable policies regarding Accounting for Intercompany Transactions for those transactions with intercompany implications.

Roles and Responsibilities Matrix

This matrix is to be used by the IPM in assigning responsibility for the various tasks. The $10 Million amount is a gross dollar amount by issue, whether the impact is immediate, potential, or a cumulative effect of anticipated ongoing entries. Significant transactions are those that are outside of the normal course of business for a B.U. or Duke Energy (e.g., acquisitions, divestitures, etc.)

Description	Identification / Communication of Issue and Status	Research & Documentation	Coordination with D&T	CARG Involvement
Non-recurring issues of $10M or less pertaining to a specific B.U.	B.U.	B.U.	B.U. (at local level)	Optional - informational copy of documentation sent. Position paper logged into database
Non-recurring issues or new accounting guidelines pertaining to all or multiple B.U.s	CARG or B.U. (either may identify - if B.U. identifies, CARG is responsible for determining any applicability to other B.U.s)	**Research** - CARG. If any B.U. specific items to research, B.U. is responsible **Entity level documentation** - CARG **B.U. specific documentation** - B.U.	CARG	Mandatory
Non-recurring issues greater than $10M pertaining to a specific B.U.	B.U. or CARG (either may identify)	B.U., with CARG involvement and consultation up front	**Local D&T staff** - B.U. **Charlotte D&T staff** - CARG	Mandatory

Significant, non-recurring transactions or deals specific to a B.U. (e.g., asset acquisition or divestiture, business expansion, etc.)	M&A or B.U. team	B.U., with CARG involvement and consultation up front	**Local D&T staff** - B.U. **Charlotte D&T staff** - CARG	Mandatory
Significant, non-recurring transactions or deals generated at or by Corporate (e.g., B.U. acquisition or divestiture)	M&A or other originating party	CARG	CARG	Mandatory
Significant, non-recurring issue generated by any other area (e.g., Tax issues, Treasury issues)		CARG, initially with transfer to B.U. if appropriate.	**Local D&T staff** - B.U. **Charlotte D&T staff** - CARG	Mandatory

Key Terms

Description: Details the type of transaction or entry to which the policy applies

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CARG Involvement: This denotes whether involvement of CARG is mandatory or optional. All B.U.s should use their judgment when deciding when to use CARG if their involvement is optional. It is highly advisable to use CARG if a matter requires consultation with the external auditor, includes significant assumptions or subjectivity, has little or no accounting guidance, or requires significant interpretation of available accounting guidance. Additionally, if an item does not initially meet the threshold for CARG involvement, but future activity is anticipated that will bring the total amount to the threshold, the B.U. is required to involve CARG, to avoid restatements and different interpretations in later periods. Regardless of the consultation activity, any and all position papers must be logged into the Corporate database. If a position does not require CARG input or consultation, the final position paper should note that CARG has not reviewed or approved the position. CARG "Involvement" encompasses both (1) consultation with and review by CARG and (2) approval or agreement from CARG. Any matters for which CARG is involved but does not agree with or approve of the position of the B.U. will be elevated to the Corporate Controller for resolution as discussed in "Resolution of issues" above.

Roles and Responsibilities in Accounting for Major Transactions, New Accounting Issues, and Significant Non-recurring Entries

Applicability:	Applies to Enterprise
Originator:	Corporate Controller
Approval:	Chief Financial Officer
Effective Date:	09/30/2004
Revision Date:	07/01/2004
Reissue Date:	10/12/2004

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Accountability: Roles and Responsibilities

- See Roles and Responsibilities Matrix below

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Significant, non-recurring transactions or deals generated at or by Corporate (e.g., B.U. acquisition or divestiture)	M&A or other originating party	CARG	CARG	Mandatory
Significant, non-recurring issue generated by any other area (e.g., Tax issues, Treasury issues)		CARG, initially with transfer to B.U. if appropriate.	**Local D&T staff** - B.U. **Charlotte D&T staff** - CARG	Mandatory

Key Terms

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CARG Involvement: This denotes whether involvement of CARG is mandatory or optional. All B.U.s should use their judgment when deciding when to use CARG if their involvement is optional. It is highly advisable to use CARG if a matter requires consultation with the external auditor, includes significant assumptions or subjectivity, has little or no accounting guidance, or requires significant interpretation of available accounting guidance. Additionally, if an item does not initially meet the threshold for CARG involvement, but future activity is anticipated that will bring the total amount to the threshold, the B.U. is required to involve CARG, to avoid restatements and different interpretations in later periods. Regardless of the consultation activity, any and all position papers must be logged into the Corporate database. If a position does not require CARG input or consultation, the final position paper should note that CARG has not reviewed or approved the position. CARG "Involvement" encompasses both (1) consultation with and review by CARG and (2) approval or agreement from CARG. Any matters for which CARG is involved but does not agree with or approve of the position of the B.U. will be elevated to the Corporate Controller for resolution as discussed in "Resolution of issues" above.

U.S. GAAP Accounting and Disclosure Compliance Checklists

Applicability:	Applies to Enterprise
Originator:	Corporate Controller
Approval:	Corporate Controller
Effective Date:	12/01/2004
Revision Date:	02/01/2007
Reissue Date:	02/01/2007

Statement of Purpose and Philosophy

As part of Duke Energy's effort to ensure complete and consistent application of United States generally accepted accounting principles ("U.S. GAAP") across its business and corporate units, separate U.S. GAAP Accounting and Disclosure Compliance Checklists will be used to help assess complete and consistent application of U.S. GAAP, including conformity with the related disclosure requirements, at Duke Energy. U.S. GAAP encompasses both the appropriate accounting under promulgated standards by the Financial Accounting Standards Board ("FASB") as well as applicable incremental requirements of the U.S Securities and Exchange Commission ("SEC") for U.S. public companies.

Policy Expectations

This policy and related processes should help to ensure (1) complete and consistent application of U.S. GAAP across Duke Energy and (2) compliance with all U.S. GAAP disclosure requirements in Duke Energy's Form 10-K and Form 10-Q filings. Two separate checklists and processes will be used - one for accounting (the "Accounting Checklist") and one for disclosure (the "Disclosure Checklist").

- The Accounting Checklist will be used quarterly to help assess (1) any areas of noncompliance with U.S. GAAP accounting and (2) any areas of inconsistent application, or changes in interpretation or application of, U.S. GAAP. The Accounting Checklist will be completed in connection with the closing of the books, and any events of noncompliance with U.S. GAAP or inconsistencies should be resolved prior to the year end or quarterly earnings release. The Accounting Checklist for each business or corporate unit will apply to the Duke Energy consolidated level and therefore will cover any other SEC registrants under the Duke Energy umbrella. The timeframe for completion of the Accounting Checklist will be communicated to the business/corporate units in the periodic data requests sent by the ERG. The date will coincide with the earnings release
- The Disclosure Checklist will be completed by the Corporate Controller's Department - External Reporting Group ("ERG") in connection with the drafting of the Form 10-K or Form 10-Q with any disclosure gaps requiring resolution prior to the filing of the Form 10-K or Form 10-Q. A single Disclosure Checklist will be completed for Duke Energy as a whole and will apply to all registrants.

Accountability: Roles and Responsibilities

Business Units/Corporate Areas

- Ensure appropriate business/corporate unit personnel understand the requirements and timeline for completing the Accounting checklist.
- Ensure appropriate business/corporate unit personnel with appropriate level of experience complete the checklist (i.e., those with sufficient knowledge of GAAP).
- Complete the Accounting Checklist within the appropriate timeframe, including submitting to the Corporate Controller's Department.
- Work with the Corporate Controller's Department - Corporate Accounting Research Group ("CARG") to address any identified cases of noncompliance with or inconsistencies in the application of U.S. GAAP.
- Determine the appropriate level of "drill-down" that is required to appropriately address the application of U.S. GAAP within each respective business/corporate unit .
- Business/corporate unit controller should review and approve the final checklist prior to sending the checklist to CARG.

Corporate Controller's Department

- ERG will complete the Disclosure Checklist at each quarter and year-end for the Consolidated Company. The Checklist will be subject to the Do/Review policy.
- CARG will be the responsible group within the Corporate Controller's Department with respect to the Accounting Checklist.
- Identify the business and corporate units for which the Accounting checklist needs to be completed.
- Communicate timeline to business/corporate units in a timely manner to allow for sufficient time to complete the Accounting checklist.
- Distribute the Accounting checklists and accumulate the completed checklists. Review the completed checklists for any identified areas of noncompliance with U.S. GAAP and for any inconsistencies across business/corporate units.
- Provide assistance in completing the Accounting Checklist by answering questions from the business/corporate units.
- Address any instances of noncompliance with U.S. GAAP or any inconsistencies and review and approve final results with the Corporate Controller.

Standards/Requirements

1. CARG and ERG will coordinate with Corporate Internal Controls to ensure that appropriate representations are included in the appropriate internal management representation letters. A representation will be required from the business/corporate units to indicate that they have completed, reviewed and submitted the Accounting checklist to CARG, as discussed below. Other representations may be deemed necessary as appropriate in the circumstances.

2. The CARG Accounting Issues database will be used for housing the Accounting Checklists. The business/corporate units will not be able to view each other's checklists. Each business/corporate unit (e.g., for corporate, separate checklists may be required for Corporate Accounting, Bison, etc.) will be responsible for completing the Accounting Checklist for their respective unit prior to the quarterly or annual earnings release. The ERG will be responsible for completing the Disclosure Checklist in connection with the issuance of the Form 10-K or Form 10-Q.

3. CARG will assist the business/corporate units in completing the Accounting Checklist by answering questions regarding U.S. GAAP.

4. CARG will review an accumulation of the completed Accounting Checklists for any identified events of noncompliance with U.S. GAAP and any inconsistencies in the application of U.S. GAAP.

5. CARG will coordinate and document the resolution of any identified instances of noncompliance with U.S. GAAP or any inconsistencies noted. ERG will coordinate and document the resolution of any required disclosures that are not included in the draft Form 10-K or Form 10-Q.

6. The Accounting Checklist process is to be completed prior to the quarterly and annual earnings releases; the Disclosure Checklist process is to be completed prior to the filing of the DEC Form 10-K or Form 10-Q.

Duke Energy.
Duke Energy Policy Statement

Accounts Payable and Imprest Petty Cash Policy

Applicability: Applies to Enterprise
Originator: Corporate Controller
Approval: Corporate Controller

Approval Date: 7/19/2006
Revision Date: 07/11/2006

Statement - This policy covers accounts payable and imprest petty cash fund systems used by business/corporate units. The policy describes the minimum controls required. The business/corporate unit should implement additional procedures and controls as needed to ensure an appropriate level of control exists within the accounts payable and imprest petty cash fund systems.

Imprest petty cash funds should only be established when necessary to facilitate local payments of minor incidental expenditures. Business/corporate unit accounts payable systems or purchasing cards are preferred methods of payment for purchases due to enhanced control benefits.

Imprest funds and purchasing cards should not be used to circumvent company purchasing policies or procedures. Imprest funds should be reimbursed through the business/corporate unit's accounts payable system.

Roles and Responsibilities-

Business/Corporate Unit-

Implement internal controls as necessary to ensure accounts payable and imprest petty cash fund disbursements are appropriate. The following minimum controls are required:

Accounts Payable:

- Payment authorization must be approved in accordance with the *business/corporate unit delegation of authority.* See the ***Delegation of Authority Policy*** for additional information.
    - Approvals should be by original signature or properly secured electronic approval.
    - Approvals by initials, rubber stamp, forging a signature or using another person's password are prohibited.
    - Automated approval of payments using automated matching of approved purchase order, receipt and invoice is acceptable.

- The following functions should be separated between at least two people. Weaker segregation of duties should be accompanied by additional management review.
  - originating and approving a purchase
  - receiving goods and services
  - approving invoices
  - processing and signing checks
- The general ledger accounts payable account should be reconciled to the accounts payable sub-ledger at least monthly. Corrections should be made within one month of identifying a reconciliation difference.
- Procedures should restrict entry or payment of duplicate payments.
- Payments should be made in a timely manner considering discount terms.
- Payments should be supported by an invoice, receipt, or other documentation that accurately describes the purpose of the disbursement.
- All data required on Form 1099s and related state reporting for payments made to contractors and independent consultants must be accurately captured and reported by the business units.
- Business/corporate units must obtain Form W-9s before making payments to customers where required.

<u>Imprest Petty Cash Funds:</u>

- Imprest petty cash funds may be used for incidental expenses of less than $1,000.
  - Unusual circumstances warranting a different transaction limit may be approved by the Corporate Controller.
- The fund should be secured, such as in a locked box, or deposited in a local bank checking account in the company's name. See the ***Bank Account and Check Disbursement Policy*** for additional information.
- The imprest fund should be reimbursed by submitting approved documentation (invoices, receipts, expense reports, etc.) to the business/corporate unit's accounts payable system.
  - Approval of the imprest fund reimbursement request should be authorized through the business/corporate unit delegation of authority for expenditures. See the ***Delegation of Authority Policy*** for additional information.
- The following functions should be separated between at least two people. Weaker segregation of duties should be accompanied by additional management review:
  - fund custodian
  - approving invoices
  - approving reimbursement request to replenish the imprest fund
  - signing checks

- The imprest fund bank statement and checkbook should be reconciled to the fund advance amount at least monthly. Corrections should be made within one month of identifying a reconciliation difference.
    - The reconciliation should be reviewed by management on a monthly basis.
- Relevant accounts payable controls indicated above apply to imprest funds.

Duke Energy.

Duke Energy Policy Statement

Approval of Annual Budget Policy

Originator: Corporate Controller
Sponsor: Corporate Controller
Approval: CEO

Approval Date: 08/31/00
Revision Date: 02/25/03

Statement- The following approval requirements describe the process for Duke Energy's CEO and Board of Directors approval of annual business/corporate unit income/expense forecasts, as well as annual capital budgets.

Approval-

- Business/corporate unit annual capital budgets and income/expense forecasts must be reviewed in an Executive Advisory Council meeting prior to submitting to CEO and Board of Directors for approval.
- Business/corporate unit annual capital budgets and income/expense forecasts are presented to the CEO and Board of Directors for approval in the year preceding the budget period.
- Annual capital budgets must include all projected capital expenditures, even if the specific projects or acquisitions are not yet determinable.
- Annual capital budgets must be presented gross with separate identification of divestitures.
- Annual capital budgets should be segmented as follows:
  - Required capital expenditures, e.g., compliance, safety, environmental, and maintenance.
  - Business expansion, e.g., identified expansions, new generation or transmission facilities, and distribution expansion for new customers, undesignated expansion, and acquisition of new lines of business.

Variance Reporting-

- Income and annual capital budget variances must be reported monthly to the Executive Advisory Council and the Board of Directors.
- Variances must be discussed with the Finance Committee of the Board of Directors throughout the year.
- Variances must be discussed with the Board of Directors at least semi-annually.

- Any anticipated annual capital budget variance of 10 percent that also exceeds $1 million for any business/corporate unit must be discussed at an Operating Council meeting and reported to the CEO as soon as practical.
- Any anticipated annual capital budget variance of 20 percent that also exceeds $5 million for any business/corporate unit must be reported to the Finance Committee of the Board of Directors at its next scheduled meeting.

Approval of Business Transactions

Applicability: Applies to Enterprise
Originator: Finance
Approval: Chairman & Chief Executive Officer (CEO) and Board of Directors

Effective Date: 07/01/2000
Revision Date: 04/01/2006
Reissue Date: 04/01/2006

Purpose:

- This policy outlines the authority and accountability for the approval of business transactions ("Transactions"). Transactions include, but are not limited to, expenditures, divestitures and terminations, issuance of corporate securities, credit support, guarantees, warranties, and purchases or sales of commodities, storage, transportation or capacity, other sales, and other Transactions related to the disbursement of funds or commitment of resources as set forth in the Approval Level Matrix which is an integral part of this policy.
- This policy does not provide for every possible scenario regarding the approval of Transactions and is not a substitute for good judgment or communication; nor is it the objective of this policy to set forth any additional necessary reviews. Questions regarding this policy should be clarified through the Corporate Director of Internal Controls.

Expectations:

- The President & CEO may delegate authority to other individuals within the company.
- Individuals covered by the Approval Level Matrixmay delegate approval authority up to their limit. See the Delegation of Authority policy for additional information.
- All business units and corporate areas must follow this policy and must maintain Delegations of Authority that are consistent with this policy. The approval of Transactions shall conform to all other corporate policies (e.g., Purchasing Controls policy, Credit policy, etc.).

Accountability: Roles and Responsibilities:

- The approval limits for the Board of Directors, President & CEO, Direct Reports to the President & CEO, and Advisor to the Chairman are contained in the Approval Level Matrix. Any material changes made by the President & CEO to the approval levels for such individuals must be communicated to the Board of Directors.

Approvals:

- Transactions must be approved by the appropriate authority prior to executing any legally binding agreements.
- Indicative bids must be approved prior to submission in accordance with the limits in the Approval Level Matrix, except that the President & CEO must approve any indicative bid the dollar amount of which would ultimately require approval by the Board of Directors. Transaction Review Committee review is not required for indicative bids (See Note No.1 in the Approval Level Matrix).
- Transactions must be approved based on expected gross, aggregate expenditures and commitments (including debt, leases and other liabilities). Expenditures and commitments

are to be considered in nominal dollars and not present value amounts.

- Transactions may not be disaggregated to avoid higher approval limits. However, *Transactions may be evaluated for required approval levels individually where the* Transactions are discrete, separate and independent of each other.
- Dispositions or divestitures must be approved based on the higher of sales price or original cost (or current carrying cost, in the case of impairment).
- Transactions originating from less than 100% owned entities must be approved as specified in the Approval Level Matrix when applicable thresholds are met. Thresholds should be calculated using the Duke Energy ownership percentage or the amount of the Transaction attributable to Duke Energy, whichever value requires the higher level of approval.
- Components of a previously approved Transaction may be executed by a Direct Report to the President & CEO or Advisor to the Chairman, or delegate, even though the amount of the component transaction would otherwise exceed this individual's normal approval authority, except as otherwise may be provided by authorizing resolution.
- The issuance of common stock requires the approval of the Finance & Risk Management Committee of the Board of Directors. The President & CEO and Corporate CFO may approve routine common stock issuances that may include dividend reinvestment and retirement savings plans.
- No employee may approve Transactions that are for his/her own benefit.

Special Approval Requirements:

- Transactions that might pose unusual or unique contingent exposure or risk to Duke Energy Corporation or any affiliate, as determined by the President & CEO will be presented to the Board of Directors for approval.
- The President & CEO may implement "per country" thresholds for Transactions that might not otherwise require President & CEO or Board of Directors approval. The objective of any such thresholds would be to subject total cumulative gross investment in any single foreign country to special scrutiny.

Exceptions:

- The President & CEO may substitute an alternative committee review for an otherwise required review by the Transaction Review Committee (See Note No. 1 in the Approval Level Matrix).
- Financing and tax Transactions are approved as documented in the appropriate corporate unit Delegations of Authority.
- The Duke Energy Board of Directors and President & CEO do not have approval responsibility for affiliates that are publicly held.

Supplemental Funding Requests for Previously Approved Transactions:

- *The guidelines herein must be followed to approve overruns to previously approved costs.*
- Each unit must have in place a process to track project costs to ensure total project costs will not exceed the authorized or budgeted amount or the approval threshold of an individual per the Approval Level Matrix. A cost overrun must be submitted for approval as soon as it is anticipated.
- An overrun is the cumulative amount of all cost increases. Multiple cost overruns may result in a higher level of approval being required based on the revised estimated total cost for the project.
- Refer to the Approval Level Matrix for approval limits for cost overruns. Using these approval thresholds, in certain cases, individuals will be able to approve a total cost that is higher than their normal approval limits.
- Current exchange rates, as provided by the Corporate Treasurer, must be used to calculate the revised cost for international projects. However, a cost increase due solely to exchange rate changes does not constitute an overrun.

- A project cost overrun could result from circumstances including, but not limited to, an unforeseen increase in costs (e.g., material cost increase, labor strife, adverse weather conditions) or a change in scope (e.g., a change in the revenue generating capacity of a project due to increasing the megawatt output of a power plant or increasing the throughput of a pipeline).
- A project must be re-approved based on the total project cost, including all overruns if: (1) the overrun results from a discretionary change in scope, or (2) the overrun results in an NPV/IRR less than the minimum approved hurdle rate. A revised economic analysis (using current exchange rates, as provided by the Corporate Treasurer, if applicable) must be prepared and a revised NPV/IRR must be calculated using the most current project economic projections and estimates to complete. Guidelines on preparing these analyses can be found in the Financial Analysis Manual.
- A brief informational report must be provided to the President & CEO and Corporate CFO for cost overruns approved by Direct Reports to the President & CEO or the Advisor to the Chairman that results in a total cost exceeding their normal authority

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Approval Level Matrix

Transactions	Direct Reports to the President & CEO or Advisor to the Chairman (1) (2) (3)	President & CEO (1) (2) (3)	Board of Directors (1) (2)
Expenditures, Divestitures & Terminations: Capital Projects, Commitments to Buy Products or Services, Equity Investments (Including Acquisitions, Partnerships, Joint Ventures, etc.), Divestitures, Operating and Capital Leases, Termination of Commodities Contracts (4) (5) (6) (7) (12)	• Routine: o Chief Nuclear Officer, President and Chief Operating Officer U.S. Franchised Electric & Gas, Chief Administrative Officer - <= $50 million o All other Reports <= $25 million • Non-routine: o <= $5 million • Transactions with terms: o < 5 years o => 5 years if the dollar amount is <=$5 million	• Domestic < $100 million • Other International < $50 million • Any transaction, the dollar amount of which is > $5 million and => 5 years in term	• Domestic => $100 million • Other International => $50 million
Purchases or Sales of Commodities, Storage, Transportation or Capacity, or Other Sales: (6) (7) (8) (9)	• Transactions < 5 years in term	• Any transaction => 5 years in term	
• Fixed Price Contracts	• <= $100 million	• <= $500 million	• > $500 million
• Indexed, Cost Plus, Reimbursable or Tariff Contracts	• <= $500 million	• <= $1 billion	• > $1 billion
• Option Contracts	• <=5,000 lots or		• => $100 million premium

Transactions	Direct Reports to the President & CEO or Advisor to the Chairman (1) (2) (3)	President & CEO (1) (2) (3)	Board of Directors (1) (2)
	$10 million premium	• < $100 million premium	
Supplemental Funding Requests for Previously Approved Transactions	• Up to the greater of $10 million or 10% of original approved amount; and • Dollar amount of total overrun capped at $15 million	• Up to the greater of $30 million or 20% of original amount; and • Dollar amount of total overrun capped at $100 million for Domestic and at $50 million for Other International	• Finance and Risk Management Committee of the Board must approve if overrun: o Exceeds greater of $30 million or 20% of original amount; and o Any overrun > $100 million for Domestic or > $50 million for Other International
Outgoing Credit Support, Guarantees and Warranties (Including Letters of Credit, Performance Bonds, Surety Bonds, Comfort Letters, and Warranties) (10)	• <= $100 million and prior approval of Corporate Treasurer, or • <= $100 million may be approved solely by Corporate Treasurer	• <= $500 million and prior approval of Corporate CFO	• > $500 million and prior approval of President & CEO and Corporate CFO
Incurrence of Debt, Issuance of all Corporate Securities, Excluding Common Stock: (11) • if consistent with an	• <= $100 million	• < $1 billion	• => $1 billion

Transactions	Direct Reports to the President & CEO or Advisor to the Chairman (1) (2) (3)	President & CEO (1) (2) (3)	Board of Directors (1) (2)
existing shelf registration and the Company's approved financing plan • if not consistent with an existing shelf registration and the Company's approved financing plan	may be approved solely by Corporate Treasurer • > $100 million but <= $500 million must be approved by the Treasurer and Corporate CFO • <= $100 million may be approved solely by Corporate Treasurer • > $100 million but <= $300 million must be approved by the Treasurer and Corporate CFO	• <= $500 million	requires approval by the Finance & Risk Management Committee of the Board • > $500 million requires approval by the Finance & Risk Management Committee of the Board

Definitions:

$ = U.S. dollar (based on current exchange rates)

Domestic – U.S. and Canada

Other International – International outside of Canada

Routine – Transactions which are frequently occurring within the normal course of business or included within the approved plan or approved budget

Non-routine – Transactions which do not fall under the definition of Routine.

Notes:

1. For Transactions that require President & CEO approval and above, the Transaction Approval Process must be followed, including a review by the Transaction Review Committee. Guidelines and requirements related to the Transaction Approval Process can be found in the Financial Analysis Manual.
2. A brief informational report must be provided to the Secretary of the Transaction Review Committee for material changes in project scope which were originally approved by the President & CEO and above, including changes that may not have a monetary impact (e.g., a change in the location of a proposed power plant, a significant change in counterparties involved in the project). The Secretary will work with the Chair to determine what, if any, additional approval is required.
3. The President & CEO shall cause the Board of Directors to receive an informational briefing of Transactions > $25 million, which do not otherwise require approval by the Board of Directors. These informational briefings are coordinated by the Board Secretary.
4. For termination of commodities contracts, the value of the terminated transaction will be based on the fair market value or net cash settlement, whichever is greater. Refer to the Commodity Risk policy.
5. Procurement of goods and services must follow the guidelines in the Purchasing Controls policy.
6. Approvals for the purchase of fossil and nuclear fuel for U.S. Franchised Electric and Gas are subject to approval limits for purchases or sales of commodities, storage, transportation or capacity, or other sales.
7. These Transactions must comply with the Credit Risk policy.
8. These Transactions must comply with the Commodity Risk policy. Each business unit must maintain a list of authorized commodities.
9. For Exchange-traded and financially settled contracts involving options, the value of the contract will be measured based on total volumetric lots or the total value of the premium, whichever measurement method requires the higher level of approval. One lot = one NYMEX contract for natural gas, crude oil, petroleum products, and NGLs; for power, one lot = 1,000 MWh. For indexed commodity Transactions, the dollar amount of the transaction will be calculated by multiplying the current index price(s) relevant to the transaction by the total volume(s) scheduled to be delivered or received under that transaction.
10. Refer to the Guarantees and Letters of Credit section of the Financing Activity and Financial Risk Management policy, and Surety Bonds policy for required approvals.
11. Corporate securities include, but are not limited to, all preferred stock, hybrid securities, and debt. The Corporate CFO must approve the interest rate for any debt issuance.
12. Any Transaction which causes a material change to Duke Energy's capital structure (e.g. consolidation of debt resulting from an increase in ownership percentage) will also require the prior approval of the Corporate Treasurer.

Check Signing Policy

Originator: Corporate Treasurer
Sponsor: Corporate Treasurer
Approval: Corporate Controller

Approval Date: 08/31/00
Revision Date: 04/01/06

Statement- This policy covers check signing processes used by business/corporate units. This policy excludes prior Cinergy businesses. The policy describes the minimum controls required. The business/corporate unit should implement additional procedures and controls as needed to ensure an appropriate level of control exists within the check signing process.

The purpose of this policy includes the requirement for proper management authorization for the payment of disbursements by checks.

Roles and Responsibilities-

Business/Corporate Unit-

- Issue checks only for properly approved disbursement requests supported by adequate documentation.
- *Check signers must review supporting documentation before signing and* releasing checks, unless the check is for an expenditure that has been authorized by business/corporate unit management as a recurring transaction with a credible vendor.
- Check signers must not have access to blank checks.
- Check signature requirements are as follows:

Amount of Check	Minimum Signature Requirement [1]
Under $1 million	• facsimile or manual signature of an authorized officer or their designee [2].
$1 million to $5 million	• manual signature of an authorized officer.
$5 million and over	• manual signature of two authorized officers.

Footnotes:
[1] "Authorized officer" is defined as:

- Business unit President, CFO, Treasurer or Controller.
- An officer in the direct line of authority to the individual requesting the expenditure
- Duke Energy Corporate Officer.

[2] Business/corporate units must provide Corporate Cash Management with a list that has been approved by the appropriate officer, of individuals authorized to sign checks. The business/corporate unit is responsible for maintaining the list and providing Corporate Cash Management with updates.

Delegation of Authority

Applicability:	Applies to Enterprise
Originator:	Finance
Approval:	Corporate Controller
Effective Date:	02/24/2004
Revision Date:	08/31/2000
Reissue Date:	04/01/2006

Statement of Purpose and Philosophy

This policy describes the accountability for and the process to be used by the President and Chief Executive Officer (CEO), Direct Reports to the President & CEO and Advisor to the Chairman to *delegate approval authority. All individuals that receive delegated approval authority must be* included on the Delegation of Authority template.

Policy Expectations

All Business Units and Corporate areas must follow the Approval of Business Transactions Policy and must maintain Delegations of Authority that are consistent with that policy.

Accountability: Roles and Responsibilities

President & CEO, Direct Reports to the CEO and Advisor to the Chairman

Submit their original or revised Delegation of Authority to the Corporate Controller for review and approval.

Business/Corporate Unit

Prepare, maintain, and distribute documentation of their approved Delegation of Authority.

Employees authorized at $300,000 or more may delegate approval authority to employees at lower levels.

Corporate Controller

Review and approve the Delegation of Authority for the President and Chief Executive Officer (CEO), Direct Reports to the CEO, and Advisor to the Chairman. The attached template should be used for Delegation of Authority. The template shows basic transaction types and approvals. The business/corporate unit may implement additional transaction types and approval levels as needed to ensure an appropriate level of authorization exists. Any additions or exceptions to the business/corporate unit Delegation of Authority must be approved by the Corporate Controller and documented in the notes.

Duke Energy

Duke Energy Policy Statement

Employee Expense Policy

Originator: Corporate Controller
Sponsor: Corporate Controller
Approval: Corporate Controller
Revision Date: 11/1/06

Statement- **This policy covers employee expense reporting and authorization for business/corporate units. The policy describes the minimum controls required. The business/corporate unit should implement additional procedures and controls as needed to ensure an appropriate level of control exists for employee expenses.**

Business Units not on the PeopleSoft Expense Reporting System should use the appropriate form below. Click on the hyperlink to access the form:

1) Legacy Duke: Employee Expense Report form.
2) Legacy Cinergy: Employee Expense form M-9300
Missing Receipt Form

Roles and Responsibilities

Approver's Responsibilities Concerning Employee Expenses

- Ensure that submitted expenses are valid and reasonable business expenses, and are properly described for tax purposes.
- Review accounting of expense items.
- Ensure that business/corporate unit procurement, travel, and asset policies/procedures are being followed for reported items.
- Ensure that expense reports are signed and dated by the employee (either manually or by password protected online entry) and approved by a higher

level of management who is in the direct line of authority of the expenses being charged. Both signatures must be legible.

- Ensure that expenses do not include the approver, unless for a large group function.
- Do not approve by initials or rubber stamps.

Employee Expense Reports:

- Receipts or supporting documentation are required as follows:
  - Legacy Duke employees must submit:
    - each expenditure of $75 or more, if not charged on the corporate American Express card.
    - itemized hotel bills, regardless of method of payment or amount of charge.
  - Legacy Cinergy employees must submit:
    - all receipts for expenditures of $75 or more regardless of method of payment.
    - itemized hotel bills, regardless of method of payment or amount of charge.
- Travel expenses must include dates, place, description, business purpose and amount.
- Business meals must list attendees and their business purpose.
- Expenses should be submitted promptly, normally within 30 days of expenditure.
- Approvals by initials or rubber stamps are prohibited.
- Meals and entertainment must be reported separately from other travel expenses on the expense report, even when included on hotel bills or in seminar fees. These expenses are captured separately for tax purposes.
- Billable meals and entertainment allowable under client contracts (i.e., "pass-through" charges) must be reported separately to avoid inclusion with other travel expenses subjected to special tax treatment.
- Overtime meals, service award luncheons, and other similar meals should not be reported as "meals and entertainment" (which are not fully tax deductible by the Company).
- Travel expenses should be accounted for separately from other employee expenses (such as membership dues, seminars, publications, etc.)
- Employees must reimburse the company for the additional cost of personal expenses on a business trip. Personal costs (i.e. extra day for personal lodging, extra day rental car, etc.) should be deducted from or not included in expense report amounts when additional cost is incurred.
- Descriptions for expensed items must be thorough. Descriptions should clearly identify the business purpose for the expense, which should include the business event (i.e., meeting, outage, conference, business trip) for which the expense was incurred. These descriptions are necessary to support the Company's tax deductions for business expenses.

Expenses prohibited on Employee Expense Reports:

- Tangible property which should be recorded in Business Unit asset records. Examples of this type property include televisions, VCR's, DVD players, and audio equipment.
- Software should be purchased through the employee's local IT contact.
- The purchase of PDA's (Pocket PC, Smartphones, Blackberry devices, and PalmOS) should be made on a procurement card. However, the monthly service fees for those devices may be submitted on employee expense reports.
- All moving related expenses must be submitted to the Company's third party moving coordinator for reimbursement and appropriate tax treatment.
- Charitable contributions.

Cash Advances

- Established approval guidelines that have been approved under the delegation of authority must be followed and maintained by the business/corporate unit. See the ***Delegation of Authority Policy*** for additional information.
- *Requests must indicate the purpose of the advance.*
- Individuals may not approve their own advances (except for business/corporate unit officers, and other unique circumstances approved by a business/corporate unit head who reports to a Policy Committee member where management is not available to approve advances).
- Cash advances may be obtained no earlier than 30 days before the date for which the expenses are to be incurred.
- Advances and related expenses must be reconciled and remitted on an expense report within three months of the advance issuance. IRS regulations may require advances not promptly remitted to the company to be reported as taxable income to the employee.
- The maximum cumulative cash advance available is $10,000.
- Reports of cash advances not remitted in a timely manner must be provided to the next level of management for follow-up.
- Legacy Duke employees: Cash advances should normally be requested through the PeopleSoft Expense Reporting System. However, if an employee needs an emergency advance, a manual cash advance request form should be submitted for cash at the credit union windows in either Charlotte or Houston. Emergency cash advances must be approved by a direct report of a Vice President or higher, and must be reconciled manually at the credit union window.

- Legacy Cinergy employees: may request cash advances through PassPort AP.

American Express Card

- Employees should use the corporate American Express card where possible for payment of employee and business travel expenses.
- The American Express Card should only be used for business related expenses.
- Legacy Duke employees: American Express employee expense statements should be reconciled and approved within 30 days of statement receipt. Reconciled expenses will be paid to American Express by the Company.
- Legacy Cinergy employees: Payment of the individual American Express card is the responsibility of the employee. Payment of the total amount billed is due upon receipt of the statement.
- Credit card issuance and limits must be approved by a higher level of management.
- Employee expense reporting requirements stated above regarding receipts and supporting documentation, taxable expenses, approvals, and personal expenses should be followed when employee expenses are incurred through a corporate credit card.
- Late fees incurred by employees due to delinquent balances on their American Express cards will not be paid by the company unless there are extenuating circumstances.

Foreign Currency Exchange

- Employees should only convert company funds that they would reasonably expect to need for business purposes.
- The actual exchange rate realized by the employee for converting US dollars to foreign currency should be the exchange rate used for reporting foreign currency in US dollars for cash expenditures listed on the employee's expense report.
- The foreign currency exchange gain or loss must be calculated on company funds by multiplying the money converted back to US dollars by the difference between:
  a) the rate at which the original funds were exchanged to the foreign currency and
  b) the rate the remaining funds were converted back to US currency.

- Credit card charges listed on the employee's expense report should reflect the exchange rate at which charges were processed by the credit card company.

Taxable Expenses

Expense reports must list the following reimbursements as taxable benefits per Internal Revenue Service requirements:

- Legacy Duke employees: Education Refund Program - any reimbursements in excess of the $5,250 annual IRS limit. Education Refunds are processed through the expense reporting system.
- Legacy Cinergy employees: Education Refund Program - any reimbursements in excess of the $5,250 annual IRS limit. Education Refunds must be processed through HR/Payroll.
- Mileage - for travel to or from an employee's personal residence when the employee is required to report to his normal work location outside scheduled hours.
- Memberships - in organizations that are not civic, service, or professional.
- Meal expenses - when employees are authorized lodging accommodations, but with advance management approval choose to return home.
- Reimbursements for off-premise overtime meals.
- Temporary Assignment Living Expenses- living expenses (e.g. meals, lodgings, per diem) for temporary away-from-home assignments lasting more than 1 year.
- Professional Exam Fees - one-time reimbursement of professional exam fees (including reasonable expenses incurred while taking the exam) upon successful completion of the exam.

Purchasing Controls Policy

Applicability:	Applies to Enterprise
Originator:	Global Sourcing and Logistics
Approval:	Corporate Controller
Effective Date:	03/31/2004
Revision Date:	02/01/2007
Reissue Date:	02/01/2007

Statement of Purpose

This policy defines the roles, responsibilities, and requirements related to the procurement process at Duke Energy. Specific topics addressed include required approvals, the sourcing process, contract formation, segregation of duties, and standards of business conduct.

Accountability: Roles and Responsibilities

The **Duke Energy Controller** is responsible for approving this policy and any exceptions to the policy.

The **Duke Energy Chief Procurement Officer** is the owner of this policy and is also responsible for communicating this policy throughout the corporation to all persons involved in supply chain processes. Any exceptions to this policy should be documented and approved in advance by the Chief Procurement Officer prior to obtaining approval by the Duke Energy Controller.

Operational Management is responsible for compliance with this policy within their areas of responsibility. This responsibility includes ensuring the unit has adequate internal controls over the procurement process and establishing effective contract management. Individuals performing the role of contract manager determine whether contract terms and conditions have been met and review / approve invoices prior to payment.

Supply Chain Management is responsible for compliance with this policy for all purchases made by authorized contracting agents within their area of responsibility.

Authorized contracting agents must be actively involved with the procurement process for goods and services greater than $100,000. They may also be involved with procurements of less than $100,000 as requested. Authorized contracting agents should comply with this policy in carrying out their responsibilities. In cases where an authorized contracting agent is not involved, the person making the purchase is responsible for compliance with this policy. An Authorized Contracting Agent is an employee who has the appropriate procurement, financial, legal, and contracting knowledge necessary to act in an agent capacity to contractually obligate Duke Energy as designated by corporate or operational supply chain management.

Standards/Requirements

1. Purchase Commitments

Managers and authorized contracting agents may only make purchase commitments consistent with their delegation of authority limits and the Approval of Business Transactions Policy. An authorized *contracting agent must be actively involved with the procurement process of any goods or services* greater than $100,000.

Pricing Agreements or Blanket Orders are long term agreements that establish pricing and legal terms and conditions for recurring or routine purchases of goods or services but do not represent a financial commitment. Examples of such transactions include: alliance agreements, service agreements, enterprise pricing agreements and supplier terms and conditions agreements. These types of agreements use a requisition, purchase order, contract, or letter agreement to execute specific transactions or releases against the Pricing Agreement. Specific transactions or releases under a Pricing Agreement are subject to authorization per the Delegation of Authority limits. Pricing Agreements are not subject to review by the Transaction Review Committee per the requirements of the Approval of Business Transaction policy. However, Pricing Agreements with expected purchases above $10 million will comply with all other requirements of the Purchasing Controls Policy and require approval of the Chief Procurement Officer.

Purchase commitments that are subject to a separate review process such as real estate, fuel, energy trades, mergers and acquisitions, financing/treasury/audit, taxes and insurance do not require involvement of an authorized contracting agent.

2. Sourcing

Subject to the exceptions listed above, competitive bids are required for all purchases greater than $100,000. Purchases may not be split into multiple transactions to avoid use of competitive bidding. All other exceptions must be documented and approved in accordance with the Delegation of Authority Policy. Competitive bidding is not required for each purchase under a strategic alliance when the alliance relationship was formed in accordance with this policy.

When a decision is made to single source a purchase or to pay a premium over the low bid, this decision should be made based on specific business needs, and should not be made to circumvent the standard bidding process. When single / premium sourcing is necessary, documentation should be prepared which clearly justifies the decision.

Single Sourcing

A single source purchase occurs when we forgo the competitive bidding process and decide to select a specific supplier based on technical, commercial, or other valid business reasons. Because single sourcing limits our ability to take advantage of the competitive bidding process, it should be used on an exception basis. Any single sourcing decision greater than $100,000 must be approved by a Vice President or their designee, subject to delegation of authority limits. Contract extensions longer than six months should be treated as single sourcing decisions.

Premium Over Low Bid Sourcing

Another purchasing exception is premium over low bid sourcing. This occurs when the decision is made to select a supplier who is not the low-cost bidder based on technical, commercial, or other business considerations. If the selected bid is $100,000 over the lowest qualified bid, a Vice-President or their designee's approval is required, subject to delegation of authority limits.

Purchasing Cards

All employees are expected to utilize purchasing cards for non-stock purchases of $5,000 or less per transaction. Below are guidelines for the use of purchasing cards.

1. All employees are expected to utilize purchasing cards for non-stock purchases of $5,000 or less per transaction, while giving consideration to leveraging common use goods or high volume purchases to obtain favorable pricing.
2. Repetitive purchases for designated goods should be coordinated with the purchasing group so the best terms can be contracted.
3. *Purchasing cards should not be used for chemicals or on-site services with risk factors* requiring certificates of insurance or EH&S program compliance. (Refer to MasterCard Enterprise Purchasing Card Program Manual on the Services Center for other restrictions.)
4. Operational management must establish maximum limits for each employee.
5. The maximum limit must be below the limit of the manager/supervisor authorizing the card. Managers/supervisors have an inherent limit of $5,000 per transaction unless otherwise stated on a Delegation of Authority form.
6. Transactions may **not** be split into multiple transactions to allow the use of a purchasing card.
7. The process must ensure appropriate sales tax is paid to the vendor.
8. Purchases must be reviewed by a higher level of management.
9. Purchasing cards should **not** be used to make personal purchases, even if the company is later reimbursed.

Supplier Diversity

Qualified diverse suppliers will be actively solicited to participate in bidding opportunities and their bids will be evaluated on a nondiscriminatory basis. Additionally, suppliers will be encouraged to utilize diverse suppliers to fulfill their contracts with the company.

3. Contract Formation

Contracts can take many forms, such as purchase orders, written agreements, intellectual properties/software licenses, pricing agreements and engagement letters. These are defined below. Contracts must be written and include:

a. A clear, concise statement of work or description of materials/equipment.
b. Standard terms and conditions or Legal Department approved terms and conditions for any exceptions.
c. Specifications for accrual and payment of taxes for purchase of goods and services.
d. The right to terminate the contract for convenience; exceptions must be approved by the Legal Department.
e. Requirements for appropriate business conduct in accordance with Code of Business Ethics, EHS programs and fitness for duty, as applicable.
f. An audit clause for non-fixed price contracts and for any non-fixed price subcontracts createdby Duke Energy's prime contractor within the scope of their work.

A purchase order (PO) is a legally binding document prepared by a purchaser to describe all terms and conditions of a purchase.

A written agreement is a legally binding document used to describe more complex contracts. It contains the terms and conditions needed to cover risks, complexities and/or service levels. This type of contract is used because the transaction is not adaptable to standard commercial terms and conditions.

Intellectual properties/software licenses are used to document appropriate language specific to purchase of software, and it contains the terms and conditions necessary to protect the company's interests related to use of software.

Engagement letters are used to describe specific work activities to be done by consultants or other professionals. They normally reference a master agreement or larger contract.

4. Purchasing Process Guidelines

The purchasing process and related documentation should reflect the complexity and materiality of the goods or services being purchased. The following steps should be evaluated and included in the process as appropriate to support compliance with the Purchasing Controls Policy or to meet specific operational requirements.

a. Engineering or technical review to ensure compliance with statement of work or other specifications.
b. Review of supplier's financial status.
c. Risk reviews, including insurance and credit considerations and appropriate hedges against foreign currency or commodity risks, should be coordinated with the Corporate Treasury Department and Continuity, Insurance & Security Services (CISS), as applicable.
d. Verification of appropriate insurance coverage, which is required for contracts involving services.Insurance ratings should be at minimum AM Best A-VII (or comparable rating in non-US countries), and Duke Energy should be listed as an additional insured on the certificate.Unless otherwise amended by CISS, the contract should have appropriate insurance as per the approved operational requirements.
e. Reviews by Accounting and Corporate Tax for any sales or property tax implications (e.g., mill machinery) or accounting considerations (e.g., lease obligations).
f. Other analyses as appropriate.

Documentation of the purchase process, including checklists, should support that the appropriate steps were taken and provide an audit trail. Documentation should be maintained in accordance with the Records Management Policy and the Duke Energy Records Retention Schedule (DERRS).

5. Changes in any Contract Terms, Requirements, or Work Scope

Any material changes in contract terms including requirements, work scope, or cost should be documented in writing and approved in accordance with the Delegation of Authority and Approval of Business Transactions policies.

6. Confidentiality

In cases where Duke Energy is entering into a relationship with a prospective or selected supplier and confidential or proprietary information will be shared, a **Mutual Confidentiality and Non-Disclosure Agreement** must be signed by both parties. This is a legally binding agreement that will protect Duke Energy and the supplier's interests and information.These non-disclosure requirements should also be included in the procurement documentation.

Supplier quotations should always be maintained as confidential information. Quotations of one supplier are not to be divulged to another.This information should not be made available within the company except to individuals with a business need to know.The number of bidders, who is bidding, how much is in the budget, the past performance of bidders, and future business potential are topics that should **not** be discussed with suppliers unless an authorized contracting agent authorizes the discussion.

7. Segregation of Duties

The following functions should be segregated between at least two people:

- Requisitioning and/or specifying
- Vendor File Maintenance
- Procurement/contracting
- Contract administration
- Receipt of goods or services
- Invoice approval
- Check signing or disbursements

Weaker segregation structures should be accompanied by additional management review. If anyone performs both the procurement and invoice approval processes, an additional level of management must review the approval of the invoice.

8. Standard of Business Conduct and Ethics

Duke Energy complies with all applicable governmental laws, rules and regulations and maintains the highest standard of business ethics and conduct. Employees should refer to the Duke Energy Code of Business Ethics for an explanation of the Company's policies pertaining to topics such as gifts and entertainment; conflicts of interest; and bribery, kickbacks and other improper payments. Employees or contractors who are concerned about unethical behavior can anonymously report their concerns on the EthicsLine by calling 1-800-525-3783 or visiting http://www.dukeenergy-ethicsline.com. Employees should also consult and follow policies, procedures, and guidelines for complying with applicable Affiliate Codes of Conduct for any transactions between the regulated and non-regulated businesses.

9. Sourcing Requirements Summary

Category	Requirements
Purchases >$100K	Competitive bid required. Approval at appropriate DOA levels. Must actively involve an authorized contracting agent.
Purchases <$100K	Approval at appropriate DOA levels. Does not required authorized contracting agent involvement.
Single source purchases above $100,000	Require approval of Vice President or designee subject to delegation of authority limits.
Premium over low bid of $100,000 or greater	Approval by Vice President or their designee subject to delegation of authority limits.
Procurement card	Should be used for non-stock purchases of less than $5,000 per transaction.

Engaging the External Auditor for Services

Applicability: Applies to Enterprise
Originator: Finance
Approval: Audit Committee

Effective Date: 04/04/2006
Revision Date: 06/28/2005
Reissue Date: 06/28/2005

Statement of Purpose and Philosophy

This policy describes the guidelines to be used when considering the use of the principal external auditor (i.e., Deloitte & Touche) or any other audit firm for all audit and non-audit services work.

Policy Expectations

The Sarbanes-Oxley Act (SOA) of 2002 significantly increased the restrictions regarding the use of the external auditor and the role of the Audit Committee in the financial reporting process and assessment of auditor independence. All engagements of external auditors must comply with the SEC auditor independence rules along with the applicable portions of the NYSE guidelines and SOA. The rules are intended to protect the reliability and integrity of the financial statements of public companies and to promote investor confidence. According to the rules, external auditors are prohibited from providing certain non-audit services to audit clients. In addition, the Company has the responsibility to disclose in the annual proxy statement, a statement indicating that the Audit Committee has considered whether the level of non-audit services provided by the audit firm is compatible with maintaining auditor independence. All Business Units/corporate areas must comply and have internal processes in place to ensure compliance with the requirements stated in this policy.

Accountability: Roles and Responsibilities

Business Units/Corporate Areas:

- Prior to beginning any engagement of Duke Energy Corporation's external auditor, contact the Corporate Controller's Department to confirm whether or not the requested services are included in the annual base scope of work that has been approved by the Audit Committee. If the requested services are outside the approved base scope of work, then these requirements must be followed:
  o Obtain advance approval from the Corporate Controller prior to beginning the engagement of the external auditor
- Ensure that only officers of the company or authorized contracting agents sign engagement letters
- The following applies for engagements using audit firms other than Duke Energy Corporation's external auditor
  - Requests for engagements for audit or non-audit services must be sent to the Corporate Controller, who will obtain appropriate approval from the Audit Committee if necessary
  - The Corporate Controller must also approve any engagements using these audit firms

  - Engagements by or on behalf of the Vice President Audit Services or the General Counsel for services other than financial statement audit services are not subject to prior submission to or approval by the Corporate Controller. The Vice President Audit Services or General Counsel, as applicable, shall promptly notify the Corporate Controller and the Audit Committee (directly or via the Corporate Controller) of such engagements.

Corporate Controller:

- Determine whether services are included in the base scope of work that has been approved by the Audit Committee or whether separate approval of the services is required
- Approve engagements of external auditors in accordance with pre-approvals by the Audit Committee, as follows:
  - Audit-Related Fees - Approval of up to $100,000 per engagement or change order, up to an aggregate of $1,000,000 annually. Audit-Related Fees include any statutory audits not included as part of the annual audit engagement as well as attest services, consents / comfort letters, employee benefit plan audits, due diligence related to mergers and acquisitions, accounting assistance and audits in connection with proposed or consummated acquisitions, internal controls review, and consultation concerning financial accounting and reporting standards
  - Tax Fees - Approval of up to $100,000 per engagement or change order, up to an aggregate limit of $1,000,000 annually. Tax Fees include tax compliance, preparation of federal state and foreign tax returns (including preparation of supporting documentation), communications with tax authorities, tax examination assistance, tax advice and tax planning services
  - Other Fees - Approval of up to $100,000 per engagement, up to an aggregate limit of $500,000 annually. Other Fees include translation services, accounting and other related training, and other general consulting not prohibited as described below
- Obtain Audit Committee approval for any engagement outside of the base scope or pre-approved services
- Maintain an internal process to ensure compliance with approved services and accurate reporting to the Audit Committee

Standards/Requirements

The following guidelines should be used in engaging external auditors for services:

- The annual audit engagement and the base audit fee for the principal external auditor will be agreed upon and approved by the Audit Committee in the first quarter of the year
- All services performed by external auditors and all change orders to the base audit fee must be pre-approved by the Audit Committee. The services must also be approved by the Corporate Controller
- When a need is identified for additional services from an external auditor, the Business Unit/corporate area should submit a scope of work including a fee estimate to the Corporate Controller's Department in advance of work being performed
- External auditors are to perform services only at the Company's request and in conformity with all applicable standards. The scope of service and estimate of fees must be documented in an engagement letter or scope definition signed by both the auditor and the Company (typically the Corporate or Business Unit Controller) in advance of work being performed
- If the requested services are not included in the base scope or pre-approved services, each new service request or change order will require approval individually by the Audit Committee. The Corporate Controller will coordinate the approval
- External auditors cannot be engaged to perform the following services:
  - Actuarial services
  - Appraisal or valuation services, fairness opinions, or contribution-in-kind reports
  - Bookkeeping or other services related to the audit client's accounting records or financial statements
  - Broker-dealer services, investment adviser or investment banking services

- Financial information system design or implementation services
- Human resources
- Internal audit outsourcing services
- Legal services
- Expert services unrelated to the audit
- Management consulting services - unless the consulting firm is separately managed and there is no profit sharing with the external audit firm
- Management functions
- Tax services on a contingency basis - tax advice provided under other terms and conditions is acceptable
- Members of the Expanded Executive Committee, the Corporate Treasurer, and the Corporate Controller shall not use the principal external auditor for any type of personal services, whether or not these services are paid by Duke Energy Corporation

* Copies of all approved invoices of external auditors must be sent to the Corporate Controller
* Business Units/corporate areas will provide reports on a regular basis to the Corporate Controller on their usage of external auditors
* The Corporate Controller will provide a report on the use of the principal external auditor and associated fees at each Audit Committee meeting

Process for Engagement Letters and Invoices of External Auditors

* Engagement letters or scope definitions should be processed as follows:
  - Engagement letters must be provided to the Corporate Controller for approval in advance of work
  - Engagement letters must be signed by the requesting Business Unit CFO or Controller or comparable corporate area individual in advance of work
  - The Corporate Controller's department will maintain copies of all engagement letters
* Invoices will be processed as follows:
  - Invoices must be approved by the Business Unit/corporate area requesting party under an established engagement letter; invoices should reference which engagement letter authorizes the payment
  - Business Unit/corporate area requesting party will process invoice for payment if within the parameters of an approved engagement letter
  - Copies of approved invoices must be provided to the Corporate Controller
  - Copies of invoices will be maintained in Corporate Controller's department and compiled for reporting to the Audit Committee

Key Terms

Audit-related: Includes any statutory audits not included as part of the annual audit engagement, attest services, consents/comfort letters, employee benefit plan audits, due diligence related to mergers and acquisitions, accounting assistance and audits in connection with proposed or consummated acquisitions, internal controls reviews, and consultation concerning financial accounting and reporting standards

Hiring Policy for Employees and Former Employees of the External Auditor

Applicability: Applies to Enterprise
Originator: Corporate Controller
Approval: Corporate Controller

Effective Date: 04/04/2006
Revision Date: 07/01/2005
Reissue Date: 07/01/2005

Statement of Purpose and Philosophy

This policy describes the guidelines to be used when considering the hiring of employees and former employees of the external auditor. The Sarbanes-Oxley Act of 2002 increases focus on key aspects of auditor independence including the potential conflict of interest that can be created when a former member of the audit engagement team accepts certain positions with the audit client, and the role of the audit committee in the assessment of auditor independence. The rules are intended to protect the reliability and integrity of the financial statements of public companies and to promote investor confidence in the independence of accountants and the audit process. According to the rules, the external auditor is not considered independent with respect to the registrant if certain employees or former employees of the external auditor are hired by the registrant into a financial reporting oversight role.

Policy Expectations

Business Units and Corporate Areas are expected to understand the requirements of this policy and to have internal processes in place to ensure compliance

Standards/Requirements

The following guidelines should be used in hiring employees or former employees of the external auditor:

- The terms used in these guidelines are defined as follows:
  - Audit team- Lead partner, concurring partner, or any other member of the audit engagement team who provides more than ten hours of audit, review or attest services for the issuer
  - Financial Reporting Oversight Role- means a role in which a person is in a position to or does exercise influence over the contents of the financial statements and related information (e.g., management discussion and analysis) or anyone who prepares them, such as when the person is a member of the board of directors or similar management or governing body, chief executive officer, president, chief financial officer, chief operating officer, general counsel, chief accounting officer, controller, director of internal audit, director of financial reporting, treasurer, or any equivalent position
- No member of the Audit Team that is auditing Duke Energy and its affiliated entities can be hired into a Financial Reporting Oversight Role for a period of 2 years following association with that audit

- Any uncertainties (e.g. whether a position is a Financial Reporting Oversight Role) must be cleared with the Duke Energy Corporate Controller before any job offers are executed
- Duke Energy's Corporate Controller must approve any hires from the independent auditor prior to an offer being made
- Duke Energy's CFO must approve all executive level (band 6 or above) hires from the independent auditor
- Duke Energy's Corporate Controller shall report annually to the Audit Committee any of the preceding year's hires from the independent auditor

Accountability: Roles and Responsibilities

Business Units/Corporate Areas

- Submit request for any planned hires from Duke Energy's external audit firm (employees or former employees) to the Corporate Controller for review. Such request must be made whether or not the prospective employee is being hired into a Financial Reporting Oversight Role. Approval from the Corporate Controller and, if necessary, the Corporate CFO is required prior to an offer being made.

Corporate Controller/Corporate CFO

- Review, and approve if appropriate, requests to hire employees from Duke Energy's external audit firm.

Duke Energy.
Duke Energy Policy Statement

Property, Equipment and Inventory Policy

Originator: Corporate Controller
Sponsor: Corporate Controller
Approval: Corporate Controller

Approval Date: 08/31/00
Revision Date:

Statement- This policy covers property, equipment and inventory systems used by business/corporate units. The policy describes the minimum controls required. The business/corporate unit should implement additional procedures and controls as needed to ensure an appropriate level of control exists within property, equipment and inventory systems.

Roles and Responsibilities-

Business/Corporate Unit-

- Items classified as inventory must be physically reconciled to the ledger at least every two years.
- Discrepancies in physical inventory counts must be reported to management and corrected in accounting records.
- Reasonable physical safeguards must be in place to protect company assets against improper use or disposition.
- Losses of and damage to company property must be immediately reported to the appropriate level of management and site security personnel or Duke Energy's Corporate Security Department.
    - Losses estimated to exceed $10,000 must be promptly reported to Duke Energy's Insurance Department.
- Inventory must be evaluated for surplus or obsolescence on a routine basis followed by appropriate authorized disposition.

Asset Sales
- Business/corporate unit management must authorize the disposal or sale of company property, equipment or inventory in accordance with the Delegation of Authority. See the ***Delegation of Authority Policy*** for additional information.
- Significant company assets (property, plant, equipment and inventory) should be marked, or otherwise identified, so they can be readily located in detailed asset and inventory records.
- Bids or other competitive mechanisms should be used to sell property, equipment, or inventory.

- A different person should perform each of the following functions. These functions must be segregated between at least two people. Weaker segregation structures should be accompanied by additional management review.
    - declaration of need to sell
    - entry on accounting tracking system
    - sales

Creation, Dissolution, or Restructuring of Legal Entities and Subsidiaries

Applicability: Applies to Enterprise
Originator: Corporate Controller
Approval: Duke Energy Senior Vice President & Controller

Effective Date: 03/25/2004
Revision Date: 03/25/2004
Reissue Date: 04/01/2007

Statement of Purpose and Philosophy

This policy describes the accountability for and the process of creating, dissolving, or restructuring (e.g., merge, convert, change a parent or reporting relationship, etc.) a Duke Energy legal entity or subsidiary.

Policy Expectations

All Business Units and Corporate areas must follow this policy and obtain the requisite approvals identified in this policy before taking formal actions affecting the status of a Duke Energy legal entity or subsidiary.

Accountability: Roles and Responsibilities

Business/Corporate Unit

- Provide rationale and required pieces of information as identified on the respective e-form (located on the Portal) to initiate the approval process related to the creation, dissolution, or restructuring of a Duke Energy legal entity or subsidiary.
- Identify the placement of the affected entity or subsidiary in the entity hierarchy. The current entity structure can be located on the General Counsel Web site under World Records.
- Follow the guidelines established in the Business Unit Capitalization Protocol (as established by the Corporate Treasurer and Tax staffs) when funding or changing the funding structure for the creation, dissolution, or restructuring of any legal entity or subsidiary.
- The General Manager of Accounting Research should determine if the legal entity affected by the creation, dissolution, or restructuring should be consolidated or deconsolidated under U.S. Generally Accepted Accounting Principles ("GAAP") (including FIN 46, *Consolidation of Variable Interest Entities*, as revised) and should ensure that the accounting for the legal entity is in accordance with U.S. GAAP. This determination and any instructions related to accounting entries for the creation, dissolution, or restructuring of the legal entity should be documented and retained by the unit.
- Obtain the requisite internal approvals before finalizing actions affecting the status of a legal entity or subsidiary.

Corporate Secretary Office

- Retain the completed request form which serves as evidence of the approval for the creation, dissolution, or restructuring of the Duke Energy legal entity or subsidiary.
- Distribute a summary of final approved actions to the appropriate parties involved in the approval process.

Business Unit General Counsel/Corporate Secretary Office

- Prepare and circulate for signature the requisite consents formally approving said action.
- Ensure consents of the Board of Directors and/or Board of Managers are filed in the respective minutes books.

Approvals

- Actions affecting the status of a Duke Energy legal entity or subsidiary must be approved by the Corporate Secretary Office, Senior Vice President - Legal (business unit specific), Duke Energy Senior Vice President - Tax, Duke Energy Senior Vice President & Treasurer, and Duke Energy Senior Vice President & Controller.
- A formal request to alter the status of a Duke Energy legal entity or subsidiary shall be accomplished by completing the respective Duke Energy e-form that contains rationale for the request and to serve as a record of the action including the requisite approvals. Separate forms for the creation, dissolution, or restructuring of Duke Energy legal entities and subsidiaries are located in the Electronic Forms Repository under General Counsel. With respect to a restructuring, a white paper detailing the request (including a summary of the restructuring, a current and proposed entity structure of the affected entity(ies), the tax position, and formal actions needed to accomplish the restructure (e.g. written consents), must be attached.
- The respective Board of Directors and/or Board of Managers for each affected entity shall formally approve the requisite actions as set forth in order for the creation, dissolution, or restructuring to be effectuated.

Sarbanes-Oxley Change Control

Applicability:	Applies to Enterprise
Originator:	General Manager, Financial Controls Group
Approval:	Corporate Controller
Effective Date:	04/01/2004
Revision Date:	02/01/2007
Reissue Date:	04/01/2006

Statement of Purpose and Philosophy

It is the policy of Duke Energy Corporation, including its subsidiary business units and affiliates, to comply fully with the Sarbanes-Oxley Act of 2002 "the Act". After initial assessment, control implementation and documentation associated with implementation of the Act's provisions at Duke Energy, it is the policy of the Corporation to ensure that as relevant business processes, controls and information technology (IT) components (collectively, "SOX processes") are changed or enhanced, appropriate approval is obtained for the changes, and documentation is maintained reflecting the latest approved processes, controls and systems. Collectively, the disciplines associated with the timely approval, coordination and documentation of changes in SOX processes covered under the Act will be called "SOX Change Control."

To ensure adequate time for management testing, external audit testing, and remediation of ineffective controls prior to year-end, process changes that impact SOX controls (planned or unplanned) after September 30 will need prior approval of the Business Unit or corporate area executive responsible for SOX compliance.

Policy Expectations

A designated universe of SOX processes, sub-processes, controls and IT components has been defined as part of the Sarbanes-Oxley Implementation project.

- Each Business Unit or corporate area executive is ultimately responsible for identifying all required process, control or system changes for their group, and is further responsible for communicating those changes, as well as the timing of those changes, to the Corporate Internal Controls Group (Corporate ICG) using the established change control mechanisms. For changes after September 30, an assessment should be completed with input from the Corporate ICG to determine the potential risks and impacts to the overall compliance effort
- Standard change control reporting tools and methods will provide an audit trail and current status of SOX-relevant process and control changes
- Changes to SOX processes will be approved by the defined process owner and Business Unit or corporate area executive, or designee
- Changes that affect the corporate financial closing and reporting process require Corporate Controller or designee review and approval to assess design effectiveness before a change is made
- Defined Sarbanes-Oxley testing and documentation standards will be adhered to on a timely basis by all business/corporate units

- As SOX process changes are implemented, the responsible Process Owner shall enter a current, standards-compliant, approved copy of the process and control documentation to the Sarbanes-Oxley Process/Control Documentation Repository
- IT change activities will comply with enterprise level change control policies and local IT change control procedures
- The Sarbanes-Oxley Process/Control Documentation Repository will be a controlled file of the latest official SOX documentation. The content of the repository will be the responsibility of the source business unit or process owner. Centralized maintenance of the repository will be the responsibility of the Corporate ICG

Accountability: Roles and Responsibilities

The responsibilities of business unit/corporate area management are to:

- Establish and maintain a strong and effective system of internal controls consistent with the Sarbanes-Oxley Act of 2002, including an appropriate tone at the top
- For all SOX process changes, ensure that appropriate approvals occur in accord with this policy and ensure that appropriate documentation, testing and training on changes occur in a timely manner or as prescribed by this policy

The responsibilities of the Process Owners in each business unit/corporate area are to:

- Identify, approve and implement necessary process, control and IT improvements to maintain business effectiveness
- Update or prepare required documentation, conduct testing and communicate SOX process changes as required by this policy

The responsibilities of the Business Unit or corporate area executive are to:

- Approve, or ensure approval, of necessary SOX process changes for the business/corporate unit
- Assist with the identification of needed improvements in controls, processes or systems in the business/corporate unit or in the enterprise as a whole
- Appoint or ensure the appointment of Process Owners within the business/corporate unit for each identified process which falls under SOX purview

The responsibilities of the Corporate Controller are to:

- Review and approve, or ensure approval, of changes that affect the corporate financial closing and reporting processes
- Assist with the identification of needed improvements in controls, processes or systems in the business/corporate units or in the enterprise as a whole

The responsibilities of the Duke Energy Corporation Internal Controls Group are to:

- Set policy regarding change control or modify this policy as appropriate for Sarbanes-Oxley Act matters
- Periodically review the effectiveness of the change control policies and procedures
- Ensure a continuing program of communication and education occurs to keep enterprise members current on required compliance with change control requirements of Sarbanes-Oxley Act compliance
- Maintain and ensure the completeness of the Sarbanes-Oxley Process/Control Documentation Repository

Glossary

SOX Processes - Business processes, controls and information technology (IT) components which have a role in ensuring an appropriate financial control environment at Duke Energy and its subsidiaries and which play a role in the accuracy of the financial statements of the company

Process Control/Documentation Repository - The Sarbanes-Oxley Process/Control Documentation Repository will be a controlled file of the latest official documentation for SOX processes throughout the corporation.

Surety Bonds

Applicability: Applies to Enterprise
Originator: Continuity, Insurance and Security Services
Approval: Group Vice President and General Counsel

Effective Date: 09/26/2000
Revision Date: 01/01/2005
Reissue Date: 01/01/2005

Statement of Purpose and Philosophy

This Surety Bond policy (hereinafter, this "Policy") addresses the approval, issuance and management of all surety bonds to be issued for the account of Duke Energy Corporation, Duke Capital Limited Liability Company (hereinafter, "DCLLC") or any of their direct or indirect subsidiaries and affiliates. This Policy is designed to support Duke Energy's business values, in particular the value of financial integrity.

This policy does not address the approval, issuance, entering into or management of liabilities associated with guarantees, letters of credit or analogous credit enhancement instruments or indemnities, warranties or comfort letters.

Policy Expectations

The issuance and administration of outgoing Surety Bonds is managed by the Continuity, Insurance and Security Services Department (hereinafter, "Corporate Insurance"). Surety bonds will generally be issued to meet performance and bid bonds requirements. Requests for the issuance of surety bonds to a single entity should be for the total obligation and not a series of incremental requests.

FASB Interpretation No. 45 (hereinafter, "FIN 45") requires Duke Energy to recognize and disclose a liability for the fair value of obligations it assumes under certain credit enhancement instruments, such as Indemnities. This Policy does **not** address recognition or disclosure of obligations that are within the scope of FIN 45. Any questions regarding the application of FIN 45 to the underlying indemnity obligations upon the issuance of surety bonds covered by this Policy should be addressed to the Corporate Controller's Department - General Manager, Accounting Research and Business Unit Support.

All Business Units and Corporate Units must adhere to and comply with this Policy. Any exceptions to compliance with this Policy must be requested by the CEO or CFO of the Business Unit to the VP of Continuity, Insurance and Security Services and further approved by the Corporate General Counsel. (See Attachment A)

Standards/Requirements

Approval Requirements

- All applications and requests for the issuance of surety bonds require review and approval in accordance with this Policy and the Approval of Business Transactions Policy. All applications for surety bonds must first be reviewed and recommended for approval by Corporate Insurance, prior to submitting the application to any executive officer or Board of Directors for approval.
- The Vice President of Continuity, Insurance and Security Services is authorized to approve the issuance of surety bonds up to and including $100 million. The Vice President of Continuity, Insurance and Security Services may delegate in writing such authority pursuant to a properly executed Delegation of Authority Form.
- Contracts requiring the issuance of a surety bond must be executed by a person(s) so authorized by the Delegation of Authority Policy and in accordance with the Approval of Business Transactions Policy.
- Unless specifically authorized in writing pursuant to a Delegation of Authority form executed by the Vice President of Continuity, Insurance and Security Services, during negotiations and prior to execution of a contract which incorporates language requiring the issuance of a surety bond, Business Unit Legal and Corporate Insurance must approve such language prior to presentment to any potential beneficiaries.
- The Vice President of Continuity, Insurance and Security Services is authorized to approve applications to insurance brokers for the issuance of surety bonds. The Vice President of Continuity, Insurance and Security Services may delegate in writing the authority to approve such applications.
- Exceptions to this Policy may be approved in some instances. Any exception to this Policy *must be requested by the [CEO] or [CFO] of the corresponding Business Unit or [Managing* Director] of the Corporate Unit and approved by the Corporate General Counsel. Exceptions to policy requests must be submitted to Corporate Insurance, as appropriate, in the Request for Exception to Surety Bond Policy Form attached hereto as Attachment A. Corporate Insurance will pursue the approval of the Corporate General Counsel, if deemed advisable, and further retain all necessary documentation of all such exceptions to policy so approved. In turn, the Business Unit or Corporate Unit whose request for an exception to policy has been duly approved must document such an approval in its Delegation of Authority form in accordance with the Delegation of Authority Policy.

Application and Reporting of Surety Bonds

- Surety bonds must be requested through the Corporate Insurance Web site, **dewww.dukeenergy.com/intranet/cont_ins_sec/ Insurance/bonds.htm** or by special request for appeal bonds.
- The Business Units must report the amount and purpose of all outstanding surety bonds to Corporate Insurance on a quarterly basis.
- Corporate Insurance, with assistance from Corporate Legal and the Corporate Controller's Department, will develop and issue procedures for the request, approval, execution, issuance, delivery and reporting of all surety bonds.

Accountability: Roles and Responsibilities

Business Unit/Corporate Units

- Submit drafts of proposed changes in standard terms and conditions for the surety bonds to Corporate Insurance, for review and recommendation for approval, prior to the submission of any application or request for approval and issuance.
- Obtain Business Unit approval per the Delegation of Authority Policy and corporate approval pursuant to the Approval of Business Transactions Policy, if required, before requesting the final issuance of surety bonds through Corporate Insurance.
- Provide Corporate Insurance with a list, as approved by the chief executive officer of the Business Unit who reports directly to an EEC Member (if not the same individual), of individuals authorized to approve requests and applications for the issuance of surety bonds. Each Business Unit is responsible for maintaining current this approval list and for providing Corporate Insurance with updates on a regular basis.

Partially Owned Affiliates (Joint Ventures, Partnerships, etc.)

- Duke's representative on an affiliate governing board or management committee must ensure the affiliate in question does not obligate or bind Duke to cause the issuance of a surety bond prior to approval at the appropriate levels within Duke pursuant to this Policy and the Approval of Business Transactions Policy.
- The required approval level will be determined by the amount and term requested in accordance with the Approval of Business Transactions Policy and this Policy.
- Duke's representative must obtain approval from the Vice President of Continuity, Insurance and Security Services for affiliate or joint venture requests or applications for surety bonds for amounts greater than Duke's *pro rata* share ownership based on Duke's percentage ownership interest in the affiliate or joint venture.

Corporate Insurance

- Manage the issuance of surety bonds consistent and in accordance with this Policy. Review all applications or requests for unusual or special surety bonds and address any issues with the Business Units. After verifying appropriate approvals, manage the execution, issuance, delivery and reporting of all surety bonds.
- With assistance from Corporate Legal and the Corporate Controller's Department, and with input from the Business Units, develop and issue procedures for the request, issuance, delivery and reporting of all surety bonds, **Surety Bond Procedures and Reference Materials.**
- Approve insurance brokers for issuance of surety bonds.
- Maintain records and reports on all outstanding surety bonds.

Corporate Legal

- In conjunction with Corporate Insurance and the Corporate Controller's Department, develop and issue procedures for the application, issuance, delivery and reporting of surety bonds

Duke Energy

Duke Energy Policy Statement

Payroll Policy

Originator: Corporate Controller
Sponsor: Corporate Controller
Approval: Corporate Controller

Approval Date: 08/31/00
Revision Date:

Statement- This policy covers payroll systems used by business/corporate units. The policy describes the minimum controls required. The business/corporate unit should implement additional procedures and controls as needed to ensure an appropriate level of control exists within payroll systems.

Roles and Responsibilities-

Business/Corporate Unit-

- Paid hourly, regular non-exempt, overtime and supplemental hours reported by employees must be appropriately approved.
- Business/corporate unit management, who does not have other payroll responsibilities such as modifying employee payroll files or entering time, must review O&M budget variances or other similar reports for reasonable and accurate payroll entries.

Business Continuity and Crisis Management Policy

Applicability:	Applies to Enterprise
Originator:	Risk Management Services
Approval:	Chief Risk Officer
Effective Date:	07/01/1998
Revision Date:	08/09/2003
Reissue Date:	07/06/2004

Statement of Purpose and Philosophy

Duke Energy Corporation has a responsibility to its customers, employees, communities it serves and investors to ensure measures are taken to prepare for continuation of critical and essential business operations in the event of an emergency or significant business interruption. In a crisis situation, business outage, natural disaster or terrorist/security related event this responsibility continues to exist. The enterprise's first responsibility is to provide for the safety of its employees, its customers and the surrounding communities it serves followed by restoring, as quickly as possible, critical and essential business functions.

Policy Expectations

This policy outlines the Business Continuity and Crisis Management Program that provides for:

- Protection of employees and the surrounding communities
- Management of emergency response and crisis management activities
- Resumption of time critical and essential business operations in accordance with pre-established time frames
- Recovery of business operations
- Restoration of the primary site(s) and the ultimate return to a permanent operating environment

The Business Continuity and Crisis Management Programs provide guidance and documentation on which to base emergency response, recovery of critical and essential business functions/processes/facilities and plans to resume normal operations. It includes all aspects of business unit functionality, employee actions, automation support and necessary technical infrastructure required to support the business function/process. However, the program is not intended as a substitute for informed decision making.

Accountability: Roles and Responsibilities

Senior management will assess the crisis management and business continuity preparedness of all critical and essential organizational elements and report their status annually to the Board of Directors via the Risk Management Services Department.

Business unit and corporate senior management are accountable for putting plans in place utilizing Enterprise Business Continuity and Crisis Management Guidelines to:

- Comply with all applicable laws and regulations regarding business continuity and crisis management
- Provide for the protection and safety of employees and the surrounding communities
- Identify and develop a recovery strategy for critical and essential financial, communication and operational systems
- Manage activities and resources during a crisis event
- Manage the restoration of critical and essential business operations if an incident disables a business process, facility and/or company infrastructure
- Continue critical and essential business operations during an interim period when a facility or infrastructure is not available
- Recover and restore the affected facility and/or infrastructure
- Annually update, validate and test business continuity and crisis management plans

Each business unit and corporate department will institute and maintain an on-going program for developing, maintaining and testing emergency response and evacuation, crisis management and business continuity plans utilizing the Guidelines from the Enterprise Business Continuity and Crisis Management Program.

- Plans will provide for the safety of employees along with the resumption of critical and essential business functions and systems in the eventof an emergency such as fire, explosion, natural disaster, terrorist/security event, financial crisis or any other major disruption in business operations.
- Business/functional unit senior management must annually identify critical and essential business functions/process/facilities where disruption will result in significant financial and/or operational losses.
- Emergency response, crisis management and business continuity plans must be written to detail responsibilities and tasks for use in responding to emergencies and resuming operations. Business/functional unit leadership will update their recovery plans annually and have one copy stored by the business unit off-site.
- Business unit and corporate senior leadership will be accountable for ensuring annual updating, validation and testing of their crisis management and business continuity plans and forwarding the approved plans to the Risk Management Services Department.
- Each business unit will, on at least a three (3) year cycle, test their Crisis Management Plans with the Enterprise Crisis Operation Center (ECOC).

Commodity Risk Policy

Applicability: Applies to Enterprise
Originator: Finance - Corporate Risk Management
Approval: Chief Financial Officer

Effective Date: 05/24/2004
Revision Date: 04/01/2006
Reissue Date: 04/01/2006

Statement of Purpose and Philosophy

The purpose of the Commodity Risk Policy ("the Policy") is to provide clear and consistent directives in the identification, quantification, management and reporting of commodity risk across the Enterprise.

This Policy covers all sales or purchases of commodities, storage, transport, capacity or fuel procurement and related services.

All subsidiaries and affiliates, including consolidating Joint Ventures, will manage commodity risk in accordance with this policy or in the case of Joint Ventures, the risk policy approved by their Board *of Directors, or other appropriate governing body. The Chief Risk Officer (CRO) or designee will* review such joint venture policies to ensure compliance with the Duke Energy Commodity Risk Policy.

Commodity Policy, Risk Limits and Procedures

Commodity Policy

This policy outlines broad business objectives and identifies general operating practices in the management of commodity risk.

Risk Limits

The Risk Limits set the strategic and operational parameters that bridge Policy, enterprise risk-reward objectives, and evolving market opportunities. These limits are unique for each Business Unit.

As such, these Limits will be reviewed more frequently and updated than the Policy.

Business Unit Procedures

It is the responsibility of the Business Unit to develop procedures which describe specific activities to ensure compliance with the Commodity Policy and Risk Limits. Business Unit procedures will be reviewed by the CRO or a designee.

These policies and limits are intended to:

- Provide guidance and direction to achieve the business objectives
- Assign responsibilities for commodity risk planning, transaction management, and monitoring
- Create awareness of commodity risk among commercial and risk management personnel
- Ensure consistency across the business units in commodity risk methodologies, models, policies, methods of analysis, and procedures
- Establish effective, efficient and consistent commodity risk management practices, including organizational accountabilities, approved products, term, calculations, procedures and information management.

Policy Expectations

Objectives

The four primary objectives of this Policy relating to risk governance are:

A. Identification- The recognition and classification of risks to the Enterprise
B. Quantification- The measurement of identified risks
C. Management- Actions designed to alter the risk profile of the Enterprise
D. Communication- The reporting of risks and mitigation as appropriate within the Enterprise

Risks

The Enterprise participates in many physical and financial commodity markets, which expose the Enterprise to a variety of risks. Business Units subject to this policy will address the following risks in their process and procedures:

A. Market Risk- exposure to movements in prices, volatilities, and correlations; swings in demand and supply volumes; the market value of capacity; illiquid markets; modeled valuations; inability to physically deliver on obligations
B. Transaction Risk- exposure caused by inefficiencies in the transaction processes that may cause transactions to be lost, delayed, or processed incorrectly, thereby subjecting the Enterprise to risk of loss; Transaction Risk is also the risk that personnel may hide, incorrectly value, fail to record, or incorrectly represent positions

Approved Counterparties

Employees who execute transactions are responsible for ensuring that Corporate Risk Management has approved all prospective counterparties, and that any new transactions or modifications to existing transactions are within specified limits. Transactions with counterparties not on the approved list are prohibited. New counterparties must be reviewed and approved by Corporate Risk Management prior to trade execution.

In addition, transactions in excess of existing credit risk limits shall be reviewed with Corporate Risk Management prior to trade execution to determine how to enhance the credit position and/or modify credit limits.

Approval of Business Transactions

All transactions that are reviewed by a Business Unit scrub team must be reviewed by Corporate Risk Management.

Accountability: Roles & Responsibilities

The Chief Financial Officer is responsible for approval of the Policy. Amendments to the Policy must also be approved by the Chief Financial Officer or his/her designee and will be effective immediately upon approval.

The CRO or his/her designee has authority to approve exceptions to this policy. Any activity, not explicitly approved by the Commodity Policy, BU Risk Limits, Option Trading Addendum or the Approved Products and Instruments documents, is prohibited. CRO approval required for any exceptions.

The Policy will be reviewed annually by Corporate Risk Management (CRM) to ensure all provisions are reasonable and in accordance with the industry and Duke Energy's business activity.

Failure to comply with this policy may result in disciplinary action up to and including termination.

All personnel are responsible for ensuring a sound risk control environment. The responsibility for risk oversight is owned in varying degrees throughout the Enterprise's management structure.

Senior Management

The following business functions constitute Senior Management and are ultimately responsible for establishing and communicating the risk tolerances and objectives for the organization.

A. Chief Executive Officer (CEO)
B. Chief Financial Officer (CFO)
C. Business Unit Presidents / Chief Commercial Officer (CCO)
D. Chief Risk Officer (CRO)
E. Business Unit CFO (BU CFO)

Corporate Risk Management

The CRM function develops the Policy and the Risk Limits. Additionally, CRM is responsible for the adequacy of the risk management control infrastructure, approving Business Unit specific risk practices, and provides independent identification, oversight and management of market risks.

Business Units

Commercial Operations executes the Enterprise's risk taking and risk mitigation strategies. Commercial Operations is also responsible for developing and executing business plans that are consistent with the strategies and risk tolerances of the Enterprise and compliant with the established policies, procedures and limits.

Each Business Unit is responsible for developing procedures and processes designed to govern commodity risk management activity in a manner consistent with the risk tolerance of the Enterprise, and which also comply with this policy.

Each Business Unit's procedures will be approved by the CRO or his/her designee and the Business Unit CFO or its designee.

For purposes of the Commodity Risk Policy, Business Units are defined in Appendix A. The CRO has the authority to change Appendix A.

Requirements

Risk Decomposition and Transaction Designation

Duke Energy recognizes that many transactions have multiple commodity risk components and the Enterprise will capture such transactions in a manner that allows the Enterprise to properly measure and monitor the associated market risks.

For businesses which have accrual and MTM portfolios, individual book managers are not permitted to manage both portfolios or compensating controls must be in place and operating to ensure proper designation of transactions in accordance with applicable Enterprise policy and Generally Accepted Accounting Principles.

Conflict of Interest and Confidentiality

No Duke Energy employees (including employees of affiliates) shall cause Duke Energy (or its affiliates) to enter into, or direct others to cause Duke Energy (or its affiliates) to enter into, energy commodity contracts for account of themselves, members of their families, friends, or persons or entities with whom they have a personal business interest.

To maintain the confidentiality and integrity of the Enterprise's portfolio, no Enterprise employee shall knowingly, willfully or intentionally, disclose to any person not employed by the Enterprise any confidential business strategy or position, except when compelled by an outside government or oversight body, or with approval from Senior Management.

Authorization and Approval of Commodities, Products, and Projects

Approved Commodities

Each Business Unit will maintain a list of authorized commodities. The original list of authorized commodities will be approved by the Chief Risk Officer and the Business Unit President or CCO. Any proposed alteration to this list shall require approval by the Chief Risk Officer and the Business Unit President.

Approved Products

Each Business Unit will maintain a list of authorized instruments. The original list of authorized commodities will be approved by the Chief Risk Officer and the Business Unit President or CCO. Any proposed alteration to this list shall require approval by the CRO or his/her delegate and the Business Unit President. New products will not be approved until an appropriate valuation model has been implemented as defined in the Modeling Review and Approval Process.

Transaction Review Process

As defined in the Approval of Business Transactions Policy, certain transactions with large capital requirements or extended duration require the review by the Transaction Review Committee (TRC). The CRO or his/her designee must approve the commodity price assumptions for the proposed transaction in addition to overall risk review of the transaction.

Risk Measurement

All Business Units will utilize appropriate risk measures to quantify the risk inherent in the business. The CRO or his/her designee has primary authority to approve the analytic methodologies, models and assumptions supporting the risk measurement calculations and will additionally determine appropriate calculation frequency.

Deal Capture

The business unit shall be responsible for the accuracy of the firm's books and records and is required to ensure that all transactions under its given activity are accurately captured and reported in Duke's systems. These systems include the source system (deal capture system), as well as the downstream risk systems.

Limit Violations

Material violations are to be remediated within 24 hours unless exception is received from the Chief Risk Officer or his/her designee. The violation must be explained identifying the cause of the violation, any corrective action taken, profit and loss impact as well as future plans to better manage the portfolio within limits. Other violations and notifications are defined in the Risk Limit documents and/or the Business Unit Procedure documents.

Commodity Forward Market Curves and Commodity Price Forecasts

Forward market commodity curves will be developed using methodologies and sources of information approved by the CRO or his/her designee to ensure consistency of application. Subject to limitations imposed by Code of Conduct requirements, each unique forward market commodity curve (energy/location) will have a single owner across the corporation who will maintain the curve and make the curve available to other traders and/or Business Units. Responsibility for the validation of these curves resides with the CRO or his/her designee.

Each Business Unit will develop and maintain procedures regarding the use of Commodity Price Forecasts within that Business Unit.

Modeling and Valuation

All models utilized for valuation of commodity instruments must be reviewed and approved by the CRO or his/her designee. See Model Review and Approval Process documentation for detailed procedures. Corporate Risk Management will maintain an inventory of commodity valuation models to ensure consistent and appropriate use across all Business Units.

Risk Limits

Any Business unit which is engaged in commodity market activity will have risk limits to govern and control this activity. The CRO will determine what type of limit shall be utilized to govern and control each type of activity. The CRO or his/her designee will ensure effective and appropriate limits are in place and operating effectively in each affected Business Unit.

Risk Limits will also govern the risk management activity related to operating asset revenue and/or expense risk driven by commodity prices, except where such risk is already mitigated by regulatory mechanisms. The CRO or his/her delegate will monitor risk metrics to ensure compliance.

Commercial personnel will keep their positions within the risk limits. Any proposed transaction(s) that would result in a situation where a guideline would be exceeded requires pre-approval of the CRO. If a risk limit violation has occurred, the commercial employee must get back within compliance within 24 hours after having received notification of the violation.

Where appropriate, risk limits will be utilized to ensure compliance with the risk tolerances of the Enterprise as established by Senior Management to govern and control all other commodity market activity. The CFO will approve such risk limits. The CRO or his/her designee will ensure appropriate limits are in place and are operating effectively in each Business Unit.

Reporting

Corporate Risk Management and the Business Unit will produce periodic reports that will help management monitor, understand, and make decisions regarding its market risks. Business Units will work with Corporate Risk Management to determine the proper frequency and content of the reports. The CRO will periodically report on Risk Management issues to Senior Management and Board of Directors.

Changes to Policy & Risk Limits

All changes to the Commodity Policy will be reviewed by the Chief Risk Officer (CRO) and approved by the Chief Financial Officer (CFO).

Adoption & Implementation

This policy supersedes prior publications and is effective April, 2006. Both Corporate Risk Management and the business units must comply. Updated policy will require business units and Corporate Risk Management to adopt or alter business practices and procedures.

Prior to the effective date noted above, Corporate Risk Management and all affected business units are expected to implement those elements of this policy that do not require material changes in underlying processes.

Gap assessments outlining misalignment between current practice and new requirements are to be developed by the business units with assistance from Corporate Risk Management, as needed. Business units that are out of compliance must assess the deviation and develop action plans to bring conditions into compliance.

Business unit management is responsible for monitoring progress on these action plans and providing status updates to Corporate Risk Management on a monthly basis.

Corporate Risk Management is responsible for notifying Business Units of changes to this policy. Special circumstances may occasionally require deviation from the standards of this policy. All exceptions require the approval of the CRO and /or designee.

If any requirement in this document is inconsistent with any law, tariff or regulation applicable to Duke Energy Corporation or its subsidiaries, the law, tariff or regulation will prevail.

Credit Policy

Applicability: Applies to Enterprise
Originator: Finance - Corporate Risk Management
Approval: Chief Financial Officer - Duke Energy

Effective Date: 04/01/2006
Revision Date: 04/01/2006
Reissue Date: 04/01/2006

Statement of Purpose and Philosophy

Extending and monitoring credit to customers and counterparties is integral to all of Duke Energy Corporation's businesses. Credit decisions made at the business unit level have an impact on Duke Energy as a whole. For these reasons, Corporate Risk Management (CRM) has established standards of practice related to Credit Risk Management across all of the business units.

Extension of credit includes sales of goods, services, commodities, storage, transportation, and capacity to counterparty where payment is expected at a future date and/or where Duke prepays counterparty for the delivery of goods or services at a future date.

Authorized employees are expected to provide for and utilize resources necessary to make sound, credit decisions under the Business Unit Transaction Delegation of Authority.

All subsidiaries and affiliates, including consolidated Joint Ventures, will manage credit risk in accordance with this policy or in the case of Joint Ventures, the risk policy approved by their Board of Directors, or other appropriate governing body. The Chief Risk Officer (CRO) or designee will review such joint venture policies to assess compliance with the Duke Energy Credit Policy.

Credit Policy, Risk Limits, and Procedures

Credit Policy

This policy outlines broad business objectives and identifies general operating practices in the management of credit risk.

Credit Risk Limits

The Credit Risk Limits contain various required credit activities and standards such as limit underwriting, exposure management and periodic reviews. It sets the strategic and operational parameters that bridge Policy and evolving market opportunities as well as provides guidance for best practices to ensure consistent application across the Enterprise. As such, the Credit Risk Limits will be more frequently reviewed and updated than the Policy. Business Units should utilize these to make sound credit decisions for transactions under their Delegation of Authority.

Business Unit Credit Procedures

It is the responsibility of the Business Unit to develop procedures which describe specific activities to ensure compliance with both Credit Policy and Credit Risk Limits. Business Unit procedures will be reviewed and approved by the CRO or a designee.

These Policies, Risk Limits and Procedures are intended to:

- Provide guidance and direction to achieve the business objectives
- Assign responsibilities for credit risk planning, transaction management, and monitoring
- Create awareness of credit risk among commercial and credit risk personnel
- Ensure consistency across the business units in credit risk methodologies, models, policies, methods of analysis, and procedures
- Establish effective, efficient and consistent credit risk management practices, including organizational accountabilities, exposure calculations, credit procedures and information management
- Assign responsibilities for managing credit to achieve business unit, corporate, and stakeholder objectives

Policy Expectations

Approvals

Corporate Risk Management must approve all extension of credit and all commodity transactions as defined below:

- All transactions involving extension of credit must be with counterparties approved by Corporate Risk Management
- All Commodity, Storage, Transportation or Capacity purchases or sales transactions must be with approved counterparties. Refer to the Commodity Policy.
- Any exception to this Policy must be approved by the CRO. Corporate Risk Management will determine how to enhance the credit position and/or modify credit limits.

Approved Counterparties

Corporate Risk Management will perform credit reviews, approve counterparties and set credit limits. Business Unit will ensure that any new transactions or modifications to existing transactions shall be within the specified counterparty limit. Credit extension to counterparties not on the approved list is prohibited. New counterparties must be reviewed and approved by Corporate Risk Management.

Approval of Business Transactions

All transactions that are reviewed by a Business Unit scrub team must be reviewed by Corporate Risk Management.

Accountability: Roles and Responsibilities

The Chief Risk Officer leads the credit risk management function across Duke Energy. This responsibility includes:

- Formulating credit strategy,
- *Creating a common credit culture by developing efficient, effective and* consistent Policy and Risk Limits,
- Approving either directly or through a delegate, Counterparty Credit Risk Limit changes,
- Approving either directly or through a delegate, exceptions and material items, on a case by case basis

Corporate Risk Management

As it relates to Credit Risk Management, Corporate Risk Management (CRM) has the following areas of responsibility:

1. Formulating Enterprise Credit Policy
   CRM supports the CRO in formulating credit strategy, establishing a consistent credit culture and recommending new or revised credit policies to the CFO. CRM ensures that the Credit Policy and Risk Limits support strategy and stakeholder objectives. CRM sets credit risk performance objectives, contract related terms and conditions and is responsible for aggregation of Enterprise-wide credit exposure.
2. Monitoring and Reporting
   CRM monitors and reports aggregate Enterprise credit exposure and performance, analyzes trends on counterparty and coordinates the appropriate external disclosures.
3. Managing Credit Risk
   CRM performs credit reviews on specific Business Unit transactions, counterparties and/or credit exposures as set forth in the Policy expectation above. CRM sets Business Unit credit risk performance objectives, assigns credit limits and Internal Risk Ratings to counterparties. CRM is responsible for negotiating credit structure of transactions and trading agreements (e.g. default parameters, collateral arrangements); CRM is also responsible for oversight of Enterprise Accounts (see Credit Risk Limits). As a result of such review, CRM may require risk mitigation consistent with Corporate objectives.
4. *Technology Applications*
   CRM owns enterprise-wide credit reporting and management systems (REAP, eContracts, eCCS) and works with the BUs to integrate these systems with the appropriate upstream applications. CRM maintains adequate credit risk systems which allow for timely recording and reporting of exposures.
5. Information and Analysis Consistency
   CRM identifies reviews and approves consistent credit exposure calculations and credit risk methodologies.

Business Units

1. All Business Units should comply with credit policies and operates within the

credit risk limits set forth by CRM.
2. Communicate/report information and/or transactions to CRM with adequate time for review so they can complete the counterparty credit risk assessments.
3. Prior to entering into any transaction, all Business Units should receive credit approvals for extension of credit as well as contract review prior to entering into any transaction as set forth in the Policy expectation above.
4. Employees who execute transactions are responsible for ensuring that Corporate Risk Management has approved all prospective counterparties before extension of credit, and that any new transactions or modifications to existing transactions are within specified limits. Transactions with counterparties not on the approved list are prohibited.
5. In addition, transactions in excess of existing credit risk limits shall be reviewed with Corporate Risk Management to determine how to enhance the credit position and/or modify credit limits.

For purposes of the Credit Risk Policy, Business Units are defined in Appendix A. The CRO has the authority to change Appendix A.

Organizational Relationships

The Corporate Risk Management function is independent of the business. No member of Corporate Risk Management should have a direct reporting relationship to any of the businesses. However, Business Units may have Business Unit risk personnel that maintain a line reporting relationship with the Business Unit CFO and Corporate CRO. Compensation, including incentive compensation or spot bonuses, for all Corporate Risk Management personnel shall be independent of Business Unit financial performance.

Any exceptions to the above rule must be approved by the CRO and Business Unit CFO.

Changes to the Policy

All changes to Credit Policy will be reviewed by the Chief Risk Officer (CRO) and approved by the Chief Financial Officer (CFO).

Adoption & Implementation

This policy supersedes prior publications and is effective April, 2006. Corporate Risk Management, Corporate Groups and the Business Units must comply. Updated policy will require Business Units and Corporate Risk Management to adopt or alter business practices and procedures.

Prior to the effective date noted above, Corporate Risk Management and all affected Business Units are expected to implement those elements of this policy that do not require material changes in underlying processes.

Gap assessments outlining misalignment between current practice and new requirements are to be developed by the business units with assistance from Corporate Risk Management, as needed. Business Units that are out of compliance must assess the deviation and develop action plans to bring conditions into compliance.

Business Unit management is responsible for monitoring progress on these action plans and providing status updates to Corporate Risk Management on a monthly basis.

Corporate Risk Management is responsible for notifying Business Units of changes to this policy. Special circumstances may occasionally require deviation from the standards of this policy. All exceptions require the approval of the CRO and /or designee.

If any requirement in this document is inconsistent with any law, tariff or regulation applicable to Duke Energy Corporation or its subsidiaries, the law, tariff or regulation will prevail.

Credit Risk Limit

Applicability:	Applies to Enterprise
Originator:	Finance - Corporate Risk Management
Approval:	Chief Risk Officer - Duke Energy
Effective Date:	04/01/2006
Revision Date:	04/01/2006
Reissue Date:	04/01/2006

Statement of Purpose and Philosophy

The Credit Risk Limit contains various required credit activities including credit limit delegation and approval limits, underwriting rating criteria, and certain other credit management standards. It sets the strategic and operational parameters that bridge Policy and evolving market opportunities as well as provides for consistent application across the Enterprise. As such, the Credit Risk Limits will be more frequently reviewed and updated than the Policy.

Approvals

Approval requirements for an unsecured line of credit or specific tenor limit transaction with a given counterparty will be determined in accordance with the Credit Approval Matrix below. For required approvals beyond the delegated authority of the credit underwriter, approvals must be obtained by all individual signers up to and including the required final approver. A peer group authorized delegate (same level credit authority within the Credit Peer Group only) may provide an approval in the absence of an authorized delegate in the chain of command.

Approvals will be measured on individual exposure at the Business Unit ("BU") level. In certain cases approvals may also contain volume and tenor limits.

The risk rating, amount and tenor of the proposed credit award determine the required approval authority as shown in the matrices below. The amount is the total credit by counterparty, net of cash, treasury bonds, and letter of credit amounts only. Other forms of collateral (equity, guarantees, realty, receivables, physical assets, etc...) are not to be deducted from the total credit when determining approval authority.

Tenor is the maximum of the following three time periods:

1. The term as specified by contract,
2. The length of time that passes before goods or services are received and payments for goods or services are satisfied in full, or
3. For evergreen contracts, the length of time until the Duke entity has the right or option to ultimately fulfill its obligations or receive its rights under the contract.

If certain regulatory or contractual provisions for creditworthiness are present, such as the right to obtain a letter of credit or other security, or terminate the contract, when the service provider determines that creditworthiness has fallen below acceptable levels or upon the occurrence of any other default event, as determined by the service provider then the tenor is deemed to be 1 year for the purpose of determining approval authority.

Credit Approvals Authority

Detailed below are the credit approval requirements by Tenor and Internal/External Counterparty Ratings. Counterparties sharing a common parent or affiliation shall be assigned a consolidated family (or group) credit limit based upon the Credit Authority Limits below. Internal Credit Ratings for a group are based on a composite of the recourse entities within that group. Corporate Risk Management (CRM) is responsible for allocating individual credit limits within the group, with adjustments among the group affiliates as required.

Tenor 0-5 years

Internal Credit Rating	**1**	**2**	**3**	**4**	**5**	**6**	**7**
(S&P equivalent)	***AAA***	***AA***	***A***	***BBB***	***BB***	***B***	***CCC***
Analyst	$30MM	$20MM	$15MM	$10MM	$2MM	$0	$0
Manager	$40MM	$35MM	$30MM	$25MM	$5MM	$1MM	$0
Credit Direct Reports to 'Head of BU Risk'	$75MM	$60MM	$50MM	$40MM	$20MM	$5MM	$1MM
CRO Direct Reports	$200MM	$150MM	$150MM	$75MM	$40MM	$10MM	$5MM
Chief Risk Officer	>$200MM	>$150MM	>$150MM	>$75MM	>$40MM	>$10MM	>$5MM

- Limit allocations to recourse entities within a family approval limit will be established at time of limit approval.
- Credit Enhancements and/or Security are encouraged for all counterparties below investment grade.

Tenor greater than 5 years

All Credit approvals for transactions greater than 5 years with investment grade counterparty require CRO Direct Report approval. Any transaction with the tenor greater than 5 year with counterparties below investment grade requires CRO approval.

Approval Requirements

Input and approval from both Legal and Credit are required prior to negotiating, finalizing and executing agreements with counterparties.

EnterpriseAccount Management and Allocations

Enterprise Account status is designated and published by CRM's Corporate Credit Group (CRM CC). Enterprise Accounts are usually based on large credit exposure, high credit limits, and material exposures with multiple Duke Business units, high risk, watch list or other special circumstances as defined by CRM.

For such accounts, CRM supporting the Business Units or an acceptable designee will prepare and CRM CC will approve Business Unit specific Internal Risk Rating assessments and credit limit requests for Enterprise Accounts. Business Unit will monitor and maintain exposures within defined parameters, maintain adequate credit and contract files, and provide periodic reporting. CRM supporting BU will perform periodic credit reviews in accordance with company policy and guidelines in the credit manual.

Business Units or an acceptable designee will prepare monthly reports containing details on (but not limited to) the counterparty name, limit and utilization for each account designated as an Enterprise Account. CRM CC will manage the Aggregate Enterprise exposure to a single name and/or a group of names in a single family relationship. In the event the aggregate limit exceeds CRM's risk tolerance for a given counterparty relationship, CRM will work to reduce exposure or any other action as deemed necessary.

Business Units must comply/respond timely with CRM on any ad hoc requests related to Enterprise Accounts.

Communicating EnterpriseAccount Status to Business Units

CRM CC will publish and communicate a list of accounts deemed to be Enterprise Accounts. CRM will inform all stakeholders on a timely basis if one of their counterparties has been designated an Enterprise Account or has been dropped from the list.

Denial of Credit

Duke Energy will not approve credit for counterparty if the entity does not have adequate creditworthiness as established in the underwriting process. Reasons for the denial of credit may include, but are not limited to, the following:

- Counterparty is unable or unwilling to provide audited financial statements,
- Counterparty refuses to provide a Letter of Credit and/or parent company guaranty, and/or
- Counterparty fails to provide a prepayment as collateral
- Counterparty refuses to agree to critical credit terms and conditions in underlying or governing document

Process for Appealing a Denial of Credit Approval

To appeal the denial of credit, the credit package will be routed to the next higher level authority on the approval matrix utilizing Duke's transaction approval work flow tool. It is incumbent on the requesting party to document the reasons for credit denial at all previous levels before forwarding the request to the next level.

If denied by CRM supporting Business Unit Credit Group, it may be routed to the Business Unit Chief Financial Officer. If the risk of loss is greater than $5MM, the exception request must be approved by CRM.

High Risk & Distressed Credits

Status Designations

Outlined below are required activities for counterparties designated Watch List, High Risk and/or No Cash Collateral. A status designation assigned by CRM to a specific counterparty applies to all Business Units and Business Unit Accounts. A Business Unit status designation does not necessarily apply to an Enterprise Accounts.

Watch List (potential)

Counterparty should be included on the Watch List if it has been identified by Corporate Risk Management as warranting close monitoring in response to one or more of the following:

- Reasonable grounds for insecurity with regard to:
  - The performance of any obligation, or
  - The potential occurrence of a material change in creditworthiness.
- Exceptionally large exposure (positive and negative) as determined by the Chief Risk Officer.
- High Risk designation.

Business units notified of Watch List counterparties are responsible for communicating updated exposure levels to Corporate Risk Management in a timely fashion.

Credit analysts shall be responsible for completing a Quarterly Credit Review for each counterparty included on the Watch List within 75 days of the end of each calendar period, excluding the calendar's year-end period. See Credit Manual for more instruction on completing the review.

High Risk (actual)

This category includes counterparties with a high probability of being unable to continue to meet obligations as they become due without substantial disposition of assets outside the ordinary course of business, restructuring of debt, externally forced revisions of operations, or similar actions.

Such designation will remain in effect until it can be demonstrated that the counterparty is no longer in a severe situation that has adversely impacted its creditworthiness.

Counterparties designated High Risk shall be subject to special treatment as outlined below:

- Duke Energy will not post cash as collateral and will only use Letters of Credit for such purpose.
- Monthly Counterparty Status Review (MCSR).

- Possible restructuring activity, i.e., amendments to current contracts, to minimize Duke Energy's Potential Future Exposure.
- Cash collateral will by posted by Duke only if approved by the Duke Energy CRO

Transaction Halt Status

A counterparty must be flagged Transaction Halt when any of the following events take place:

- The counterparty defaults under any agreement
- The counterparty fails to negotiate the terms of credit enhancement in good faith.
- Material concern arises over the counterparty's current credit quality

All transactions should cease immediately with a Transaction Halt counterparty; failure to do so is a violation to this policy and affected transactions will be reported to Duke Senior Management. Any new transaction with a Transaction Halt or similar status counterparty has to be approved by a Corporate Risk Management manager or above.

The Transaction Halt designation for Enterprise Accounts will be the responsibility of Corporate Risk Management. Corporate Risk Management will also assess the need to change the status for the remaining members of a counterparty family and notify the affected business units.

Business Units will have the authority to update the status of a Business Unit account and must notify commercial personnel to stop transacting with a counterparty that has been flagged Transaction Halt.

Loan Policy

Applicability: Applies to Enterprise
Originator: Finance - Corporate Risk Management
Approval: Chief Financial Officer - Duke Energy

Effective Date: 01/07/2002
Revision Date: 04/01/2006
Reissue Date: 04/01/2006

Statement of Purpose and Philosophy

Duke Energy Business/Corporate Units may originate or administer loans in accordance with this policy and the Credit Policy.

For the purposes of this policy, regardless of maturity, Loans shall be defined as:

- Money advanced by Duke Energy to non-wholly owned borrowers under a note or other instrument of indebtedness other than those non-wholly owned subsidiaries in place as of the date of this policy. Such subsidiaries will be grandfathered under their existing financing arrangements
- All new enhancements of credit provided by Duke to non affiliated entities, and the continuance of credit enhancement for affiliates which will no longer be owned by Duke Energy
- A note or other instrument of indebtedness equal to or greater than $5MM received by Duke Energy as consideration for providing a good or service or as part of the proceeds of an asset sale

Extensions of credit made in the ordinary course of business such as standard trade credit for commodities sold or transmission capacity provided are not subject to this Loan Policy but are subject to the Credit Policy and Credit Risk Limits.

In the event the originating business unit or corporate area is unsure whether or not this Policy applies to a given transaction, the Chief Risk Officer shall be advised of the relevant facts and will make the final determination.

Roles and Responsibilities

Business Units and other Corporate Units (Origination)

- Responsible for all loan administration and accounting for all 3rd party credit support fees, interest and principal, monitoring applicable loan covenants and financial information, and safeguarding all relevant loan information and documentation.
- Will periodically review loan performance with Corporate Treasury and Corporate Risk Management.

Corporate Treasury

- Responsible for negotiating the terms and conditions of all Loans, including, but not limited to the repayment schedule and interest rate charged by Duke Energy.
- Responsible for pricing, structuring and negotiating all relevant loan information and documentation, including perfecting any security interest granted to Duke as collateral for the loan.

Corporate Risk Management

- Will approve the transaction and structure of any Loan prior to any written offer (indicative or binding) to provide such Loan in accordance with the Corporate Credit Policy and related Corporate Credit Risk Limits.
- Establish Duke Energy Corporate Credit Policy and Risk Limits for business unit loans, origination and administration.

Risk Limits for the Origination and Administration of Loans

Guiding Principles

- Follow a specified system of loan origination and management, as detailed in the Credit Policy and Risk Limits
- Adhere to all applicable laws and regulations regarding the extension of credit and investment of funds
- Avoid conflicts of interest in accordance with the Code of Business Ethics
- Respect and preserve the confidentiality that is entrusted by clients
- Comply with federal securities laws, which forbid the use of material non-public information in buying, selling or advising the transfer of securities. Accordingly, employees must not give material non-public information about clients or Duke Energy itself, to outsiders, or use such information themselves in the purchase or sale of securities

Client Files

- A client file should be maintained on all loan customers.
- The client file should consist of Loan Service and Loan Transaction sections.
- The Loan Service section should include customer requests, history and extent of relationship, borrowing base calculations and correspondence.
- The Loan Transaction Documentation section should include all original executed documents related to a) debt instruments, b) loan or letter agreements perfecting the security interest in negotiable/non-negotiable collateral, c) other documents obtained at closing, and e) all original amendments/releases/waivers related to these documents.

Financial Statement Requirements

- Financial statements should be maintained on all customers, including guarantors/endorsers/co-makers, general partners in partnership and other third parties providing support to a transaction.
- Financial statements include:
    - balance sheet
    - income statement
    - statement of cash flows
    - consolidating statements for all entities, and
    - footnotes including description of contingent liabilities, discussion of material subsequent events, and description of deviations from GAAP.

- Updated financial statements are to be received at least annually and within three months of the customer's fiscal year end.

Credit Approval Form

- All Originating Units should use a Credit Approval Form similar to and containing relevant significant information as found in the Credit Policy and Risk Limits document.

Credit Memorandum

- The Credit Memorandum is the presentation of factors for consideration by management on which a credit decision is to be based.
- Originating Units should use a Credit Memorandum similar to, and containing all significant and relevant topics, as found in the Credit Policy and Risk Limits.

Extension of Credit

- Approval of commitments to extend credit must comply with the Credit Policy.
- Commitments to extend credit must be made in writing if $500,000 or greater.

Material modifications in terms, conditions, covenants, or collateral (releases or substitutions) are to be approved at the same level as originally required.

Summary of Internal Controls and Financial Controls Policies

Applicability:	Applies to Enterprise
Originator:	Duke Energy Corporate Controller
Approval:	Duke Energy Corporate Controller
Effective Date:	12/16/2004
Revision Date:	12/16/2004
Reissue Date:	12/16/2004

Statement of Purpose and Philosophy

To ensure all units are aware of the Duke Energy Corporation internal controls and financial controls policies, these policies are posted on the employee portal. See link below for "List of Internal Controls and Financial Controls Policies."

Policy Expectations

All units are expected to comply with corporate policies that are applicable to their business. Management within each unit must ensure that appropriate communications and training as needed are provided to employees. In rare instances, an exception to a corporate policy may be approved by the Corporate Controller or other comparable Corporate Officer. The "Request for Exception to Policy Form" (see link below) or other comparable information should be provided to support the requested exception.

Accountability: Roles and Responsibilities

Business Units/Corporate Areas ("unit(s)")

- Maintain awareness of approved internal controls and financial controls policies
- Ensure unit compliance with all applicable policies
- Communicate applicable policies to appropriate personnel within the unit and ensure training is received as needed

Corporate Controller's Department

- Communicate new and revised policies to the units
- Work with policy subject matter experts and recommend/coordinate training as needed
- Maintain the internal controls and financial controls policies on the employee portal as well as a complete listing of all these policies (Internal Controls Group)

Standards/Requirements

List of Internal Controls and Financial Controls Policies

The Internal Controls Group of the Corporate Controller's Department will ensure a complete list of approved internal controls and financial policies is available to the units. The internal controls and financial controls policies are located on the "Policies/Compliance" page of the employee portal. The Corporate Controller's Department will also communicate new and/or revised internal controls and financial controls policies.

- Ensuring the monthly close cycle allows adequate time for analyzing and recording the income tax provision, including income tax reserves, rollforwards of asset and liability accounts, calculation of the effective tax rate (ETR) and other key analyses
- Recording income tax provisions, perform reconciliations and provide reports and other information as prescribed in this Policy
- Preparing the income tax forecast in a manner that is materially consistent with this Policy (for input to the Corporate forecast model)

The **Corporate Controller** is responsible for:

- Company wide compliance with GAAP
  - The Corporate Controller may delegate the work associated with GAAP compliance to business unit (BU) staff
  - The Corporate Controller remains responsible for GAAP compliance regardless of delegations
- Final approval of income tax accounting positions and interpretations.
- Determining documentation requirements related to internal controls, external audit and other issues surrounding income tax accounting

Standards (policies)

The Company shall comply with FAS 109 "Accounting for Income Taxes" and all related interpretations and other guidance issued by the FASB, EITF, AICPA and other authoritative bodies, including FIN 48, "Accounting for Uncertainty in Income Taxes," an interpretation of FAS 109.

U.S. federal, U.S. state, and foreign income tax accounting shall be performed each month in conjunction with the accounting close process.

Internal financial statements shall reflect the Company's current income tax position each month.

The do - review process is required Company wide, by employees with adequate knowledge of income tax accounting.

Requirements (procedures)

Recording income tax provisions:

- The Corporate Tax Department's income tax accountants are responsible for recording income tax provisions in the general ledger.
  - The monthly close calendar should allow adequate time to analyze and record income tax provisions (at least one business day).
  - Income tax provisions and related accounting analysis should begin after book pretax income is materially correct.
- The Corporate Tax Department's income tax accountants will analyze the current consolidated federal income tax balance each month and record appropriate adjusting accounting entries.
  - The Corporate Tax Department 's income tax accountants will record the accounting entries necessary to properly reflect the consolidated current federal income tax asset or liability in the financial statements.

Income tax valuation allowances and reserves:

- The Senior Vice President Tax, or designee, will analyze income tax valuation allowances and reserves at each fiscal quarter end.
- The Senior Vice President Tax will update the Corporate Controller as to the adequacy of income tax valuation allowances and reserves once each fiscal quarter prior to closing the books.
    - The Senior Vice President Tax will arrange a meeting with the Corporate Controller to review workpapers and documentation.
    - The Corporate Controller will determine the adequacy of the workpapers and documentation with respect to internal controls, external audit and other related issues.
- The Senior Vice President Tax will have final approval as to the adequacy of reserves and valuation allowances related to operations after considering input from the Corporate Controller.

Reconciliation of tax returns to the general ledger:

- The Senior Vice President Tax, or designee, shall prepare workpapers that reconcile U.S. federal and state income tax returns, by legal entity or BU as appropriate, and foreign tax returns to the general ledger records.

Reporting:

- The Corporate Tax Department's income tax accountants shall prepare a consolidating Effective Tax Rate Report (ETR) of income tax provisions, tax asset and liability account reconciliations, and other key income tax statistics as requested by executive management.
- A consolidating ETR report will be prepared by the Director - Corporate Income Tax Accounting, or designee, and will be available to the Senior Vice President Tax and Corporate Controller for review.

Duke Energy

Duke Energy Policy Statement

Property Tax Policy

Applicability: Applies to Enterprise
Originator: Senior Vice President Tax
Approval: Senior Vice President Tax

Approval Date: 09/19/2005
Revision Date: 03/31/2007
Reissue Date: 03/31/2007

Statement- This policy covers property tax processes used by business/corporate units. The policy describes the minimum controls required to ensure an appropriate level of control exists regarding property tax.

Roles and Responsibilities-

Business/Corporate Unit-

Property Taxes and Payments Policy

- All business/corporate units will notify the Corporate Property Tax Department (CPTD) to determine who is responsible for filing the annual property tax returns. If the business/corporate units do not notify the CPTD, then it is the responsibility of the business/corporate units to file the annual property tax returns and make all property tax payments.
- Business/corporate units must maintain records of property, plant, equipment, inventories, leased equipment, asset additions and asset disposals and the appropriate taxing district information in order for the Corporate Property Tax Department to accurately file tax returns, negotiate equitable assessments with state and local taxing authorities and make the necessary property tax payments.
- Upon proper notice from the business/corporate units the Corporate Property Tax Department will be responsible for handling all property tax returns (state and local) and all property tax payments.

Duke Energy Policy Statement

Relations with Tax Authorities Policy

Applicability: Applies to Enterprise
Originator: Senior Vice President Tax
Approval: Senior Vice President Tax

Approval Date: 08/31/2000
Revision Date: 08/31/2000
Reissue Date: 03/31/2007

Statement- This policy covers relations such as inquires and correspondence with tax authorities by business/corporate units. The policy describes the minimum controls required. The business/corporate unit should implement additional procedures and controls as needed to ensure an appropriate level of control exists regarding relations with tax authorities.

Roles and Responsibilities-

Business/Corporate Unit-

Relations with Taxing Authorities Policy

- Business/corporate units must refer all U.S. income tax inquiries or correspondence received from taxing authorities except general payroll related correspondence to the Corporate Tax Department for resolution.
- The Corporate Tax Department must be apprised of other inquiries or correspondence received from taxing authorities.

Duke Energy

Duke Energy Policy Statement

Sales and Use Tax Policy

Applicability: Applies to Enterprise
Originator: Senior Vice President Tax
Approval: Senior Vice President Tax

Effective Date: 08/31/2000
Revision Date: 03/31/2007
Reissue Date: 03/31/2007

Statement- This policy covers sales and use tax processes used by business/corporate units. The policy describes the minimum controls required. The business/corporate unit should implement additional procedures and controls as needed to ensure an appropriate level of control exists regarding sales and use tax.

Roles and Responsibilities-

Business/Corporate Unit-
Sales and Use Tax Policy

- Business/corporate units will ensure that employees responsible for processing vendor invoices are properly trained on the sales and use tax requirements for coding transactions through the applicable Accounts Payable system. This includes proper category and ship-to code selection for transactions processed through the Peoplesoft and BDMS systems.

- Business/corporate units are responsible for filing on a timely basis their own sales and use tax returns with all applicable taxing authorities, for remitting the proper tax to those taxing authorities and for handling any follow-up correspondence of a routine nature. When necessary, business/corporate units will work with the Corporate Tax Department to initiate new tax registrations and to resolve any non-routine situations.

- *Business/corporate units must notify Corporate Tax in a timely manner regarding any* audits initiated by taxing authorities.

- Business/corporate units are responsible for reconciling on a regular basis all sales and use tax accrual accounts. Discrepancies will be reviewed within the business/corporate area and any necessary adjustments booked on a timely basis.

- Business/corporate units have responsibility for collecting and maintaining valid customer exemption certificates and/or direct pay permits, when applicable. These certificates must be kept up-to-date and must be available for presentation to a state/local tax auditor.

Corporate Tax –
Sales and Use Tax Policy

- Corporate Tax will provide oversight and communication on a timely basis to Business/Corporate units regarding new sales and use tax statutes and regulations.
- Corporate Tax will coordinate and lead all audit matters related to sales and use tax returns.
- Corporate Tax will advise business/corporate units on compliance, systems, and processing matters with respect to sales and use tax.

Tax Reserves Policy

Applicability:	Applies to Enterprise
Originator:	Senior Vice President Tax
Approval:	Senior Vice President Tax
Effective Date:	12/31/2004
Revision Date:	03/31/2007
Reissue Date:	03/31/2007

Statement of Purpose and Philosophy

The purpose of the policy is to provide a framework for the processes, organization and policies encompassing the recording of reserves for income taxes for the company and its subsidiaries.

Policy Expectations

This policy sets forth certain standards for U.S. Federal, U.S. State, and foreign tax reserves, including income, property, franchise, capital, and all consumption taxes.

Accountability: Roles and Responsibilities

The Senior Vice President Tax is responsible for:

- Analyzing and documenting the need for reserves.
- Recording the journal entries for tax reserves.
- Updating the Corporate Controller as to the adequacy of income tax reserves once each fiscal quarter prior to closing the books.
- Maintaining account reconciliations for reserve accounts.
- Determining the adequacy of the work papers and documentation with respect to internal controls, external audit and other related issues.

The Corporate Controller is responsible for:

- Determining the GAAP treatment of the reserves.

The Senior Vice President Tax will have final approval as to the adequacy of reserves after considering input from the Corporate Controller.

The Corporate Controller and the Senior Vice President Tax will review the reserves with the Chief Financial Officer each quarter.

Standards/Requirements

Analysis of Tax Reserves and Identification of Potential Tax Reserves

Each quarter, the Senior Vice President -Tax or designee will analyze tax reserves. The analysis considers tax, interest and penalties, if applicable. With the analysis, consideration is given to changes in facts and events, including business transactions, lapse of audit cycles, and issuance of case law or Internal Revenue/State Department of Revenue positions. Reserves will be documented and maintained by the Corporate Tax department.

The Senior Vice President Tax exercises professional judgment as to the need for third party tax and/or legal consultation and possible need to obtain formal Tax Opinions or other written advice for issues identified during the above review.

Analytical Process for Determining the Possible Need for and Related Amount of Tax Reserves

Income tax reserves: The Company follows FIN 48, "Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109". FIN 48 prescribes a minimum recognition threshold a tax position is required to meet, otherwise, a reserve of all or a portion of the tax position is required. Tax positions are filing positions that the Company has taken or expects to take on its tax return by including the position in the current tax provision. Under FIN 48, a tax benefit is not recognized unless the "more likely than not" recognition threshold is met, i.e. the tax benefit is expected to be sustained on audit by the taxing authority based solely on the technical merits of the position. If the recognition threshold is met, the tax benefit recognized is measured at the largest amount of the tax benefit that is greater than 50 percent likely to be realized.

Non-income tax reserves: The Company follows FAS 5 in determining the need for and the amount of non-income tax reserves. In accordance with FAS 5, reserves will be accrued if information available prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and that amount of the loss can be reasonably estimated. Reserves may be accrued at 100% or risk adjusted based on the facts and circumstances.

Documentation of Tax Reserves and the Calculation of the Reserve Amounts

- Adequate documentation supporting the tax reserves and any changes to the tax reserves is required to be developed and retained in the Corporate Tax department, including spreadsheets, memoranda and other documentation.
- The Do/Review process is used and documented according to company policy for calculations of reserve amounts.

Proper Recording of Tax Reserves

- Tax reserves must be recorded in the appropriate taxes payable account.
- Reserves should be recorded at the appropriate registrant level.

Accounting for Cash Overdrafts

Applicability:	Applies to Enterprise
Originator:	Corporate Controller
Approval:	Corporate Controller
Effective Date:	03/31/2006
Revision Date:	04/26/2006
Reissue Date:	04/26/2006

Statement of Purpose and Philosophy

The purpose of this policy is to provide guidelines at the business unit (BU) level to follow which will allow for a consistent application of generally accepted accounting principles ("GAAP") throughout the Company with respect to cash overdrafts.

Book overdrafts representing outstanding checks in excess of funds on deposit should be classified as liabilities at the balance sheet date. Generally, credit book balances are not offsets to other cash accounts or equivalent accounts (including time deposits, certificates of deposit, money market funds and similar temporary investments) except where the legal right of offset may exist within the same financial institution and legal entity. Where right of offset does not exist, credit balances are a reinstatement of the liabilities that were cleared in the bookkeeping process.

Cash overdrafts can be either book or bank overdrafts. Book balances reflect the amount recorded on the general ledger which is reconciled to the respective bank statement. Bank balances simply represent the amount of funds on deposit at the bank at any point in time. A book overdraft represents outstanding checks in excess of funds on deposit, while bank overdrafts represent the total of payments honored by the bank without sufficient funds in the account to cover them (a loan). For purposes of the Company's monthly analysis, both bank and book overdrafts must be considered for purposes of determining materiality and proper classification.

Duke Energy utilizes a central Cash Management group for the maintenance of the bank accounts at the corporate level. Part of Cash Management's role is to reduce the Company's interest expense. One way they are able to achieve this reduction is through notional pooling of bank accounts. Cash Management pools (groups) different accounts together at financial institutions. As part of the pooling agreements, the financial institutions look at these multiple accounts as sub accounts that are consolidated into a large main account. However, when Cash Management sets up these pooled accounts, their grouping is not based on BUs, but rather on different factors, such as geography, currency, etc. As a result, a BU may be in an overdraft position at their sub account level, but the pooled level (consolidated) is actually not in an overdraft position.

Policy Expectations

This policy should be applied to all BUs to ensure a consistent and proper approach to accounting for cash overdrafts. Proper execution of this policy will require participation by the BUs, Corporate

Controller's Department (specifically, the Corporate Accounting group and the Corporate Reporting group), and the Treasury Department (Cash Management).

Accountability: Roles and Responsibilities

- Cash Management - Provide an updated list of all notionally pooled accounts and the month-end bank balance, including proper exchange rates, to both BUs and the Corporate Reporting group on the first business day of each month[1] reflecting the balance as of the last day of the previous month.
- BUs - 1) Record journal entries as outlined below for non-pooled accounts. Analyze bank and book balances for non-pooled accounts by financial institution and legal entity on a monthly basis and make reclassification entries for negative balances, ensuring pooled accounts are excluded from the analysis.Provide month-end bank and book balances, including proper exchange rates, by financial institution and legal entity as well as details of any reclassifications made, per data request. 2) Record journal entries as outlined below for pooled accounts. Analyze bank and book balances for pooled accounts by financial institution and legal entity on a monthly basis and make reclassification entries for negative balances, ensuring non-pooled accounts are excluded from the analysis. Provide month-end bank and book balances, including proper exchange rates, by financial institution and legal entity as well as details of any reclassifications made to Corporate Reporting (per data request).
- Corporate Reporting - Review non-pooled and pooled accounts analyses received from BUs for reasonableness. Determine if any reclass entries recorded for pooled accounts by the BUs should be reversed at each consolidated SEC registrant level to ensure the net balance of each pool is correct. If material, direct Corporate Accounting to record the proper journal entry.
- Corporate Accounting - Record proper journal entry for pooled accounts, if material, as determined in conjunction with Corporate Reporting.

<u>Analysis of Bank Accounts</u>

Each BU is responsible for the analysis of non-pooled and notionally pooled bank accounts at the segment level. Bank accounts should be analyzed by financial institution and legal entity where the legal right of setoff (offset) exists. The analysis of non-pooled accounts must be performed independently of the analysis of notionally pooled accounts. Balances between pooled and non-pooled accounts with the same financial institution cannot be offset.

In general, to offset the overdraft (liability) with cash (asset), the four conditions stated below must all be met.

Paragraph 5 of FASB Interpretation No. 39: Offsetting of Amounts Related to Certain Contracts states the following:

A right of setoff is a debtor's legal right, by contract or otherwise, to discharge all or a portion of the debt owed to another party by applying against the debt an amount that the other party owes to the debtor. A right of setoff exists when all of the following conditions are met:

a. Each of two parties owes the other determinable amounts.
b. The reporting party has the right to set off the amount owed with the amount owed by the other party.
c. The reporting party intends to set off.
d. The right of setoff is enforceable at law.

A debtor having a valid right of setoff may offset the related asset and liability and report the net amount.

The entry to record a cash overdraft is as follows:

Dr. Cash (PeopleSoft Acct #: within GAAP Node 1111 - Cash)
Cr. Bank Overdraft (PeopleSoft Acct #: within GAAP Node 2104 - AP Banks)

[1] Note: The first business day of each month is defined as the first day that the banks provide previous day balances. If an international holiday falls on the first U.S. business day of the month, the bank balances will not be available until the following day.

Bank Account and Check Disbursement Policy

Originator: Corporate Controller
Sponsor: Corporate Treasurer
Approval: Corporate Controller

Approval Date: 08/31/00
Revision Date: 04/01/06

Statement- This policy covers bank account and check disbursement systems used by business/corporate units. The policy describes the minimum controls required. The business/corporate unit should implement additional procedures and controls as needed to ensure an appropriate level of control exists within the bank account and check disbursement systems.

Roles and Responsibilities-

Corporate Cash Management Department –

- Bank accounts must be established and modifications (including signature card updates) must be processed through Corporate Cash Management.

Business/Corporate Unit –

- Requests for establishing and modifying bank accounts must be made through Corporate Cash Management. Each request must include documentation describing the business reason for the request.
- Bank accounts must be reconciled on a periodic basis. Corrections should be made within one month of identifying a reconciliation difference.
    - The bank statement must be reconciled to the checkbook
    - The bank statement must be reconciled to the general ledger account
    - Reconciliations must be reviewed by management
- Unissued checks and check signature plates must be physically secured.
- Check signers or people having access to check signature plates must not have access to blank checks.
- Checks must be controlled by sequential numbering.
- All checks which are voided must be retained.

Guidelines –

- The following functions should be separated between at least two people. Weaker segregation of duties should be accompanied by additional management review.
    - cash disbursement
    - purchasing
    - contract administration
    - receiving
    - bank account reconciliation
    - accounts payable
- Unissued checks and check signature plates should be accounted for periodically by personnel independent of check custody.
- Check custody should be assigned to one person, with back-up access requiring two people to gain access to checks.
- Checks issued should be balanced to the daily payments journal and must be balanced to the monthly payments journal.

Corporate Cash Management Policy

Applicability: Applies to Enterprise
Originator: Treasury - Corporate Cash Management
Approval: Corporate Chief Financial Officer

Effective Date: 04/01/2006
Revision Date: 04/01/2006
Reissue Date: 04/01/2006

Statement of Purpose and Philosophy

The purpose of this Policy is to confirm Duke Energys Cash Management Objectives and to define the responsibilities and the authority within the Corporation for achieving those objectives.

Policy Expectations

This Policy applies to the consolidated Corporation, which consists of Duke Energy Corporation and all of its consolidated or controlled subsidiaries and affiliates. Cash is a critical asset of the Corporation. It is the Policy of Duke Energy that all cash assets of the Corporation be properly safeguarded and then managed to maximize value.

Accountability: Roles and Responsibilities

Duke Energy's Corporate Cash Management Group (Corporate Cash Management) is responsible for achieving Duke Energy's Cash Management Objectives which are as follows:

- Provide daily liquidity
- Safeguard cash assets
- Maximize the value of cash assets
- Minimize short-term interest expense
- Maximize short-term interest income
- Provide cost effective banking services

For those entities with non-Duke shareholders, Corporate Cash Management recognizes its fiduciary responsibilities and will optimize the cash assets of those entities using the above objectives. Corporate Cash Management is responsible for executing or directing all cash management activities within the consolidated Corporation.

Cash Management Activity

Cash management activities include:

- Prepare reliable cash forecasts
- Set cash position accurately and timely
- Consolidate cash, where appropriate (taking into consideration legal, regulatory, tax and any other appropriate considerations)
- Borrow needed funds at attractive rates
- Maximize return on available cash within approved guidelines
- Maintain strong relationships with a broad group of commercial banks
- Open, maintain (including signature card updates), and close all bank accounts
- Select banking services and monitor service quality and price
- Execute wire transfer payments and other electronic payments accurately and timely
- Execute certain foreign currency payments
- Arrange other commercial banking services, including escrow agreements

Borrowing for the entire consolidated Corporation is the responsibility of Duke Energy's Treasury Department. Corporate Cash Management will coordinate with other Treasury Department personnel to determine and establish short-term borrowing programs across the consolidated Corporation. Only individuals authorized by the head of Cash Management will be permitted to initiate short-term borrowings. Such authorizations are to be reflected in the appropriate Delegation of Authority and communicated to appropriate borrowing agents through letters signed by the head of Cash Management. Authorized individuals are authorized to borrow up to the size of the individual borrowing programs.

Investing cash for the entire consolidated Corporation is the responsibility of Duke Energy's Treasury Department. Only authorized individuals may make cash investments on behalf of Duke Energy and its subsidiaries. Authorizations and approved short-term investment products are outlined in the Corporate Treasury Short-Term Investment Guidelines maintained by Treasury.

Corporate Cash Management is responsible for the consolidation of cash for the entire consolidated Corporation. Authorizations and requirements for cash consolidation are further defined in the Intercompany Funding Guidelines which should be obtained by business units from Corporate Treasury.

DOMESTIC CASH MANAGEMENT (US and Canada)

Corporate Cash Management is responsible for executing all cash management activities within the consolidated Corporation in the US and Canada, and will work closely with all business units to ensure that Duke Energy's Cash Management Objectives are being achieved while maximizing business unit and corporate earnings.

Bank accounts must be established and modifications (including signature card updates) must be processed through Corporate Cash Management.

Corporate Cash Management (as authorized by appropriate Boards) is responsible for executing all short-term borrowing and cash investing within the consolidated Corporation. With regard to wire transfer and other individual electronic payments, Corporate Cash Management is responsible for ensuring that such wire transfer and certain electronic payments have been properly approved before being executed.

INTERNATIONAL CASH MANAGEMENT

Corporate Cash Management is responsible for executing and directing all cash management activities within the consolidated Corporation at Duke's international locations. Corporate Cash Management will work closely with local business unit management, Regional Treasury Managers and the local personnel responsible for cash management to ensure that Duke Energy's Cash Management Objectives are being achieved. Before issuing cash management directives, Corporate Cash Management will coordinate and consult with the business unit, tax, legal, treasury, and other key personnel to ensure that those directives incorporate appropriate strategic, legal and tax considerations, country and currency risks, local banking relationship considerations, and local banking regulations and restrictions.

Whenever possible and practical, cash in excess of working capital needs should be consolidated among similarly owned entities in US or Canadian dollars. Whenever possible and practical, where currency risk is high or country risk is higher than established levels, cash must be invested outside of that country.

Standards: The following section contains information that applies to all Corporate Treasury policies and guidelines

- Corporate Treasury: Corporate Treasury refers to and includes the functions of Cash Management, Corporate Finance, Portfolio Management, Long-Term Investments and Financial Planning and Analysis and is a centralized corporate center servicing and operating on behalf of Duke Energy and its consolidated or controlled subsidiaries and affiliates. All Corporate Departments and Business Units are expected to comply with the contents of this manual. Changes to policies must be approved in accordance with Duke Energy policy. Changes to guidelines will be made within functions and must be approved by the Corporate Treasurer.
- Delegation of Authority: Only authorized individuals may enter into Corporate Treasury activities. Such activity and limits are covered under the "Approval for Business Transactions" policy. Individuals and their corresponding functions and limits are listed in the Corporate Treasury "Delegation of Authority" ("DOA"). Exceptions may be granted with written approvals by individuals authorized to the required transaction levels consistent with the DOA. Both documents are managed within the Controller's group. No Duke Energy employee shall knowingly personally benefit from any Corporate Treasury transaction. All Corporate Treasury activity will conform to the "Approval of Business Transactions" policy and the Corporate Treasury "Delegation of Authority."

- External Counterparts: External counterpart determination will be made within the Duke Energy Finance organization in coordination with Corporate Treasury and Corporate Risk Management. Credit risk guidelines will be the responsibility of Corporate Risk Management.
- Transactional Controls: Transactional control procedures will comply with documented control procedures.
- Accounting Standards: Accounting treatment for all transactions will be in accordance with GAAP and will be determined, if applicable, in coordination with the Corporate Accounting Research Group in accordance with the "Accounting for Risk Management and Hedging Activities Policy" and "Accounting for Intercompany Transactions Policy", on the portal and managed within the Controller's group.
- Terms, Definitions and Approved Products and Instruments: Financial terms shall have meanings consistent with definitions found in *Barron's Dictionary of Finance and Investment Terms*. A list of approved finance and hedging products and instruments is available from Corporate Treasury. Use of other products or instruments must be approved by the Treasurer and Chief Financial Officer.

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Financing Activity and Financial Risk Management Policy

Applicability: Applies to Enterprise
Originator: Corporate Treasury
Approval: Corporate Chief Financial Officer

Effective Date: 04/01/2006
Revision Date: 04/01/2006
Reissue Date: 04/01/2006

Statement of Purpose and Philosophy

Policy Objectives: The scope of this policy covers financing and financial risk management activities within Duke Energy's Corporate Treasury. This policy does not cover other activities managed within Corporate Treasury that include: Cash Management, Long-Term Investment and Financial Planning and Analysis. Policy and guideline information for those activities is managed under separate policies and guidelines within the "Corporate Treasury Policy and Guideline Manual."

The objective of Duke Energy's financing and financial risk management activities within Corporate Finance and Portfolio Management in Corporate Treasury is to provide enterprise-wide services that enhance Duke Energy's, its subsidiaries', affiliates' and each Business' ability to increase revenue, reduce costs and manage risk. This is accomplished through, but is not limited to the following activities:

- Optimize capitalization, including all financing activity
- Optimize liquidity, including access to bank and capital markets
- *Position debt portfolios of Duke Energy and its operating companies to minimize cost of* capital and optimize maturity profile, consistent with overall risk management goals
- Manage and monitor long-term debt, including administration and compliance
- Optimize credit ratios to maintain desired credit ratings
- Manage and monitor interest rate risk exposure
- Manage and monitor foreign currency risk exposure
- Forecast enterprise financing needs
- Issue and manage credit enhancements
- Oversee transaction review, including establishing cost of capital and hurdle rates

Functions within Corporate Finance and Portfolio Management fall into two categories: Financing Activity and Financial Risk Management.

Policy Expectations and Accountabilities

Financing Activity

Financing activity throughout the corporation is the sole responsibility of Corporate Treasury. With the exception of the short-term and intercompany financing activity within Cash Management, financing activity is the responsibility of Corporate Finance. Financing activity includes, but is not limited to, the following: (A) Security issuances in the public and private placement markets, including long-term and short-term debt, equity, hybrid structures, MLP and Income Fund units; (B) Repurchases, redemptions or retirements of any debt and equity instruments or units; (C) Lines of credit and borrowing facilities, whether syndicated or bilateral; and (D) Issuances of letters of credit and corporate guarantees.

In connection with this activity, primary financial institution relationships will be managed exclusively out of Corporate Treasury. Specifically, Corporate Finance will be the lead managers of, and primary points of contact to, the financial institutions that serve the corporation. Business Units are prohibited from hiring financial institutions for financing activity.

Under no circumstances will any group or entity, for which Duke Energy has controlling interest, outside of Corporate Treasury, conduct the above actions without prior written approval from the Corporate Chief Financial Officer.

Credit Enhancement Instruments (Guarantees and Letters of Credit)

Corporate credit enhancement instruments will be negotiated, issued and administered within Corporate Treasury. All applications and requests for the issuance of guarantees or letters of credit require review and approval in accordance with this policy and the Approval of Business Transactions Policy.

Credit enhancement instruments should be issued with a stated fixed amount and a fixed term, or with a right of revocation. Uncapped guarantees must be reviewed and approved by the business unit head and then forwarded for review by an Expanded Executive Committee member for the business unit, the Corporate Treasurer and the Corporate CFO. Uncapped guarantees require the approval of the Board of Directors unless a theoretical maximum exposure can be established and is within authorized approval limits of the CFO and CEO. Credit enhancement instruments with a maturity date greater than 10 years from the date of issuance must be approved by the Corporate Treasurer and the Corporate CFO, and for instruments in excess of 20 years, by the CEO.

Credit enhancement instruments issued on behalf of non-wholly owned entities shall be in an amount based on Duke Energy's pro-rata ownership interest in such entity. Credit support in excess of such pro-rata ownership interest requires approval in accordance with the Approval of Business Transactions Policy and the Corporate Treasurer of Corporate CFO.

No credit enhancement instruments should be issued on behalf of unaffiliated third parties.

Credit enhancement instruments issued in support of assets or subsidiaries being divested must be terminated or released at the closing of such divesture, or promptly thereafter. Failure to terminate such credit enhancement instruments at closing must be back-stopped and supported by an indemnity from the purchaser or other credit enhancement instrument acceptable to Credit Risk Management for the limited period that the credit support remains outstanding. Exceptions to this Policy must be approved by the Corporate Treasurer, the Chief Risk Officer and the Corporate CFO.

Contracts requiring the issuance of a credit enhancement instrument must be executed by a person(s) so authorized by the DOA and in accordance with the Approval of Business Transactions Policy. No Contract incorporating language requiring the issuance of a credit enhancement instrument can be executed unless both Corporate Legal and Corporate Treasury have approved such language.

If specifically authorized in writing pursuant to a business unit DOA (signed by the Corporate Treasurer), a business unit may, however, issue its own guarantees in support of its own subsidiaries. Such issuance must be consistent with language and procedures developed by Corporate Legal and Corporate Treasury in accordance with the "Guaranty Documentation Guide", which is available from Corporate Treasury.

The Corporate Treasurer and Head of Corporate Finance are authorized to execute properly approved guarantees. The Corporate Treasurer and Head of Corporate Finance may approve bank applications for letters of credit which have been properly authorized, and may delegate such approval.

Any exceptions to compliance with this section of the policy must be requested by a business unit CEO or CFO, Corporate General Manager or Corporate Vice President and approved by the Corporate Treasurer and Corporate CFO.

Transaction Review

The transaction review process will be executed as is detailed in the "Financial Analysis Manual". This includes involvement of the Transaction Review Committee. Any material changes to approved projects, whether quantitative or qualitative, must re-visit the "Approval of Business Transactions" *process. Please review the "Financial Analysis Manual" or contact the Corporate Finance group* within Corporate Treasury for further clarity on this issue.

Financial Risk Management

Interest Rate Risk Management

Interest rate risk is defined as the impact on Duke Energy earnings per share and asset returns from interest rate market movements. The goal of the interest rate risk management program is to reduce the cost of funds, manage the mix of fixed and floating rate debt and to position the company for changes in interest rate levels.

Authorization

- Corporate Treasury is authorized to use derivative financial instruments to manage the interest rate risks associated with outstanding debt or to hedge interest rate risk associated with new debt issuances.
- All interest rate trading activity with third parties will be executed solely by/in coordination with Corporate Treasury.
- Speculation in interest rate transactions is prohibited.

Reporting

- Interest rate risk and hedge information will be periodically reported by Corporate Treasury to senior management. Business units will report interest rate risk to Corporate Treasury, as requested.

Foreign Currency Risk Management

Foreign Currency risk is defined as the impact on Duke Energy earnings per share and asset returns from foreign currency market movements. This will include, but is not limited to net investment, earnings and cash flow risk as well as risk arising from planned projects. This policy statement covers the management of foreign currency risk associated with existing asset positions, new and anticipated asset positions or changes as well as physical and financial energy commodity trading positions. The extent to which a business segment is held accountable for foreign currency results for incentive performance evaluation purposes will be determined by its Group President.

Authorization

- Corporate Treasury is authorized to manage foreign currency risk through local currency funding activity as well as by entering into derivative transactions with third parties.
- Business units are authorized only to manage foreign currency risk through commercial contract arrangements with its customers or suppliers or by entering into internal derivative transactions with Corporate Treasury.
- All foreign currency trading activity with third parties will be executed solely by/in coordination with Corporate Treasury. Corporate Treasury may transact in a corporate name and transfer the results to a business unit or may transact in the name of the business unit entities consistent with international laws. Actual results will be fully transferred to the applicable business unit.
- Hedging activity related to intercompany foreign currency exposures will be managed consistent with external exposures and will be managed by Corporate Treasury.
- Speculation in foreign currency transactions is prohibited.

Reporting

- Foreign currency risk and hedge information will be periodically reported by Corporate Treasury to senior management. Business units will report currency risk to Corporate Treasury, as requested.
- Business units will report forecasted Balance Sheet, Income Statement and Cash Flow items by currency to Corporate Treasury, as requested.
- Corporate Treasury will report hedge determination and results to the business units, as needed.

New Projects

- Any business unit that creates foreign currency risk due to a project, expansion, acquisition, or divestiture must develop a foreign currency risk assessment in coordination with Corporate Treasury. If applicable, this assessment must be included in the project's approval recommendation.
- Corporate Treasury will establish a project specific FX Rate Curve. Corporate Treasury will consider input from the business unit in this process. The business unit will use the FX Rate Curve during the approval process.
- Corporate Treasury will provide sovereign-adder guidance for hurdle rates.

- Corporate Treasury will be responsible for creating hedge strategies as well as acquiring or selling currency needed to complete all international investments.

Standards: The following section contains information that applies to all Corporate Treasury policies and guidelines

- Corporate Treasury: Corporate Treasury refers to and includes the functions of Cash Management, Corporate Finance, Portfolio Management, Long-Term Investments and Financial Planning and Analysis and is a centralized corporate center servicing and operating on behalf of Duke Energy and its consolidated or controlled subsidiaries and affiliates. All Corporate Departments and Business Units are expected to comply with the contents of this manual. Changes to policies must be approved in accordance with Duke Energy policy. Changes to guidelines will be made within functions and must be approved by the Corporate Treasurer.
- Delegation of Authority: Only authorized individuals may enter into Corporate Treasury activities. Such activity and limits are covered under the "Approval for Business Transactions" policy. Individuals and their corresponding functions and limits are listed in the Corporate Treasury "Delegation of Authority" ("DOA"). Exceptions may be granted with written approvals by individuals authorized to the required transaction levels consistent with the DOA. Both documents are managed within the Controller's group. No Duke Energy employee shall knowingly personally benefit from any Corporate Treasury transaction. All Corporate Treasury activity will conform to the "Approval of Business Transactions" policy and the Corporate Treasury "Delegation of Authority."
- External Counterparts: External counterpart determination will be made within the Duke Energy Finance organization in coordination with Corporate Treasury and Corporate Risk Management. Credit risk guidelines will be the responsibility of Corporate Risk Management.
- Transactional Controls: Transactional control procedures will comply with documented control procedures.
- Accounting Standards: Accounting treatment for all transactions will be in accordance with GAAP and will be determined, if applicable, in coordination with the Corporate Accounting Research Group in accordance with the "Accounting for Risk Management and Hedging Activities Policy" and "Accounting for Intercompany Transactions Policy", on the portal and managed within the Controller's group.
- Terms, Definitions and Approved Products and Instruments: Financial terms shall have meanings consistent with definitions found in *Barron's Dictionary of Finance and Investment Terms*. A list of approved finance and hedging products and instruments is available from Corporate Treasury. Use of other products or instruments must be approved by the Treasurer and Chief Financial Officer.

Intercompany Funding Policy

Applicability: Applies to Enterprise
Originator: Corporate Treasury - Cash Management
Approval: Corporate Chief Financial Officer

Effective Date: 04/01/2006
Revision Date: 04/01/2006
Reissue Date: 04/01/2006

Statement of Purpose and Philosophy

The scope of this policy covers Intercompany Funding activities managed by Duke Energy's Corporate Treasury. The purpose of this document is to provide parameters around the activities that encompass cash consolidation.

Corporate Treasury has the responsibility to ensure that in accordance with the "Corporate Cash Management Policy", cash assets are, i) properly safe-guarded, ii) managed to maximize value within approved investment parameters, iii) available to Corporate Treasury on a timely basis to fund general corporate needs, iv) not left idle and under utilized, and v) not unnecessarily exposed to the claims of lenders, other creditors, or unacceptable short-term cash investment risks.

Corporate Treasury is also responsible and accountable for funding all expenditures that have been appropriately approved in accordance with the "Approval of Business Transactions Policy". This funding will often require the movement of cash between business entities in the form of Intercompany Cash Advances, Intercompany Loans, Equity Distributions and/or Intercompany Equity Investments.

Policy Expectations

Cash Consolidation Expectations

This policy applies to Duke Energy and its consolidated or controlled subsidiaries and affiliates.

All Corporate Departments and Business Units are expected to comply with this policy.

This policy is not meant to cover intercompany accounts payable and receivable occurring from the purchase and sale of intercompany products or services, or non-cash accounting entries resulting from cross-billing for products and services paid on behalf of another Business Unit.

This policy does not supplant compliance with any legal requirements related to corporate authorizations, corporate filings, registration statements, or other required regulatory actions.

Depending on the entities involved, board resolutions and/or other approval processes may be necessary in order to comply with applicable governance and legal requirements.

In cases of joint ventures or minority owned projects where Duke Energy is represented on the board or other management committee, the Duke Energy ownership percentage of the joint venture or project must be voted in accordance with the direction of the attached Corporate Treasury "Delegation of Authority".

All Intercompany Funding Transactions covered under these guidelines should be accounted for and periodically reviewed in accordance with the "Accounting for Intercompany Transactions Policy".

General Description

All cash not necessary for day-to-day operations of the business units will be distributed, except:

- Approved cash reserves for near-term expenses and changes in working capital.
- Approved cash reserves to fund near-term capital expenditures (in general less than 3 months).
- Restricted reserve account balances (e.g., project finance reserve accounts).
- Cash reserves to meet Rating Agency requirements.
- Cash reserves to meet regulatory requirements.

Consideration will be given to the associated tax, accounting, legal, and regulatory implications of any cash distribution or cash contribution.

Accountability: Roles and Responsibilities

Corporate or Business Unit

- All Corporate and Business Unit personnel of the Enterprise shall ensure compliance with these guidelines.
- All Intercompany Funding Transactions must be approved in accordance with the Corporate Treasury "Delegation of Authority".
- Originator of the transaction must coordinate with Tax, Treasury, Accounting and Legal to determine the nature of funding (dividend or Return of capital or cash advance or Intercompany loan).
- Each Business Unit Chief Financial Officer, or his or her designee, will be responsible for tracking, servicing and accounting for their respective Intercompany Funding Transactions.
- Notice of all Intercompany Funding Transactions, along with copies of any supporting documentation, should be provided upon closing to the associated Business Unit Controller's group and accounted for as appropriate for the type of transaction.
- All Intercompany Funding Transactions should be accounted for and periodically reviewed in accordance with the "Accounting for Intercompany Transactions Policy".

Corporate Cash Management

- Corporate Cash Management will ensure the wire requests comply with the "Wire Transfer Policy".
- Corporate Cash Management will, at its discretion determine the appropriate Funding Node for each Business Unit, and with regard to regular and routine transactions, will keep a chart of designated Funding Paths.
- Corporate Cash Management, jointly with other Treasury groups, Tax, Legal and Business Unit, will determine the nature of funding (dividend or return of capital or cash advance, equity contribution or Intercompany loan).

- Corporate Cash Management will coordinate with BU or Corporate Departments requiring approvals by Treasurer or CFO. Cash Management will coordinate with the Portfolio Management and Corporate Finance groups in determining Treasury issues and/or resolutions.
- Corporate Cash Management will provide appropriate financial terms and conditions for all Intercompany Loans based upon consultation with the Business Unit CFO's as well as other Treasury group, and giving consideration to relevant legal, regulatory, tax and other business reasons
- Corporate Cash Management will monitor and report on all intercompany loans funded. Intercompany loans should be reviewed with Corporate Controller on periodic basis.
- Corporate Cash Management has unlimited authorization to transact any Domestic Intercompany Cash Advance as needed. International Cash Advances require the additional approval of Corporate Tax. All Intercompany Cash Advances initiated by other Corporate Departments or Business Units must be approved by Corporate Cash Management.

Corporate Tax

- Corporate Tax, jointly with Treasury, Legal and Business Unit, will determine the nature of funding (dividend or return of capital or cash advance, equity contribution or Intercompany loan).
- Corporate Cash Management has unlimited authorization to transact any Domestic Intercompany Cash Advance as needed. International Cash Advances require the additional approval of Corporate Tax. All Intercompany Cash Advances initiated by other Corporate Departments or Business Units must be approved by Corporate Cash Management.

Legal

- Corporate Legal will provide standard loan templates for all Intercompany Loans. The use of documents other than the standard templates must be approved by Corporate Legal and Corporate Cash Management.
- Legal will ensure proper approvals and resolutions are executed for equity contribution or distributions or intercompany loans.

Requirements

The approvals per these guidelines are in addition to any legal requirements related to corporate authorizations, corporate filings, registration statements, or other required regulatory actions.

Intercompany Cash Advances

- All Intercompany Cash Advance transactions will be evidenced in the respective Business Unit's daily bank account report, and should be accounted for by the net lender and net borrower in their respective Intercompany Advance accounts.
- Corporate Cash Management has unlimited authorization to transact any Domestic Intercompany Cash Advance as needed. International Cash Advances require the additional approval of Corporate Tax. All Intercompany Cash Advances initiated by other Corporate Departments or Business Units must be approved by Corporate Cash Management.

Intercompany Loans

- All intercompany loans must be approved in accordance with the Corporate Treasury "Delegation of Authority" as well as in coordination with Corporate Tax.
- Where required for legal, regulatory, tax or other business reasons, certain Intercompany Funding Transactions will be funded using a formal Intercompany Loan.

- The standard templates must be used. Any changes should be approved by Corporate Legal and Corporate Cash Management. For international or cross-border Intercompany Loans, special consideration should be given to the accounting designation of such loans and any associated foreign currency impacts. Any foreign currency hedging will be in accordance with the Corporate Finance and Portfolio Management Policy and Guidelines with appropriate advance notice to international tax.
- Notice of all Intercompany Loans, and copies of any supporting documentation, should be provided upon closing to the associated Business Unit Controller's group. Interest expense and accruals for Intercompany Loans should be accounted for by the respective Controller's group.
- A "Money Pool Agreement" is a specific kind of intercompany revolving loan.
- Transactions within the loans established under this policy are considered previously approved.

Intercompany Equity Investments or Distributions

- All Intercompany Equity Investments or distributions must be approved in accordance with the Corporate Treasury "Delegation of Authority". This approval is in addition to any legal requirements related to corporate authorizations, corporate filings, registration statements, or other required regulatory actions.
- Business Unit CFO and Controllers must be informed of any equity distributions from their Business Unit(s).
- Each Business Unit Chief Financial Officer, or his or her designee, will be responsible for tracking, monitoring, servicing and accounting for Intercompany Equity Investments and Equity Distributions at entities within their management control; including any up stream roll-up and reconciliation.

Conflict Resolution

- In the unlikely event that consensus cannot be gained among the relevant internal constituencies (i.e., Legal, Tax, Regulatory, Treasury, Business Unit), the Corporate CFO will have final authority in resolving any conflicts with regard to the appropriate type of Intercompany Funding Transactions to use in certain situations.

Standards: The following section contains information that applies to all Corporate Treasury policies and guidelines

- Corporate Treasury: Corporate Treasury refers to and includes the functions of Cash Management, Corporate Finance, Portfolio Management, Long-Term Investments and Financial Planning and Analysis and is a centralized corporate center servicing and operating on behalf of Duke Energy and its consolidated or controlled subsidiaries and affiliates. All Corporate Departments and Business Units are expected to comply with the contents of this manual. Changes to policies must be approved in accordance with Duke Energy policy. Changes to guidelines will be made within functions and must be approved by the Corporate Treasurer.
- Delegation of Authority: Only authorized individuals may enter into Corporate Treasury activities. Such activity and limits are covered under the "Approval for Business Transactions" policy. Individuals and their corresponding functions and limits are listed in the Corporate Treasury "Delegation of Authority" ("DOA"). Exceptions may be granted with written approvals by individuals authorized to the required transaction levels consistent with the DOA. Both documents are managed within the Controller's group. No Duke Energy employee shall knowingly personally benefit from any Corporate Treasury transaction. All Corporate Treasury activity will conform to the "Approval of Business Transactions" policy and the Corporate Treasury "Delegation of Authority."
- External Counterparts: External counterpart determination will be made within the Duke Energy Finance organization in coordination with Corporate Treasury and Corporate Risk Management. Credit risk guidelines will be the responsibility of Corporate Risk Management.

- Transactional Controls: Transactional control procedures will comply with documented control procedures.
- Accounting Standards: Accounting treatment for all transactions will be in accordance with GAAP and will be determined, if applicable, in coordination with the Corporate Accounting Research Group in accordance with the "Accounting for Risk Management and Hedging Activities Policy" and "Accounting for Intercompany Transactions", on the portal and managed within the Controller's group.
- Terms, Definitions and Approved Products and Instruments: Financial terms shall have meanings consistent with definitions found in *Barron's Dictionary of Finance and Investment Terms*. A list of approved finance and hedging products and instruments is available from Corporate Treasury. Use of other products or instruments must be approved by the Treasurer and Chief Financial Officer.

Key Terms

Corporate Treasurer: the Treasurer for Duke Energy Corporation

Equity Distributions: cash distributions such as dividends, return of capital, capital reductions, etc., by an entity to its parent companies, or shareholders - excludes repayment of loan principal, or repayment of cash advances

Funding Node: designated Business Unit(s) used by Corporate Treasury to consolidate cash resources and provide cash resources to other Business Units as needed for appropriately authorized and approved business transactions

Funding Path: path designated by Corporate Cash Management between a Funding Node and a Business Unit for funding routine Intercompany Cash Advances

Intercompany Cash Advances: a non-interest bearing cash loan, as evidenced only in the daily bank reports of two Business Units, and accounted for on a net basis in the general ledgers of the Business Units

Intercompany Equity Investments: includes any kind of equity like investment such as equity infusions/contributions, paid in capital, additional paid in capital, share capital, and common and preferred stock/share purchases

Intercompany Funding Transaction: an intercompany transaction where cash is sent from one Business Unit to another in order to 1) provide funds for appropriately approved and authorized cash expenditures or 2) consolidate cash at a particular designated Funding Node at the discretion of Corporate Cash Management

Intercompany Loans: a formal, documented cash loan between two Business Units

Wire Transfer Policy

Applicability:	Applies to Enterprise
Originator:	Corporate Treasurer
Approval:	Corporate Controller
Effective Date:	08/31/2000
Revision Date:	01/01/2007
Reissue Date:	01/01/2007

Statement of Purpose and Philosophy

The intent of this Policy is to adequately safeguard cash and process wire transfers for authorized amounts. This policy also applies to ACH Payment Requisitions to be processed by the Corporate Treasurer's Department - Corporate Cash Management (CCM).

Roles and Responsibilities

Corporate Cash Management

- Maintain department procedures to address the following:
  - Segregation of duties.
  - Data security.
  - Signature verification on all requests (an email with attached payment instructions directly from an authorized individual is considered a valid signature). Since two approved signers are required, the first and second approver's emails must be received separately by CCM. The second approver cannot simply forward the first approver's email due to editing capabilities within the email system.
  - Input and verification/release of all wires by separate individuals.
  - Balancing and transaction verification of Treasury generated payments on a daily basis.
  - Review and approval of International wire transfer procedures as submitted by business units.
  - Treasury automated wires (e.g., funding wires, investment wires, etc.) which are generated through CCM's TMAN system, require two authorized Treasury employees to execute wire transfers. Such Treasury automated wires use pre-established wire templates that require two TMAN authorized individuals to establish or edit.
  - All wires and ACHs (including those not initiated by Treasury such as the Midwest Operations' wires mentioned below) require two authorized Treasury employees to execute them within TMAN.

Business/Corporate Units

- Domestic
  - Units must process all wire transfers through CCM.
  - Units must provide CCM with a Wire Transfer Authorization List of individuals authorized (i.e., the authorized users) to approve outgoing wire transfers and foreign currency payments for their business/corporate unit. The list must be approved by either the President and Chief Executive Officer (CEO) or Direct Reports of the CEO. The business/corporate unit is responsible for maintaining this list and providing CCM with a minimum quarterly update, more frequently if major changes in the organization occur. The list format will be established by CCM and

will include the name and title for approved individuals. The Wire Transfer Authorization Specimen Signature forms will contain the sample signatures. CCM will use these forms to verify wire approval signatures.
- The President and Chief Executive Officer (CEO), Direct Reports of the CEO, and officers who are in the Chief Financial Officer's Group are authorized to sign wires and ACHs for any business/corporate area.
- Authorized individuals in certain corporate groups (i.e., CCM, Tax, Payroll, etc.) may approve wire transfer requests and ACHs for any business/corporate unit of payments related to their functional responsibility.
- All manual wire transfer requests and ACHs require signatures from two (2) authorized individuals.
- Units must provide CCM with a properly authorized Wire Transfer or ACH Payment Requisition in accordance with format and timing established by CCM. The approval is to be performed by the appropriate authorized individuals whose signatures indicate they have reviewed the supporting documentation and the payment is authorized. The person(s) signing the wire transfer or ACH should be authorized to approve the transaction or should verify by their signature that the underlying transaction has been appropriately approved in accordance with the Approval of Business Transactions and the Delegation of Authority Policies.
- Individuals, who are authorized to sign wire transfers and their dollar limits, should be documented on the Unit's Delegation of Authority Form(s). The business/corporate unit is responsible for verifying the transaction per their Delegation of Authority before it is sent to CCM.

- <u>International</u>
  - International offices must present their wire transfer procedures to CCM to obtain authorization to execute their own wire transfer. Refer to the CCM section of this document for expectations related to required procedures.
  - International offices executing their own wire transfers must maintain lists which have been approved by the appropriate officer (either the President and Chief Executive Officer (CEO) or Direct Reports of the CEO) of individuals authorized to:
    - Approve wire transfers and
    - Execute wire transfers.
  - The person(s) signing the wire transfer should be authorized to approve the transaction or should verify the underlying transaction has been appropriately approved in accordance with the Approval of Business Transactions and the Delegation of Authority Policies.
  - Individuals, who are authorized to sign wire transfers and their dollar limits, should be documented on the Business Unit's Delegation of Authority Form(s).
- <u>Midwest Operations' Entities</u>
  - Wires and ACH payments are routed through the Midwest Accounts Payable Department where authenticity verification is performed, including validation of accounting code and DOA of authorized signers. The wires and certain ACH payments are then sent to the Corporate Treasurer's Department – Corporate Cash Management (CCM) for processing. Processing of these Midwest Operations' wires requires two Treasury employees to execute these wires within TMAN.
- <u>Duke Energy Carolinas' Wires from Accounts Payable Systems that Create Electronic Payment Files</u>
  - For wire payment files created via an accounts payable system, one signature (or electronic approval) of an individual authorized to approve the processing of the electronic payment file is required. Such approval should be on a printout of the wire payment log or through an email from accounts payable management (who are also individuals authorized to approve wire transfers in accordance with this policy) which references the date, the number of payments and the total dollar value of the payments. This approval confirms the electronic payment file consists of payments approved in accordance with the system's proper Delegation of Authority.
  - An approved list of individuals authorized to approve electronic payment files must be provided to CCM. The approver of the wire payment file must be an individual authorized to approve electronic payment files and different from the person who approved the payment(s) in the accounts payable system.

- The Delegation of Authority within the accounts payable system must be consistent with the Business Unit's approved Delegation of Authority Form(s) for applicable transaction categories.

DUKE ENERGY
DUKE ENERGY OHIO
SUMMARY OF MANAGEMENT POLICIES, PRACTICES AND ORGANIZATION
CORPORATE FINANCIAL CONTROLS ORGANIZATION
SFR Reference: Chapter II (B)(9)(b)(ii,vi)

I. Policy and Goal Setting

The Corporate Financial Controls Department is responsible for various internal controls matters within the Corporate Controller's function, including governance and oversight activities related to execution of Sections 302 and 404 of the Sarbanes-Oxley Act, to ensure activities associated with documenting, testing, and evaluating the effectiveness of the Company's internal controls over financial reporting are successfully performed by the organization, and to support Management's quarterly and annual assertions regarding the effectiveness of such internal controls.

II. Strategic Planning

Preparation of the Corporate closing calendar and applicable quarterly/annual due dates for specific regulatory filings are the responsibility of the Corporate Controller's Department. The Corporate Financial Controls Department adheres to these due dates as it establishes its applicable quarterly work plans relative to achievement of Sarbanes-Oxley, Section 302 quarterly compliance activities and applicable accounting policy updates.

Planning activities as they relate specifically to achievement of implementation of annual Sarbanes-Oxley, Section 404 compliance requirements are the direct responsibility of the GM, Financial Controls. Detailed work plans are developed and approved on an annual basis and communicated to affected business areas. Critical due dates are established and closely monitored; periodic status reports are produced and provided to both executive management and the Audit Committee of the Board of Directors.

The Corporate Financial Controls Department provides specific data components for preparation of the Corporate Controller's annual budget. The overall budgeting/planning effort is coordinated and facilitated by Financial Close & Consolidate, reporting directly to the Corporate Controller. The annual plan for the entire Corporate Controller's Department is developed, reviewed and ultimately approved by the Corporate Chief Financial Officer.

III. Organizational Structure

The Corporate Financial Controls Department is under the direction of the General Manager, Financial Controls, who reports to the Senior Vice President & Controller. In addition to a staff of Company personnel, external consulting firms are utilized, as deemed necessary, to providing supplemental consulting expertise. This support varies from year to year depending on specific corporate business needs. Business process owners, for each applicable affected business area (e.g., Human Resources, Business Units, etc.), are also actively engaged in the various compliance activities, as it relates to both Section 302 and Section 404 efforts.

The Organization chart of the Corporate Financial Controls Department is attached as Exhibit CFC-1.

IV. Responsibilities

Primary responsibilities of the Corporate Financial Controls Departments include:

Internal Controls

Primary responsibilities for Internal Controls include providing general oversight, guidance and monitoring to ensure that quarterly activities associated with the Section 302/404 internal representation letter process are executed by the applicable business process areas and maintaining the Corporate Financial/Accounting policies and procedures. Specific duties of Internal Controls include:

- Maintaining Corporate Financial/Accounting policies and procedures;
- Coordinating Section 302/404 internal representation letter process;
- Training interface for internal controls; and
- Maintaining delegation of authority (approval of business transactions).

Section 404 Program Management Office

Primary responsibilities for the Program Management Office (PMO) include providing general oversight, guidance and monitoring to ensure that activities associated with documenting, testing, and evaluating the effectiveness of the Company's internal controls over financial reporting are executed by the applicable business process areas responsible for such controls, to support Management's assertion regarding the effectiveness of such internal controls. Program management activities include establishing and monitoring project plans and timelines; communicating project status to key stakeholders; tracking and monitoring remediation activities; and providing training and guidance to business process owners, as necessary. Specific duties of the PMO include:

- Training applicable business process owners on Section 404 related requirements and responsibilities;
- Developing and monitoring detailed project plans and timelines;
- Performing periodic risk assessments of the financial statements and footnotes to determine scope of Section 404 activities;
- Developing consistent standards for documentation and testing;
- Identifying, for each transaction cycle, the control objectives and risks and developing control activity guidance for the business process owners;
- Reviewing business process owner's identification and documentation of control activities and assessment of control design;
- Developing testing criteria and templates for use by business process owners for their effectiveness testing;
- Reviewing, as necessary, business process owner effectiveness testing and associated documentation;
- Coordinating the documentation of the Company's entity level controls and development of entity level test templates to facilitate business process owners "self assessment;"
- Coordinating re-testing of business process owner's transaction level testing and the independent testing of transaction level control activities;
- Maintaining remediation database and monitoring remediation activities and status;
- Providing counsel and direction to business process owners in the completion of transaction level remediation activities, as necessary;
- Participating with business process owners responsible for the implementation of new company's initiatives to ensure the appropriate internal controls over financial reporting are being designed, implemented, and are working effectively;
- Monitoring the activities of the Securities and Exchange Commission and the Public Company Accounting Oversight Board in order to ensure Section 404 activities are in accordance with applicable authoritative guidance;
- Coordinating the Management Section 404 assertion process;
- Interfacing with the Company's external auditors regarding their attestation work; and
- Communicating project status and other related information (e.g., remediation activities status) to key stakeholders.

V. Practices and Procedures

As stated earlier, the Corporate Financial Controls Department adheres to corporate practices and procedures as it relates to overall compliance with applicable due dates for both Section 302 and Section 404 regulatory requirements. The Corporate Financial Controls Department develops and directly manages to an overall program work plan; day-to-day work activities are closely monitored to ensure the timely completion of all Section 302/404 related requirements. Various weekly/monthly/quarterly meetings are held with specific process owners, executive management and the Audit Committee of the Board of Directors to discuss current work activities, program status and any applicable issues. In addition, periodic status reports are prepared by applicable staff members to ensure all activities are being addressed appropriately. The Corporate Financial Controls Department monitors activities of the Securities and Exchange Commission and the Public Company Accounting Oversight Board as it relates to the issuance of authoritative guidance associated with Section 302/404, to ensure Company compliance.

VI. Decision Making and Control

The GM, Financial Controls has responsibility for the general oversight, governance and monitoring of Section 302/404 activities, reporting directly to the Corporate Controller. Various sub-committees are utilized to report and discuss program status and related issues, and include members of the Corporate Controller's direct reports, business unit management and the Corporate Financial Disclosure Committee, made up of key executive financial officers and financial management In addition, ad hoc meetings of applicable business process owners occur, as necessary, to address areas of specific or immediate concern. At the transaction level, applicable business process areas have established compliance positions responsible for execution of Section 302/404 activities, and providing business process owners necessary guidance and assistance in order for them to provide their annual assertions as to the effectiveness of internal controls over financial reporting related specifically to their affected business areas. The Corporate Controller is ultimately responsible for reporting progress as to Section 302/404 implementation efforts to the Audit Committee of the Board of Directors. Periodic presentations on program status are included on the Audit Committee agenda, as deemed necessary. In addition the GM, Financial Controls and/or Corporate Controller is (are) responsible for reporting progress on a periodic basis to executive management, including the Chief Financial Officer and the Chairman, President, and Chief Executive Officer.

VII. Internal and External Communication

The Corporate Financial Controls Department, in the performance of its duties and responsibilities, interfaces frequently with personnel from outside and within the Company. These interfaces are accomplished by written communications (e.g., e-mails, reports, memorandum, etc.), telephone conversations, and personal meetings.

External interfaces include the Company's external auditors and other utility companies. Periodic meetings are held between the Corporate Financial Controls Department and the Company's external auditors to discuss the status of the external auditor's attestation activities, including any potential issues or areas of concern.

Internally, there are frequent interfaces with business process owners and other key stakeholders.

The Corporate Financial Controls Department holds routine staff meetings. The purpose of these meetings is to communicate current work activities, status, and timelines and to provide a forum to discuss problems, concerns, and suggestions.

Quarterly meetings are held with the Corporate Disclosure Committee, of which the Corporate Controller serves as Chairperson. The purpose of the Corporate Disclosure Committee is to assist the Company's Chief Executive Officer and Chief Financial Officer in fulfilling their responsibilities for oversight of the accuracy and timeliness of disclosures made by the Company. The Corporate Disclosure Committee is responsible for considering the materiality of information and assisting in determining disclosure obligations pursuant to applicable securities laws and regulations and stock exchange requirements.

Periodic program status update meetings are held with executive management and the Audit Committee of the Board of Directors. Attendees of these meetings include the Corporate Controller, General Manager, Financial Controls (as necessary) and the Company's internal and/or external audit engagement partners.

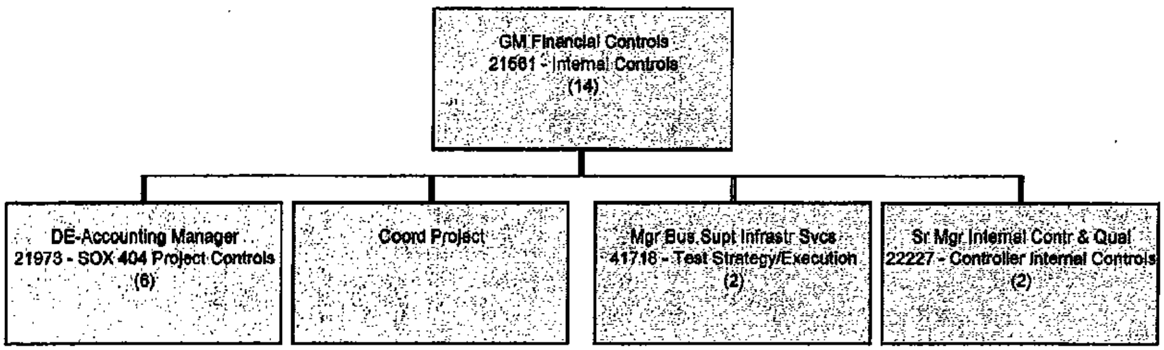
VIII. Goal Attainment and Qualification

The achievement of the Company's financial compliance efforts are measured by the successful and timely execution of the department's established work plans, goals and objectives. Executive management, applicable business unit areas and financial managers establish annual goals as it relates to compliance activities. In addition, periodic meetings are held with executive management and the Audit Committee of the Board of Directors to report overall program status.

Exhibit CFC-1

DUKE ENERGY CORPORATION MANAGEMENT STRUCTURE

General Manager Financial Controls



DUKE ENERGY
DUKE ENERGY OHIO
SUMMARY OF MANAGEMENT POLICIES, PRACTICES AND ORGANIZATION
FINANCIAL OPERATIONS OF THE COMMERCIAL BUSINESS UNIT
SFR Reference: Chapter II(B)(9)(b)(i,ii,iii,iv)

I. Policy and Goal Setting

The Financial Operations department of the Commercial Business Unit (CBU) develops policy and practice guidelines as required in order to uniformly administer corporate and business unit directives and policies set by executive management. These policies are generally developed within the department, taking into account specific work conditions, schedules, departmental specific practices, industry standards, and processes developed through past experience and best practices. CBU Financial Operations supports the established departmental practices and policies and corporate policies through department directives, practices and procedures.

Each year the Vice President Non-Regulated Accounting acts as the Business Unit Controller of CBU (CBU Controller) and develops departmental objectives that are approved by the Duke Energy Senior VP & Controller that are used to align and measure departmental performance with the objectives of the Corporate Controller's department as well as the business plan of the Commercial Business Unit. The Financial Operations departmental objectives generally consist of high-level targets set for timing and usefulness of reports, accuracy, compliance with required policies and regulations and initiatives that are supportive of the corporate goals and business plan. These high-level objectives are translated into more specific processes and procedures for each functional group in the Financial Operations department to support the overall department in achieving its desired objectives. The focus is on fixed, known and measurable indicators of performance to avoid subjective evaluation of results.

II. Strategic Planning

The Strategic Planning and Forecasting function is facilitated by the CBU Planning & Forecasting group (P&F) that reports to the Duke Energy Senior VP & Treasurer. P&F department facilitates the development of the three-year Commercial Business Unit Business Plan. Corporate financial, environmental, and operational goals are considered, along with applicable growth targets. This department serves more as governance, control and facilitation function rather than a contributor to the planning process.

The formal annual budget cycle, which consists of preparing a complete three-year financial and operational plan is performed each year in early fall and usually finalized in October. The three-year plan is updated each month with more recent operations and market assumptions to provide improved financial and operational targets on a quarterly and annual basis to executive management and investor relations for performance monitoring and measurement. Operation of the department itself, execution of the business plan, staff development and performance against department objectives are a function of planning at the manager level.

III. Organizational Structure

The CBU Financial Operations department is part of a centralized Duke Energy corporate finance department led by the Duke Energy Group Executive and Chief Financial Officer (CFO). The CBU Financial Operations function is split between Accounting & Reporting and Planning & Forecasting. The CBU Accounting and Reporting function is led by the CBU Controller who reports to the Duke Energy Senior VP & Controller. The CBU Planning and Forecasting function is led by the General Manager, Financial Planning and Analysis DEA (CBU B&F General Manager) reporting to the Duke Energy Senior VP & Treasurer. The Duke Energy Senior VP & Controller and the Duke Energy Senior VP & Treasurer both report directly to the Duke Energy CFO.

CBU Accounting and Reporting
CBU Accounting and Reporting is organized into the following functional departments: Power and Gas Accounting/Settlements, Coal and Emission Allowance Accounting/Settlements, Financial Reporting and Risk Analysis and Reporting. Each group consists of various levels of accountants and/or analysts that report to a manager.

The Commodity Accounting and Settlement groups (Power, Gas, Coal and Emission Allowances) are responsible for billing, confirmations, cost allocations and trade settlements. These groups also record all associated accounting entries to the general ledger and prepare detailed reports for FERC reporting on a monthly, quarterly and annual basis.

The Financial Reporting and Risk Analysis and Reporting groups prepare and analyze the monthly, quarterly and annual financial executive management reports for the CBU businesses. Actual results versus budget is compared and variances are explained on a monthly basis. These performance results are reported to CBU President and direct reports as well as to the corporate Senior VP & Controller on a monthly basis. The actual versus budget reporting includes analysis of revenues, cost of goods sold, plant operation and maintenance expense and administrative and general expenses.

CBU Planning and Forecasting
CBU Planning and Forecasting consists of financial analysts and managers that compile the annual 3-year budget and the monthly projections for the CBU. Revenue, Cost of Goods Sold, direct expenses and capital expenditures are consolidated and in some cases developed by this group for ultimate consolidation within the corporate budgeting and planning process. This group reports to the CBU B&F General Manager who reports to Duke Energy Senior VP & Treasurer.

The organizational chart of the CBU financial operations is attached as CBUFO-1.

IV. Responsibilities

The Financial Operations group is a corporate shared-service organization providing high quality analysis, finance, accounting and reporting services to the Commercial Business Unit, which consists entirely of non-regulated business activities of Duke Energy Ohio. These services are required to be in accordance with applicable codes, laws, regulations and industry standards, as well as to maximize the clarity and visibility of financial results and performance within the CBU.

A listing of the responsibilities follows:

- Perform confirmation, accounting and settlement function for non-regulated power, natural gas, coal and emission allowance transactions;
- Provide financial information supporting rates included in Duke Energy Ohio's Rate Stabilization Plan (RSP) as it pertains to fuel, purchased power, emission allowances, Midwest ISO administrative costs, environmental costs, etc.;
- Prepare monthly actual to budget results variance analysis with operational drivers for CBU Management and Duke Energy VP & Controller
- Track operational performance for incentive plan purposes;
- Prepare CBU Financial Three-Year Plan on annual basis;
- Develop CBU projection targets (monthly updates to annual 3-year plan);
- Support key corporate finance initiatives;
- Support quarterly earnings release analytics;
- Prepare supporting schedules for the quarterly 10-Q/10-K;
- Draft and/or review MD&A for CBU to be included in 10-Q/10-K;
- Monitor payment processes;
- Provide Exception reporting;
- Perform Regulatory Reporting;
- Analyze PowerXL data for Accounting plus fill data requests as received;

- Validate curves are complete and audited, trade and multiplier data; complete, start End of Day (EOD) processing;
- Validate legal entity assignment of load and revenue; verify proper; assignment of transactions;
- Perform end of month closing activities;
- Summarizing journal entries for prior period adjustments;
- Validate expense assignment by the PACE Model, which is used for Fuel and Purchased Power calculation;
- Provide accurate and reliable information to Rates and Accounting;
- Maintain functionality and data integrity of PowerXL;
- Assist in development of new PowerXL functionality;
- Support Commercial Asset Management (CAM) Organization in the use and administration of PowerXL;
- Publish daily Profit and Loss Statement for CAM;
- Support Generation valuation in PowerXL;
- Administer End-of-Day control processes;
- System administrators of PowerXL;
- Verify deal valuation results are consistent with deal inputs;
- Develop specifications and test new functionality prior to implementation;
- Answer system questions and assist in issue correction or training; and

V. Practices and Procedures

The policies and procedures for Duke Energy that are being followed by the CBU are located on an internal company intranet web site. These policies provide guidance and consistency across Duke Energy and updates are posted to the website to ensure the latest version of the policies are available to employees at all times. Both management and employees can access the sit from any personal computer with their employee login information. Each functional group within CBU Financial Operations maintains their own specific policies and procedures as either desk procedures, checklists and the like.

VI. Decision Making and Control

With few exceptions, personnel at all levels are provided general supervision and granted latitude to make daily decisions, plan activities, coordinate schedules and travel as required to perform their core functions. Managers review employee activities regularly, but not continuously, to monitor compliance with company policies and standards of conduct. If anomalies are discovered or decision-making seems inappropriate, a higher degree of control and monitoring is initiated and documented. Training and counseling can be provided in an attempt to improve performance. General Managers review Manager activities on a frequency appropriate for the experience level of the employee. All employees are expected to comply with company policies and formally document completion of required training programs and certifications.

Control of individual purchasing activities and access to cash reimbursements are strictly controlled by each level of management in accordance with the Duke Energy Delegation of Authority (DOA). DOA approval limits are captured in the various purchasing, transaction and settlement systems and electronically verified to ensure that proper authorization is received prior to contracts are executed or payments disbursed. The Duke Energy VP & Controller administers the formal DOA process.

Standards for individual reports and document preparation are governed by specific accounting rules, legal requirements or regulatory agreements as appropriate for each. Internal reporting is flexible to enable rapid performance-based decision-making and is thus more ad-hoc. As changes are made, file copies of the documents are retained indicating changes, authorizations and timing.

VII. Internal and External Communication

Informal verbal communication may be conducted between individuals directly or by telephone. Telephone calls are normally conducted on an informal basis and are not generally documented.

Formal verbal communications are used in special circumstances involving direct orders, instructions or reports. Formal verbal communication is used in certain disciplinary actions and is usually confirmed by documents.

Verbal communications include the conduct of meetings and conference calls. In general, meetings are held each month to communicate internally within and between the work groups, to receive updates, review department performance, strategy, progress towards goals, evaluate methods and discuss changes required to achieve goals.

- Monthly Staff Meetings - Each department generally conducts staff meetings at least on a monthly basis to review account reconciliations, exchange information relative to the department function and to pass on information gained from the next level of management. These meetings are typically not documented with meeting minutes. Conference calls are also used for this purpose; and
- Monthly Corporate Controller Staff meeting - The purpose of this meeting between the Corporate Controller and Staff is to review various activities of each group, and selected topics relevant to Company, Business Unit and department performance.

Electronic Mail is used extensively, along with internal company departmental shared network drives and/or web sites to exchange both formal and informal communication. It is also used as a method of transmitting reports providing access to the latest up-to date policies and procedures utilized by the CBU. Most procedures that require the use of specific forms and documents are designed such that the forms are submitted and filed electronically.

Financial Operations groups communicate with other internal service entities regularly to exchange information in the normal course of business. A partial listing includes Treasury, Tax, Fixed Asset Accounting, Rates, Generation Operations, Retail Revenue Accounting, Commercial Asset Management, Payroll, General Accounting, Human Resources, Information Technology, Investor Relations, and Legal.

External communications are not part of normal operations, and would be handled through Investor Relations. An exception to this would be found in the trade settlement and verification area, where daily communication with our wholesale counter-parties is required via phone, facsimile and e-mail.

VIII. Goal Attainment and Qualification

Meeting or exceeding the annually established goals is the measure of accomplishment of the Organization. Performance indicators are measures of goal performance. Examples of performance indicators that relate to specific goal performance are listed below:

- Achieving monthly close timelines and accuracy;
- Meeting monthly reporting deadlines to External Reporting team for monthly and quarterly results schedules and account roll forwards;
- Manage budget/resource utilization;
- Accuracy and timeliness of daily P&L reporting;
- Accuracy and timeliness of PTA Performance, Generation , Fuels and Accounting reporting; and
- EOD process completes successfully;

Employees receive annual performance reviews to measure and report progress towards individual goals in support of the department and corporate goals.