

# Large Filing Separator Sheet

Case Number: 08-709-EL-AIR  
08-710-EL-ATA  
08-711-EL-AAM

Date Filed: 7/25/2008

Section: 1 of 3

Number of Pages: 200

Description of Document: Application  
Volume 7  
Supplemental Information  
(C) (1) through (C) (4)

**BEFORE THE  
PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of	)	
Duke Energy Ohio, Inc.	)	Case No. 08-709-EL-AIR
For an Increase in Electric Rates	)	
	)	
In the Matter of the Application of	)	
Duke Energy Ohio, Inc.	)	Case No. 08-710-EL-ATA
For Tariff Approval	)	
	)	
In the Matter of the Application of	)	
Duke Energy Ohio, Inc. for Approval	)	Case No. 08-711-EL-AAM
To Change Accounting Methods	)	

PUCO

2008 JUL 25 AM 10:09

RECEIVED-BOOKING DIV

---

VOLUME 7

SUPPLEMENTAL INFORMATION  
(C)(1) THROUGH (C)(4)

---

July 25, 2008

234750

This is to certify that the images appearing are an  
accurate and complete reproduction of a case file  
document delivered in the regular course of business.  
Technician TM Date Processed 7/25/2008

**DUKE ENERGY OHIO, INC.**

**SUPPLEMENTAL INFORMATION**

**CASE NO. 08-709-EL-AIR**

Supplemental	(C)(1)	Most Recent FERC Audit Report
Supplemental	(C)(2)	Current Annual Statistical Report
Supplemental	(C)(3)	Prospectus-Most Recent Offering Common Stock/Bonds
Supplemental	(C)(4)	FERC Form 2
Supplemental	(C)(5)	Annual Report to Shareholders (5 Years)
Supplemental	(C)(6)	Most Recent SEC Form 10-K, 10-Q, & 8-K and Subsequent
Supplemental	(C)(7)	Work Papers - To be Filed Hard Copy and Computer Disks
Supplemental	(C)(8)	Sch C-2.1 Worksheet with Monthly Test Year and Totals
Supplemental	(C)(9)	CWIP in Prior Case
Supplemental	(C)(10)	Latest Certificate of Valuation from Dept. of Taxation
Supplemental	(C)(11)	Monthly Sales by Rate Sch Consistent with Sch C-2.1
Supplemental	(C)(12)	Written Summary Explain Forecast Method for Test Year
Supplemental	(C)(13)	System Maps for Service Territory
Supplemental	(C)(14)	Explanation of Computation of Material & Supplies
Supplemental	(C)(15)	Depr Expenses Related to Specific Plant Accounts
Supplemental	(C)(16)	Federal Income Tax Information
Supplemental	(C)(17)	Copy of all Advertisements Charged in the Test Year
Supplemental	(C)(18)	Plant-In-Service from the Last Date Certain thru the Date Certain in this Case
Supplemental	(C)(19)	Depr Reserve Study Related to Sch. B-3
Supplemental	(C)(20)	Revised Depr Accrual Rates
Supplemental	(C)(21)	Breakdown of Depr Reserve from Last Date Certain thru the Date Certain in this Case
Supplemental	(C)(22)	Information on Projects that are 75% Complete
Supplemental	(C)(23)	Fuel Stock Information
Supplemental	(C)(24)	Surviving Dollars by Vintage Year
Supplemental	(C)(25)	Test Year & 2 most recent Calendar Years Employee Level by Month

**DUKE ENERGY OHIO, INC.**  
Case No. 08-709-EL-AIR  
Supplemental Information (C)(1)

---

The most recent federal regulatory agency's (FERC, FCC) audit report.

**Response:** See Attached.

**Sponsoring Witness:** Peggy A. Laub

FEDERAL ENERGY REGULATORY COMMISSION

WASHINGTON, D.C. 20426

In Reply Refer To:  
OCA-DE/HO  
Docket No. FA97-5-000

DEC 12 1997

Cincinnati Gas & Electric Company  
Attention: Mr. Jack P. Steffen  
Controller  
139 East Fourth Street  
Cincinnati, OH 45202

Ladies and Gentlemen:

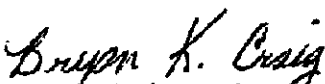
The Division of Electric and Hydropower Operations, Office of the Chief Accountant, has completed the audit of Cincinnati Gas & Electric Company for the period January 1, 1993, through December 31, 1996. We discussed our audit results with you on August 27, 1997. The enclosed audit report further explains our findings and recommendations.

We recommended that you record accounting entries and establish accounting procedures to properly record accounting transactions related to income taxes and a sale of an operating unit or system. Your December 10, 1997, letter stated that you agreed with our recommendations.

Please notify the Chief Accountant when you have completed the corrective actions. Your response should state the action taken and the completion date. If you subsequently disagree with our conclusions, you may file a request for rehearing by the Commission under 18 C.F.R. § 385.713 within 30 days of the date of this order.

I approve and direct the corrective actions recommended in the report under 18 C.F.R. § 385.713. This letter order constitute final agency action on the corrective actions approved and directed in this report. The letter order is without prejudice to the Commission's right to require any later adjustments arising from additional information that may come to our attention.

Sincerely,

  
Bryan K. Craig, Acting  
Director, Division of Electric  
and Hydropower Operations

---

# **FEDERAL ENERGY REGULATORY COMMISSION**

*Audit Period: January 1, 1993, through December 31, 1996*

## **Audit of Cincinnati Gas & Electric Company**



**OFFICE OF THE CHIEF ACCOUNTANT  
DIVISION OF ELECTRIC AND HYDROPOWER OPERATIONS**

# Table of Contents

## Findings, Recommendations, and Corrective Actions

### Taxes

1. Accounting for Income Taxes . . . . . 1

*Cincinnati Gas & Electric Company (CG&E) did not have adequate accounting procedures to properly adjust its income tax accounts to reflect the actual tax liability included on the income tax returns.*

*We recommend CG&E establish procedures to ensure that it adjusts the accruals for current and deferred tax accounts on a timely basis to reflect the actual income tax liability and record a correcting entry to reflect the 1991 through 1995 income taxes on its books.*

### Utility Plant

2. Accounting for the Sale of Utility Plant . . . . . 2

*CG&E did not have adequate accounting procedures to properly account for the sale of an operating unit or system.*

*We recommend CG&E revise procedures to ensure it records sales of operating unit and system in Account 102 and submits in the future journal entries to the Commission for approval.*

### Form 1 Reporting

3. FERC Form 1 Reporting . . . . . 4

*CG&E did not properly report certain information in its 1996 FERC Form 1 in compliance with the reporting instructions.*

*We recommend CG&E revise procedures to ensure it records the proper information in future FERC Form 1s and file revised pages of the FERC Form 1 within thirty days of receipt of this letter.*

# Findings, Recommendations, and Corrective Actions

## 1. Accounting for Income Taxes

### Synopsis

Cincinnati Gas & Electric Company (CG&E) did not have adequate accounting procedures to adjust the accruals for current and deferred income tax accounts to reflect the actual tax liability on the filed tax returns for 1991 through 1995.

This occurred because CG&E restructured its corporate operations resulting in high employee turnover and greater workloads in the Tax Department. Moreover, CG&E did not adjust its current and deferred income tax accounts because it could not readily determine how to split the taxes between gas, electric, utility, and nonutility.

As a result, it either understated (bracketed amounts) or overstated the current and deferred income tax accounts recorded during December 31, 1991, through December 31, 1995 by:

1991	\$16,283,059
1992	456,741
1993	2,890,055
1994	(2,199,869)
1995	(4,415,062)

### Recommendations

We recommend CG&E:

- (1) Establish procedures to ensure it adjusts the accruals for current and deferred income tax accounts on a timely basis to reflect the actual income tax liability.
- (2) Record a correcting entry to properly reflect the 1991 through 1995 income taxes on its books. CG&E should file a copy of the correcting entry with the Office of the Chief Accountant within 30 days upon receipt of this report.

### Pertinent Guidance

18 CFR Part 101 prescribes the Uniform System of Accounts (USofA) for public utilities and licensees subject to the provisions of the Federal Power Act. 18 CFR 101 requires utilities to record adjustments to current and deferred income tax accounts when they file their income tax return in Accounts 236, 281, 282, 283, 409.1, 409.2, 410.1, 410.2, 411.1, and 411.2.



## **Detailed Discussion**

The Company filed its Federal income tax returns for the years 1991 through 1995 in September of the following year. The estimated Federal income tax that it accrued in the current and deferred income tax accounts was more (or less) than the liability as filed in its tax return for each of the tax years 1991 through 1995, respectively.

CG&E did not adjust the current and deferred income tax accounts on its books to reflect the actual taxes paid as reported in its filed tax returns for each year. CG&E informed the audit staff that it did not complete the return-to-accrual adjustments for the years 1991 through 1995 because of corporate restructuring that led to high employee turnover and greater workload in the Tax Department.

## **2. Accounting for the Sale of an Operating Unit or System**

### **Synopsis**

CG&E did not have adequate accounting procedures to account properly for the sale of an operating unit or system.

CG&E misinterpreted the electric plant instructions and the accounting requirements for the sale of an operating unit or system by:

- Failing to use Account 102 to record the sales transaction which resulted in no impact to the balance sheet and income statement.
- Failing to file the journal entries with the FERC.

This occurred because CG&E misinterpreted Electric Plant Instruction No. 5 (EPI No. 5) and the instructions to Account 102, Electric Plant Purchased and Sold. CG&E did not use Account 102 to record the sale of the combustion turbines.

CG&E incorrect accounting did not result in any misclassifications of its balance sheet or income statements.

### **Recommendations**

We recommend CG&E:

- (1) Revise procedures to ensure it records the sale of operating units or systems in Account 102.

- (2) File journal entries for future sales of operating units or systems with the Commission for approval.

### Pertinent Guidance

Pertinent guidance is contained in 18 CFR, Part 101, which prescribes the USofA for public utilities and licensees subject to the Federal Power Act. 18 CFR 101 requires utilities to follow the requirements contained in EPI No. 5 and the instructions to Account 102 for recording the sales of operating units or systems. The instructions to Account 102 require a company to submit proposed journal entries to the FERC for approval within six months of the acquisition or sale.

### Detailed Discussion

On October 9, 1996, the Company sold two combustion turbines located at the Miami Fort Generating Station to International Trade Management. CG&E sold the two combustion turbines and related property for \$6,350,000. CG&E provided staff with the following information to support the net book value and the gain related to the sale:

	<u>Miami Fort Gas Turbine 1</u>	<u>Miami Fort Gas Turbine 2</u>
Original Cost	\$5,483,361	\$5,305,916
Accumulated Depreciation	<u>4,821,133</u>	<u>4,805,636</u>
Net Plant	\$ 662,228	\$ 500,280
Sales Price	\$2,850,000	\$3,500,000
Cost of Removal	35,000	50,000
Net Salvage	<u>\$2,815,000</u>	<u>\$3,450,000</u>
Gain on Sale	\$2,152,772	\$2,949,720

CG&E classified \$6,265,000 of net sales proceeds to Account 143 (Other Accounts Receivable), \$1,162,508 representing the net book value in Account 101 (Electric Plant in Service) and the gain of \$5,102,492 to Account 421.1 (Gain on Disposition of Property).

We reviewed the accounting for the sales transaction during the audit. Therefore, there was no need for CG&E to file the journal entries with the FERC.

### **3. Form 1 Reporting**

#### **Synopsis**

CG&E did not properly report certain information in its 1996 FERC Form 1 in compliance with the reporting instructions.

This occurred because of the improper posting of two transactions by CG&E. This resulted in the misclassification of these transactions to the wrong subaccount. CG&E corrected the error on its books, however, it filed the wrong information in the Form 1.

#### **Recommendations**

We recommend CG&E revise procedures to ensure it records the proper information in future FERC Form 1s and file revised pages of the FERC Form 1 within thirty days of receipt of this letter.

#### **Detailed Discussion**

CG&E improperly reported the following information:

- o amounts for Cost of Removal and Salvage recorded in Account 108, Accumulated Provision For Depreciation of Electric Utility Plant, on page 219 of the 1996 FERC Form 1. The reporting errors resulted in an overstatement of Cost of Removal and an understatement of salvage in the amount of \$6,350,000. The differences in the Cost of Removal and Salvage can be attributed to the use of improper codes by CG&E when recording entries for the sale of Miami Fort Combustion Turbine #1 and #2. The total amount reported in Account 108 is correct.
- o amounts for Zimmer Plant Phase-In Deferred Return and Depreciation and Post-In-Service Carrying Costs and Deferred Operating Expenses recorded in Account 182.3, Other Regulatory Assets, on page 232 of the 1996 FERC Form 1. The reporting errors resulted in the overstatement of Phase-In Deferred Return and Depreciation expenses and the understatement of Post-In-Service Carrying Costs and Deferred Operating Expenses in the amount of \$7,639,157. The error was in accumulating various subaccounts in Account 182.3 and grouping them incorrectly under the captions referred to above. The total amount reported in Account 182.3 is correct.

**DUKE ENERGY OHIO, INC.**  
Case No. 08-709-EL-AIR  
Supplemental Information (C)(2)

---

The utility's current annual statistical report.

**Response:** Duke Energy Ohio no longer prepares a Uniform Statistical Report. See the attached for Cinergy Corp.'s most recently filed report for the year ended December 31, 2000.

**Sponsoring Witness:** Peggy A. Laub

Please submit the required pages to the American Gas Association for use in compiling statistics published in A.G.A.'s Gas Facts.  
Also furnish a copy of the company's Annual Report to Stockholders with the USR or as soon as the Annual Report becomes available.

BECAUSE THIS REPORT IS FREQUENTLY USED IN CONJUNCTION WITH THE COMPANY'S ANNUAL REPORT TO STOCKHOLDERS, THE DATA INCLUDED HEREIN SHOULD AGREE WITH THE COMPARABLE INFORMATION IN SUCH ANNUAL REPORT. To assure accuracy and consistency, numerous cross-ties and footnotes have been appended to the schedules so that statistics for the same item shown on more than one schedule will be identical.

All energy and dollar amounts should be reported in thousands.

Name and Address of Company:

Cinergy Corp.  
139 East Fourth Street  
Cincinnati, OH 45202

List Affiliated Companies:

Indicate Relationship (Parent, Subsidiary, Associates, etc.)

Identify Nature of Business

The Cincinnati Gas & Electric Company	- Subsidiary - Electric and Gas Utility
PSI Energy, Inc.	- Subsidiary - Electric Utility
Cinergy Investments, Inc.	- Subsidiary - Non-utility Operations
Cinergy Services, Inc.	- Subsidiary - Administrative, Management, and Support Services
CinTec LLC	- Subsidiary - Investing
Cinergy Technologies, Inc.	- Subsidiary - Holding company for investments
Cinergy Wholesale Energy, Inc.	- Subsidiary - Non-utility Operations
Cinergy Global Resources, Inc.	- Subsidiary - International Operations

Individual Furnishing Information

Name Barry Blackwell  
Title Manager of External Reporting  
Telephone (317) 838-6993

Authorizer \_\_\_\_\_  
Title \_\_\_\_\_  
Date 5/21/2001 4:33:09 PM

☐ Check this Box if Individual Company Data May Be Released

THIS REPORT HAS BEEN PREPARED FOR THE PURPOSE OF PROVIDING GENERAL AND STATISTICAL INFORMATION CONCERNING THE COMPANY AND NOT IN CONNECTION WITH ANY SALE, OFFER FOR SALE OR SOLICITATION OF AN OFFER TO BUY ANY SECURITIES.

Company Name Cinergy Corp.  
Address 1 139 East Fourth Street  
Address 2 \_\_\_\_\_  
City Cincinnati State OH Zip 45202

Mailing Address Line 1 \_\_\_\_\_  
Mailing Address Line 2 \_\_\_\_\_  
Mailing Address Line 3 \_\_\_\_\_

Recipient Barry Blackwell  
Recipient Title Manager of External Reporting  
Telephone (317) 838-6993

July II - Statements of Income and Retained Earnings (Thousands of \$)

DME		Total	Electric	Gas	Other
Operating Revenues	2, 1,	8421964	5480211	2941753	0
Operating Expenses:					
Operation (a)	2, 2,	6712896	3957111	2755785	0
Maintenance	2, 3,	205129	192743	12386	0
Depreciation	2, 4,	305053	281000	24053	0
Depletion	2, 5,	0	0	0	0
Amort. Charged to Operation (b)	2, 6,	64550	58115	6435	0
Property Losses Charged to Operation	2, 7,	0	0	0	0
Taxes (c)	2, 8,	268346	230101	38245	0
Other: Port in Service Def. Oper. Exp.	2, 9,	4362	4362	0	0
Total Operating Expenses	2, 10,	7560336	4723432	2836904	0
Operating Income	2, 11,	861628	756779	104849	0
Other Operating Income (d)	2, 12,	0	0	0	0
Total Operating Income	2, 13,	861628	756779	104849	0
A.F.U.D.C.(e)	2, 14,	5813			
Other Income Less Deductions - Net (b) (d)	2, 15,	-243090			
Other: Phise in Def. Return	2, 16,	4159			
Minority Interest	2, 17,	-4585			
Income Before Interest Charges	2, 18,	623925			
Interest Charges:					
Interest on Long-Term Debt (f)	2, 19,	194750			
Interest on Short-Term Debt	2, 20,	26446			
Amort. of Debt Disc. Exp. and Prem. (Net)	2, 21,	10998			
Other Interest Expense	2, 22,	468			
Allow. for Borrowed Funds					
Used During Constr. - Credit (e)	2, 23,	-8203			
Net Interest Charges	2, 24,	224459			
Income Before Ext. Items and Cumulative Effects	2, 25,	399466			
Ext. Items and Cumulative Effects (Net) (d)	2, 26,	0			
Net Income Before Pfd Dividends	2, 27,	399466			
Pfd and Pfc Dividend Requirement (f)	2, 28,	0			
Net Income Available for Common Stock	2, 29,	399466			
Common Dividends	2, 30,	285242			
Net Income After Dividends	2, 31,	114224			

ETAINED EARNINGS

2. Balance, January 1	2, 32,	1054578
3. Net Income (Line 27)	2, 33,	399466
4. Pfd and Pfc Dividends Declared	2, 34,	0
5. Common Dividends Declared - Cash	2, 35,	285242
6. Common Dividends Declared - Other (g)	2, 36,	0
7. Adjustments (h)	2, 37,	-584
8. Balance, YEAR END (C)	2, 38,	1168218

Company: Cinergy Corp. (CIN)

**SCHEDULE III - NOTES TO STATEMENTS OF INCOME AND RETAINED EARNINGS (Thousands of \$)**

**INCOME - SCHEDULE II**

**(a) Operating Expenses - Operation includes:**

Significant amount of rents \$38,689 for Transportation Fleet, EDP Equipment, Coal Train & Cars, etc.

**(b) Amortization of Plant Acquisition Adjustments included on lines 6 and 15, Schedule II:**

Electric \$32,461 Gas \$6,435 Other \$ -

**(c) Line 8 agrees to line 10 of Schedule V, Taxes; see Schedule V for detail.**

**(d) Detail major items and amounts and all income taxes included in:**

Other Operating income (including Income Taxes of \$ -)

None

Other income Less Deductions - Net (including Income Taxes of (\$251,557).  
(If net merchandising included, give amount)

Equity in unconsolidated subsidiary	\$5,048
Other Net	\$3,419

Extraordinary Items and Cumulative Effects (including Income Taxes of -)

**(e) Give description of method used to determine Allowance for Funds Used During Construction (including rate applied, type of construction or size of job covered, and period of time used to exclude jobs of short duration).**

For Cinergy's utility subsidiaries, AFUDC accrual rates averaged 8.0% in 2000. The AFUDC was applied as follows (See Note (h) of the "Notes to Consolidated Financial Statements" in Cinergy Corp.'s 2000 Annual Report to Shareholders). See Notes & Remarks below.

**(f) Annual interest and Preferred and Preference Dividend Requirement calculated on amounts (including due within one year) outstanding at Dec. 31.**

Long-Term Debt \$205,748 Preferred and Preference Stock \$4,585



Company: Cinergy Corp. (CIN)

**SCHEDULE III – NOTES TO STATEMENTS OF INCOME AND RETAINED EARNINGS (Thousands of \$)**  
(continued)

**RETAINED EARNINGS – SCHEDULE II**

(g) Details of Common Dividends Declared – Other than Cash:

None.

(h) Details of major items and amounts included in Adjustments to Retained Earnings:

Foreign Currency Translation Adjustments	\$2,074
Minimum Pension Liability	(1,099)
Unrealized Gain (Loss) on Grantor & Rabbi Trusts	(2,129)
Other	<u>570</u>
Total	(\$584)

**NOTES AND REMARKS:**

– PSI ENERGY, INC.

AFUDC is applied only on specific construction work orders and is not applicable to blanket work orders. AFUDC is computed monthly for each appropriate specific work order on the basis of direct charges and company overheads. Effective January 1, 1996, PSI adopted the practice of updating the AFUDC rate monthly as authorized by the Federal Energy Regulatory Commission in a letter dated August 12, 1996. AFUDC starts when construction has commenced on a planned progressive basis and continues until the project is "in service". The gross AFUDC rate applied for 2000 was 7.4% per annum, with semi-annual compounding.

– THE CINCINNATI GAS & ELECTRIC COMPANY AND SUBSIDIARY COMPANIES

AFUDC is applied only on specific construction work orders and is not applicable to blanket work orders. AFUDC is computed monthly for each appropriate specific work order on the basis of direct charges and company overheads. AFUDC starts when construction has commenced on a planned progressive basis and continues until the project is "in service". The gross AFUDC rate applied for 2000 was 8.4% per annum, with semi-annual compounding. Effective July 1, 1982, CG&E adopted the practice of updating the AFUDC rate monthly as authorized by the Federal Energy Regulatory Commission in a letter dated May 27, 1982.

- Schedule II, line 1, column 3, Gas Operating Revenues includes Other Revenues associated with Cinergy Corp non-regulated affiliates, therefore does not tie with AGA's Schedule XX, line 21, column 2, Total Gas Operating Revenues which does not include this amount.
- Schedule II, line 8, column 2 agrees with Schedule V, line 10, columns 2 plus 4, however, line 19 does not tie due to allocation differences in schedules.
- Schedule II, line 8, column 3 agrees with Schedule V, line 10, column 3, however, line 19 does not tie due to allocation differences in schedules.

**SCHEDULE IV - FUNCTIONAL DETAILS OF OPERATION AND MAINTENANCE EXPENSES (Thousands of \$)**

FUNCTION:	ELECTRIC			GAS		
	Total	Operation	Maintenance	Total	Operation	Maintenance
Fuel (a) .....	772526	772526		0	0	
Purchased Power(Net)	2381688	2381688				
Purchased Gas(Net)				2674449	2674449	
Other Prod. Expenses	267556	148389	119167	3867	3825	42
Total Production	3421770	3302603	119167	2678316	2678274	42
Storage & Liquefied Natural Gas				0	0	0
Transmission	63444	51063	12381	506	506	0
Distribution	73458	20962	52496	22977	11472	11505
Customer Accounts	68370	68370	0	20455	20455	0
Cust. Service & Info.	1377	1377	0	2713	2713	0
Sales	33920	33920	0	1273	1273	0
Administrative & General	487515	478816	8699	41931	41092	839
13. Total	4149854	3957111	192743	2768171	2755785	12386
14. Credit Residuals included in Line			4,14,	0	0	0

(a) Includes FERC System of Accounts 501,518 and 547.

(b) Include only fuel used in production of gas

(c) Includes exploration and development costs of prospective gas producing fields

Company: Cinergy Corp. (CIN)

**SCHEDULE IV – NOTES TO FUNCTIONAL DETAILS OF OPERATION AND MAINTENANCE EXPENSES**

**NOTES AND REMARKS:**

- Schedule IV, line 1, column 1 includes Deferred Fuel, Global Resources, and Cinergy Investments, therefore does not tie to EEI's Schedule XIX, line 19, column 2.
- Schedule IV is prepared for Cinergy consolidated, and Schedule XIV represents CG&E consolidated, therefore, Schedule IV, line 5, column 5 plus column 6 does not tie to Schedule XIV, line 23, column 3.

ACCRUALS CHARGED TO:  
OPERATING EXPENSES - TAXES

		TOTA	Electric	Gas	Other Depts.	All Other Accounts (a)
Property, Ad Valorem, etc.	5.1	159464	130353	28686	425	0
Franchise	5.2	1848	1499	1	348	0
Gross Receipts	5.3	85443	78200	6848	395	0
	5.4	0	0	0	0	0
Miscellaneous	5.5	-9031	-1109	63	-7985	0
Total State & Local Taxes	5.6	237724	208943	35598	-6817	0
Misc. Federal Taxes						
Payroll	5.7	30622	18072	2647	9903	0
	5.8	0	0	0	0	0
Total Misc. Federal Taxes	5.9	30622	18072	2647	9903	0
1. Total Taxes - Income	5.10	268346	227015	38245	3086	0
Income Taxes - Current						
1. Total Income Taxes	5.11	187217	223789	7530	-44102	0
2. State Income Taxes	5.12	16936	13265	-35	3706	0
3. Total Income Taxes	5.13	204153	237054	7495	-40396	0
Deferred Income Tax - Charges						
4. Federal	5.14	281247	135292	65755	80200	0
5. State	5.15	11296	7999	270	3027	0
Deferred Income Tax - Credits						
16. Federal	5.16	-225975	-107411	-51271	-67293	0
17. State	5.17	-9579	-7911	-66	-1602	0
18. Investment Tax Credit	5.18	-9585	-8486	-346	-753	0
19. Total Taxes (b)	5.19	519903	483552	60082	-23731	0

(a) Such as Utility Plant, Other Income Deductions, Extraordinary items, Clearing Accounts, Retained Earnings, etc.

(b) Should equal Total of Lines 10, 13, 14, 15, 16, 17 and 18 and agree with line 8, Schedule II.

Company: Cinergy Corp. (CIN)

**SCHEDULE V - TAXES**

**NOTES AND REMARKS:**

- Total of lines 10, 13, 14, 15, 16, 17 and 18 do not agree with line 8, Schedule II. However, line 10 does agree to line 8, Schedule II, and lines 11 - 18 are included in line 15 of Schedule II.

SCHEDULE VI - BALANCE SHEET (Thousands of \$) FOR NOTES - SEE SCHEDULE VII - PAGE 8

ASSETS

CAPITALIZATION AND LIABILITIES

PLANT:

Plant in Service:

Electric	6,1	9698128
Gas	6,2	865303
Common	6,3	211424
	6,4	0

Total Plant in Service	6,5	10774855
Accum. Prov. for Depr. & Amort	6,6	4555614
Construction Work in Progress	6,7	411183
Nuclear Fuel	6,8	0
Accum. Prov. for Amort. of Nuclear Fuel	6,9	0
	6,10	0
	6,11	0

Net Utility Plant	6,12	6630424
Gas Stored Underground	6,13	0
	6,14	0
Other Property and Investments (Net)	6,15	928216
Commissioning Funds	6,16	0

Current and Accrued Assets:

Cash, Spec. Dep., Wkg. Funds & Temp. Cash Investments	6,17	97249
Gas Stored Underground (Current)	6,18	30476
LNG Held and Stored for Processing	6,19	0
Notes Receivable	6,20	35945
Customer Accounts Receivable (Net)	6,21	72684
Receivables from Investor Owned Elec. Cos.	6,22	663282
Other Receivables	6,23	659011
Accrued Unbilled Revenues	6,24	228425
Materials and Supplies	6,25	89593
Prepayments	6,26	46538
Other Current and Accrued Assets	6,27	1496409
Other: Fossil Fuel at Average Cost	6,28	39271

Total Current and Accrued Assets	6,29	3458883
----------------------------------	------	---------

Deferred Debits:

Regulatory Assets	6,30	976614
Unamortized Debt Expense	6,31	34490
Extraordinary Property Losses	6,32	0
Other Deferred Debits	6,33	301101
	6,34	0
Total Deferred Debits	6,35	1312205
Total Assets	6,36	12329728

Capitalization:

Common Stock	6,37	1590
Other: Capital Stock Expense	6,38	-28929
Premium on Common Stock (if not in Line 40)	6,39	0
Other Paid-In Capital	6,40	1648082
Retained Earnings	6,41	1168218
Total Common Stock Equity	6,42	2788961
	6,43	0
Preferred and Preference Stock not subject to Mandatory Redemption	6,44	62834
Preferred and Preference Stock subject to Mandatory Redemption	6,45	0
Long Term Debt: (Ex.amnt.due within 1 yr)		
Mortgage Bonds	6,46	865920
Debentures	6,47	1490050
Other	6,48	531549
Other: Unamortized Disc, Net of Premium	6,49	-11152
Total Long-Term Debt	6,50	2876367

Total Capitalization(Excl.amt.due within one year)	6,51	5724...
--	------	---------

Other Non-Current Liabilities:

Accum. Prov. for Rate Refunds	6,52	0
	6,53	0
Total Other Non Current Liabilities	6,54	0

Current and Accrued Liabilities:

Amounts Due within one year	6,55	40543
Short-Term Debt	6,56	1128657
Accts. Payable (Excl.amt. in Line 58)	6,57	170739
Payables to Investor Owned Elec. Cos.	6,58	625755
Taxes Accrued	6,59	247006
Other Current and Accrued Liabilities	6,60	1610405
Total Other Non-Current Liabilities	6,61	4523107
Deferred Credits:		
Accumulated Deferred Income Taxes	6,62	1185968
Accum. Deferred Investment Tax Credits	6,63	137965
Regulatory Liabilities	6,64	0
Customer Advances for Construction	6,65	14902
Other Deferred Costs	6,66	739624
Total Deferred Credits	6,67	201
	6,68	
Total Capitalization and Liabilities	6,69	12329728

Company: Cinergy Corp. (CIN)

**SCHEDULE VII - NOTES TO BALANCE SHEET (Thousands of \$)**

- (a) Detail major items and amounts including Excess Cost of Investments in Subsidiaries consolidated over Book Value at Acquisition Date.

See Additional Notes, Page 13

- (b) Detail major Regulatory Assets and Other Regulatory Liabilities.

See Additional Notes, Page 13

- (c) Number of Stockholders as of 12/31/00: Preferred 1,494 Common 61,328 Other Preference

- (d) Amount restricted from payment of cash dividends on common stock \$ See Note.

- (e) Includes convertible securities (specify)

None

- (f) Long-Term Debt \$40,545; Preferred Stock Subject to Mandatory Redemption \$ ;

Other (Describe)

- (g) Includes Commercial Paper \$216,200; Bank Loans \$576,791; Gas storage loans \$ [1]

Average short-term debt during year, based on number of days outstanding \$745,046 [2]

**NOTES & REMARKS:**

- Putable Bonds - \$266,600  
Other Short Term Debt - \$69,066
- Does not include foreign debt.
- Schedule VI, line 7 agrees with Schedule VIII, sum of lines 14, 30, and CWIP Account 107, \$46,240 included in line 37.

Company: Cinergy Corp. (CIN)

**SCHEDULE VII – ADDITIONAL NOTES TO BALANCE SHEET (Thousands of \$)**

- (a) Detail major items and amounts including Excess Cost of Investments in Subsidiaries consolidated over Book Value at Acquisition Date.

Nonutility Property (Net)	\$242,908
Investments in Unconsolidated Subsidiaries	538,322
Other Investments	<u>146,986</u>
	\$928,216

- (b) Regulatory assets (in millions)

Post-in-service carrying costs and deferred operating expenses	\$41
Amounts due from customers – income taxes	73
Deferred merger costs	67
Unamortized costs of reacquiring debt	42
Coal contract buyout cost	53
Dynegy gas services agreement buyout costs	251
RTC recoverable assets	432
Other	<u>18</u>
	\$977

- (d) See Note 2 (b) of the "Notes to Consolidated Financial Statements" in Cinergy Corp.'s 2000 Annual Report to Shareholders.



UTILITY PLANT BY FUNCTIONAL ACCOUNTS

CONSTRUCTION EXPENDITURES (c)

		Utility Plant	Accum. Prov. for Deprec. Amort. and Depl.	For Reported Year	For Next Year	For 2nd Yr. Foll.	For 3rd Yr. Foll.
ELECTRIC				2000			
Intangible	8.1	47242	19828	3669	0	0	0
Production Plant							
Steam	8.2	4839074	2427410	182432	424628	0	0
Nuclear	8.3	0	0	0	0	0	0
Hydro	8.4	24644	14517	445	0	0	0
Pumped Storage	8.5	0	0	0	0	0	0
Gas Turbine	8.6	299032	135631	0	0	0	0
Other	8.7	201428	55715	25118	0	0	0
Total Prod. Plant	8.8	5364178	2633273	207995	424628	0	0
Transmission Plant	8.9	1102535	436390	38320	47209	0	0
Distribution Plant	8.10	2956047	1002985	160343	178929	0	0
General Plant	8.11	225916	93663	45357	17562	0	0
Subtotal	8.12	9695918	4186139	455684			
Miscell. Plant	8.13	0	0	0			
Construction Work in Progress	8.14	346870	XXXXXXXXXX	XXXXXXXXXX			
Plant Held for Future Use	8.15	2210	0	0			
Plant Acq Adj & Other Adj	8.16	0	0	XXXXXXXXXX			
Plant Excl Nucl	8.17	10044998	4186139	455684			
Nuclear Fuel	8.18	0	0	0			
Total Electric Plant	8.19	10044998	4186139	455684			
GAS							
Intangible Plant	8.20	1256	847	0			
Production	8.21	11631	10394	450			
Underground Storage	8.22	119	0	0			
Other Storage	8.23	6	-3	0			
LNG Stor., Term. & Proc	8.24	0	0	0			
Transmission	8.25	14129	13450	63			
Distribution	8.26	820200	269569	44130			
General	8.27	17938	10067	1557			
Subtotal	8.28	865279	304324	46200			
Misc. Plant	8.29	0	0	0			
Const. Work in Progress	8.30	18073	XXXXXXXXXX	XXXXXXXXXX			
Plant held for future use	8.31	24	0	0			
Plant Acq Adj & Other Adj	8.32	0	0	XXXXXXXXXX			
Total Gas Plant	8.33	883376	304324	46200			
OTHER UTILITY PLANT							
	8.34	0	0	0	0	0	
	8.35	0	0	0	0	0	
Other Utility Plant	8.36	0	0	0			
Common Plant	8.37	257664	65151	20063			
Total Utility Plant	8.38	11186038	4555614	521947			

Company: Cinergy Corp. (CIN)

**SCHEDULE VIII – NOTES TO UTILITY PLANT BY FUNCTIONAL ACCOUNTS (Thousands of \$)**

(a) Depreciable Property as of December 31:

**ELECTRIC:**

Total Electric.....9,1      9,613,012

**OTHER:**

Total Other.....9,3      0

**GAS:**

Total Gas.....9,2      861,361

**COMMON:**

Total Common.....9,4      233,586

(b) Effective book depreciation rate for Depreciable Property as of December 31:

Electric    [1] % , Gas    [1] % , Other    N/A % , Common    [1] % , Overall Rate    [1] %

(c) Estimated Construction Expenditures include allowance for Funds Used During Construction – Yes x or No  
Indicate in total the AFUDC amounts included (excluded) in estimates: Next Year \$33,169.

(d) Excludes Purchased Property. Report expenditures, rather than transfers to utility plant.

(e) Includes Experimental Plan Unclassified; Leased to Others; Completed Construction Not Classified, and Other  
(Specify):

(f) Includes Allowance for Funds Used During Construction; 9,5,    Electric excluding Nuclear Fuel \$12,318;

Nuclear-Fuel \$    N/A ;      Gas \$579;      Other \$371;      Total \$13,268

(g) Includes non-current gas      \$119

(h) Includes intangibles      \$    ; Line No. 37

(i) Estimated amount applicable to Utility Plant:    9,6

Electric \$197,056    Gas    \$60,608    Other    \$0

Estimated amount applicable to Accum.

Prov. For Depreciation:    9,7    Electric \$46,437    Gas    \$18,714    Other    \$0

Note: Line 37, Common Plant represents Utility Plant Account 101, \$211,424 and CWIP Account 107, \$46,240.

Company: Cinergy Corp. (CIN)

(1) Electric - PSI Energy	3.0%
Electric - CG&E and its utility subsidiaries	2.9%
Gas - CG&E and its utility subsidiaries	2.9%
Common - CG&E and its utility subsidiaries	3.3%

(2) Electric, excluding nuclear fuel:	N/A,	Gas N/A,	Other N/A,	Total N/A
---------------------------------------	------	----------	------------	-----------

dule XII- Statement of Cash Flows

IRATING ACTIVITIES

et Income	399466
tion, Depletion and Amortization	373965
Income taxes (Net)	56989
ferred Investment Tax Credits	-9585
allowance for Funds Used During Construction (Equity)	-5813
Other: Regulatory Assets - Net	-6805
Other:	-2629
Materials and Supplied, Fuel Inventories, Gas in Storage	46409
Accounts Receivable (Net)	-963309
Other: Restricted Deposits	-3567
Other Current Assets	-51965
Accounts Payable	761557
Accrued Taxes	27740
Other: Accrued Interest	-2003
Other: Litigation Settlement	0
Other Current Liabilities	29905
Other: (Net)	-29751
Net Cash Provided by (Used For) Operational Activities	620604

VESTING ACTIVITIES

Construction Expenditures (excl. AFDC-Equity)	-519574
ase of other Investments	0
f other Investments	0
Other: Sale of Investment in unconsolidated subsidiary	0
Other: Investment in unconsolidated subsidiaries	-171298
Other: Miscellaneous Investments	-76368
Net Cash Provided by (Used For) Investing Activities	-767240

INANCING ACTIVITIES

Common Stock Dividends	-285242
Preferred/Preference Stock Dividends	0
Issuance of Long-Term Debt (Net Proceeds)	126420
Issuance of Preferred/Preference Stock (Net Proceeds)	0
Issuance of Common Stock (Net Proceeds)	1770
1. Increase (Decrease) in Short-Term Debt (Net)	578463
2. Redemption of Long-Term Debt (Net Payments)	-234247
3. Redemption of Preferred/Preference Stock (Net Payments)	-29393
4.	0
5.	0
Net Cash Provided By (Used For) Financial Activities	157771
7. Increase (Decrease) in Cash and Cash Equivalents	11135
8. Cash and Cash Equivalents at Beginning of Year	81919
and Cash Equivalents at End of Year	93054

Company: Cinergy Corp. (CIN)

**SCHEDULE XII - STATEMENT OF CASH FLOWS**

**NOTES: REMARKS AND SUPPLEMENTAL INFORMATION:**

- Line 7 consists of unrealized loss from Energy Risk Management activities of \$2,419; Equity in earnings of unconsolidated subsidiaries of (\$5,048).

**SCHEDULE XIII- EMPLOYEE DATA**

Allocate to Electric, Gas and Other common employees who devote part of their time to Electric and part to Gas, and/or Other Departments.  
 on basis of payroll dollars or any other reasonable basis.

**NUMBER OF EMPLOYEES**

	ELECTRIC	GAS	OTHER	TOTAL
Average for the Year	6893	682	0	7575
At Year End	6780	671	0	7451

**SALARIES AND WAGES (Thousands of \$) (a)**

Operation and Maintenance	260058	36594	9140	305792
Construction	93785	16706	1307	111798
Other (describe)	4995	681	43241	48917
Total	358838	53981	53688	466507

**PENSIONS AND BENEFITS (Thousands of \$)**

Operation and Maintenance	64186	9061	2265	75512
Construction	23214	4123	332	27669
Other (describe)	1235	169	10701	12105
Total	88635	13353	13298	115286

) Do not include pensions and benefits

SCHEDULE XIV SOURCE AND DISPOSITION OF GAS

Report all costs associated with all gases actually produced and purchased during year on appropriate lines (except that line 1 delay rentals, nonproductive drilling and similar indirect costs usually classified as "exploration and development"). Companies producing or using natural gas for enriching, should report all manufactured gas quantities at the average Btu value as produced prior to mixing or enrichment.

JRCE

Gas Produced and Manufactured for Company Supply

		BTU/c.f.	UNITS(C)	COST (thousands of \$)
1. Natural Gas	14.1	0	0	0
2. Manufactured Gas (a)	14.2	0	0	0
3. Liquefied Petroleum Gas (for air mixtures)	14.3	1029	141586	3246
4. Substitute Natural Gas (SNG)(b)	14.4	0	0	0
5. <u>Gas</u>	14.5	0	0	0

Gas Purchased

6. Natural Gas (d)	14.6	1029	62728953	266339
7. Manufactured Gas (a)	14.7	0	0	0
8. Liquefied Petroleum Gas (for air mixtures)	14.8	0	0	0
9. Substitute Natural Gas (SNG)(b)	14.9	0	0	0
10. Liquefied Natural Gas (d)	14.10	0	0	0
11. <u>Gas</u>	14.11	0	0	0
12. TOTAL GAS PRODUCED AND PURCHASED	14.12	0	62870539	269585

OTHER

13. Transportation Gas	14.13	1029	46776127	0
14. Exchange Gas Received (Delivered)(Net)	14.14	0	0	0
Company Owned Gas From Underground Storage (Net)	14.15	1025	3974	2
Change in Other Storage (Net)	14.16	0	0	0
17. Gas Used in Further Production	14.17	0	0	0
18. Compressor Station Fuel	14.18	0	0	0
19. Company Use and Interdepartmental Transfers (e)	14.19	1029	296181	788
20. TOTAL SUPPLY AVAILABLE FOR DISTRIBUTION	14.20	0	109354459	268799
21. Other Production and Purchase Expenses	14.21	XXXXXXXXXX	XXXXXXXXXX	0
22. Other Adjustments (d)	14.22	XXXXXXXXXX	XXXXXXXXXX	-45450
23. TOTAL PRODUCTION AND PURCHASE EXPENSES (f)	14.23	XXXXXXXXXX	XXXXXXXXXX	223349

DISPOSITION

24. Sales to Ultimate Consumers (g)	14.24	1029	60678138	XXXXXXXXXX
25. Sales for Resale (h)	14.25	1025	318205	XXXXXXXXXX
26. Transportation Gas Delivered (i)	14.26	1029	48073609	XXXXXXXXXX
27. Other Deliveries (Specify)	14.27	0	0	XXXXXXXXXX
28. TOTAL SALES AND DELIVERIES (Lines 24 to 27)	14.28	0	109069952	XXXXXXXXXX
29. Other Disposition of Gas (Lines 20 minus 28) (c)	14.29	0	284507	XXXXXXXXXX
30. TOTAL DISPOSITION (Line 28 and 29)	14.30	0	109354459	XXXXXXXXXX

a) Less than 900 Btu/c.f.

b) 900 Btu/c.f. and above

c) Includes Unaccounted for Gas

d) Includes: Refunds for Gas Purchases in Prior Years on Line

14.31 -1597

e) Includes: Credits for deferred gas costs on Line

14.32 -43853

f) Include all gas used in operations.

g) Should agree with Line 5, Schedule IV

h) Should agree with Line 15, Column 1, Schedule XX.

i) Should agree with Line 16, Column 1, Schedule XX.

j) Should agree with Line 18, Schedule XVIII.

Schedule XVIII - Gas Transported For Others (Excluding Exchange Gas)

DELIVERED TO ULTIMATE CONSUMERS (END USERS) (b)

	Amount of Gas Transported	Transportation Revenues (a) (Thousands of \$)	Average Customers
Delivered to Residential Customers	18, 1, 4368097	14680	3923
Delivered to Commercial Customers-Firm	18, 2, 6083156	12101	5162
Delivered to Commercial Customers-Interruptible	18, 3, 2330337	1593	35
Delivered to Industrial Customers-Firm	18, 4, 3856178	7129	501
Delivered to Industrial Customers-Interruptible	18, 5, 22258001	15998	163
Delivered to Electric Generation Consumers-Firm	18, 6, 0	0	0
Delivered to Electric Generation Consumers-	18, 7, 4652006	279	0
Delivered to Nonutility Generators-Firm	18, 8, 0	0	0
Delivered to Nonutility Generators-Interruptible	18, 9, 0	0	0
1. Delivered to Refueling Stations for Vehicular Fuel-Firm	18, 10, 0	0	0
1. Delivered to Refueling Stations for Vehicular Fuel-Interr.	18, 11, 0	0	0
2. Delivered to Other Consumers-Firm	18, 12, 1572794	2991	454
3. Delivered to Other Consumers-Interruptible	18, 13, 1912250	1181	13
4. Total Delivered to Ultimate Consumers	18, 14, 47032819	55952	45563
DELIVERED TO OTHERS			
5. Delivered by Ultimate Consumers (c)	18, 15, 0	0	
6. For Resale by Local Distribution Companies	18, 16, 1040790	0	0
7. For Resale by Others	18, 17, 0.00	352.00	1.00
8. TOTAL TRANSPORTATION FOR OTHERS (d)	18, 18, 48073609	56304	45564

a) Transportation revenues are based on receipts ☐ or ☐ deliveries

b) Transportation of gas delivered to the ultimate consumer (end user) is gas owned by the ultimate consumer and delivered to the ultimate consumers meter by the transporter.

c) Transportation of gas delivered to others and owned by the ultimate consumer (end user) is gas owned by the ultimate consumer that is not delivered to the ultimate consumer's meter, instead it is delivered to another transporter for further transportation.

d) Should agree with Line 26

Note: Companies filing FERC form 2 should submit a copy of their comparable schedule in addition to completing the above schedule.



TO ULTIMATE CONSUMERS (END USERS) (b)

## LIVERED TO OTHERS

**ne: Companies filing FERC form 2 should submit a copy of their comparable schedule in addition to completing the above schedule.**

Schedule XVIII - Gas Transported For Others (Excluding Exchange Gas)

DELIVERED TO ULTIMATE CONSUMERS (END USERS) (b)

		Amount of Gas Transported D-Therms	Transportation Revenues (a) (Thousands of \$)	Average Customers
Delivered to Residential Customers	18, 1,	0	0	6
Delivered to Commercial Customers-Firm	18, 2,	0	0	0
Delivered to Commercial Customers-Interruptible	18, 3,	20003	11	1
Delivered to Industrial Customers-Firm	18, 4,	0	0	0
Delivered to Industrial Customers-Interruptible	18, 5,	781902	301	5
Delivered to Electric Generation Consumers-Firm	18, 6,	0	0	0
Delivered to Electric Generation Consumers-	18, 7,	0	0	0
Delivered to Nonutility Generators-Firm	18, 8,	0	0	0
Delivered to Nonutility Generators-Interruptible	18, 9,	0	0	0
Delivered to Refueling Stations for Vehicular Fuel-Firm	18, 10,	0	0	0
Delivered to Refueling Stations for Vehicular Fuel-Interr.	18, 11,	0	0	0
Delivered to Other Consumers-Firm	18, 12,	0	0	0
Delivered to Other Consumers-Interruptible	18, 13,	0	0	0
Total Delivered to Ultimate Consumers	18, 14,	801905	312	6
DELIVERED TO OTHERS				
Delivered by Ultimate Consumers (c)	18, 15,	0	0	6
For Resale by Local Distribution Companies	18, 16,	0	0	0
For Resale by Others	18, 17,	0.00	0.00	0.00
TOTAL TRANSPORTATION FOR OTHERS (d)	18, 18,	801905	312	6

a) Transportation revenues are based on receipts or ☒ deliveries

b) Transportation of gas delivered to the ultimate consumer (end user) is gas owned by the ultimate consumer and delivered to the ultimate consumers meter by the transporter.

c) Transportation of gas delivered to others and owned by the ultimate consumer (end user) is gas owned by the ultimate consumer that is not delivered to the ultimate consumer's meter, instead it is delivered to another transporter for further transportation.

d) Should agree with Line 26

Note: Companies filing FERC form 2 should submit a copy of their comparable schedule in addition to completing the above schedule.

Module XVIII - Gas Transported For Others (Excluding Exchange Gas)

DELIVERED TO ULTIMATE CONSUMERS (END USERS) (b)

	Amount of Gas Transported M-Therms	Transportation Revenues (a) (Thousands of \$)	Average Customers
Delivered to Residential Customers	18, 1, 0	0	0
Delivered to Commercial Customers-Firm	18, 2, 148831	343	13
Delivered to Commercial Customers-Interruptible	18, 3, 320145	251	6
Delivered to Industrial Customers-Firm	18, 4, 936351	2043	31
Delivered to Industrial Customers-Interruptible	18, 5, 2232994	1487	13
Delivered to Electric Generation Consumers-Firm	18, 6, 0	0	0
Delivered to Electric Generation Consumers-	18, 7, 0	0	0
Delivered to Nonutility Generators-Firm	18, 8, 0	0	0
Delivered to Nonutility Generators-Interruptible	18, 9, 0	0	0
Delivered to Refueling Stations for Vehicular Fuel-Firm	18, 10, 0	0	0
Delivered to Refueling Stations for Vehicular Fuel-Interr.	18, 11, 0	0	0
Delivered to Other Consumers-Firm	18, 12, 128115	306	6
Delivered to Other Consumers-Interruptible	18, 13, 94497	72	1
Total Delivered to Ultimate Consumers	18, 14, 3860933	4502	70
DELIVERED TO OTHERS			
Delivered by Ultimate Consumers (c)	18, 15, 0	0	0
For Resale by Local Distribution Companies	18, 16, 0	0	0
For Resale by Others	18, 17, 0.00	0.00	0.00
TOTAL TRANSPORTATION FOR OTHERS (d)	18, 18, 3860933	4502	70

- a) Transportation revenues are based on receipts or ☒ deliveries
- b) Transportation of gas delivered to the ultimate consumer (end user) is gas owned by the ultimate consumer and delivered to the ultimate consumers meter by the transporter.
- c) Transportation of gas delivered to others and owned by the ultimate consumer (end user) is gas owned by the ultimate consumer that is not delivered to the ultimate consumer's meter, instead it is delivered to another transporter for further transportation.
- d) Should agree with Line 26

Note: Companies filing FERC form 2 should submit a copy of their comparable schedule in addition to completing the above schedule.

**SCHEDULE XIX - GAS USED FOR ELECTRIC GENERATION**

This schedule is intended to collect data for all gas used for the generation of electricity for sale including that used by combination where such gas does not flow through the gas department and is therefore not considered a sale. Where revenues are not derived from the gas in transfers, please report the cost of the gas. Gas included in Lines 1 and 2 of the schedule should also be reported in Schedule XX, Lines 7 & 8. Companies operating in more than one state should complete this schedule for each state in which they operate. Enter count of industrial customers who fall into more than one category only in category of greater usage.

**INCLUDED IN SALES IN SCHEDULE XX:**

	Volumes	Revenue (000 of \$)	Customers (Average)
Electric Generation - Firm(a)	19.1	0	0
Electric Generation - Interruptible (a)	19.2	0	0
Nonutility Generation - Firm (a)	19.3	0	0
Nonutility Generation - Interruptible (a)	19.4	0	0
Total Sales for Electric Generation	19.5	0	0

**INTERDEPARTMENTAL TRANSFERS (Not reported in Schedule XX)**

Gas used in Elec. Gen. by reporting company if not shown in line 1 or 2 (including gas used by electric department of Combination Companies and the Corresponding Costs)

	19.6	0	0	0
<b>TOTAL GAS USED FOR ELECTRIC GENERATION</b>	<b>19.7</b>	<b>0</b>	<b>0</b>	<b>0</b>

**Government Services included in above:**

Interruptible	0	0	0
<b>Total Government Service</b>	<b>0</b>	<b>0</b>	<b>0</b>

Company: Cinergy Corp. (CIN)

**SCHEDULE XIX - GAS USED FOR ELECTRIC GENERATION**

**NOTES: REMARKS AND SUPPLEMENTAL INFORMATION:**

- Volumes of gas to Cinergy's electric generation units is accounted by the gas department and therefore is listed in Schedule XVIII.

CLASSIFICATIONS OF GAS VOLUMES, REVENUES AND CUSTOMERS  
Company: CINERGY CORP.

State: X

XX - CLASSIFICATIONS OF GAS VOLUMES, REVENUES AND CUSTOMERS

Utilities operating in more than one state should complete this schedule for each state in which they operate.

Part Data for All Types of Gases EXCEPT BOTTLED GAS.

Average number of bills rendered should be based on twelve monthly figures. Utilities not reading all meters each month for unread meters of active customers. Enter count of customers who fall into more than one category only in category of

Residential Heating Data: Furnish estimates, if figures are not available directly from company records, of all residential heating

include amounts associated with other appliance usage of these customers.

Interruptible: Include those customers whose service may be interrupted only during emergencies, are to be considered firm. If any identical, "other", or resale categories are interruptible, please list the appropriate terms and dollars on a separate sheet (F8 for More Sales (Columns 1 and 2, Lines 11, 12, 13, and 14); Include Data Pertaining to sales and revenues in FERC Accounts 482 and 484. Other Operating Revenues (Line 19): Include total FERC Accounts 485 through 496.

	Volumes Units(c) (a) Column 1	Revenues (\$000) (b) Column 2	Average Column 3	Customers Year End Column 4
<b>Residential Sales</b>				
1. With Heating	20,1, 39331616	287753	395799	407633
2. Without Heating	20,2, 0	0	0	0
<b>Commercial Sales</b>				
3. Firm	20,3, 16285374	110328	39058	40439
4. Interruptible	20,4, 0	0	0	0
<b>Industrial Sales</b>				
5. Firm-Excluding Electric Generation	20,5, 2850879	17785	1447	1557
6. Interruptible-Excluding Electric Generation	20,6, 0	0	0	0
<b>Electric Generation</b>				
7. Electric Utilities-Firm	20,7, 0	0	0	0
8. Electric Utilities-Interruptible	20,8, 0	0	0	0
9. Nonutility Generation-Firm	20,9, 0	0	0	0
10. Nonutility Generation-Interruptible	20,10, 0	0	0	0
<b>Other Sales</b>				
11. Refueling Stations for Vehicular Fuel	20,11, 0	0	0	0
12. Municipal and Other Public Authorities	20,12, 1967868	12564	1327	1354
13. Interdepartmental	20,13, 233206	788	0	0
14. Other	20,14, 0	0	0	0
15. TOTAL SALES, LINES 1 THRU 14	20,15, 60668943	429218	437631	450983
16. Gas Utilities (for Resale)	20,16, 318143	2545	1	1
17. TOTAL GAS SALES, REVENUES, CUSTOMERS	20,17, 60987086	431763	437632	450984
18. Transportation Volumes to End Users	20,18, 42350438	55886	45506	38472
19. Other Operating Revenues	20,19, 0	5212		
20. Less Provision for Rate Refund	20,20, 0	0		
21. TOTAL GAS OPERATING REVENUES (c)	20,21, 0	492861		
22. Average BTU as Distributed	20,22, 0			

Billed at different Btu value from that shown on Line 22, indicate Btu value for billing: 0 per cubic foot.

Includes unbilled revenues of \$ 32886 for 2803407 on line(s)

(c) Should agree with Schedule II, Gas Column, Line 1.

Note: Figures for each class of service, other than gas for resale, should agree with Schedule XXIII.

Schedule XX - CLASSIFICATIONS OF GAS VOLUMES, REVENUES AND CUSTOMERS

Companies operating in more than one state should complete this schedule for each state in which they operate.

Include Data for All Types of Gases EXCEPT BOTTLED GAS.

Average number of bills rendered should be based on twelve monthly figures. Utilities not reading all meters each month should use estimated figures for unmetered meters of active customers. Enter count of customers who fall into more than one category only in category of Residential Heating Data: Furnish estimates, if figures are not available directly from company records, of all residential heating

amounts associated with other appliance usage of these customers.

Interruptible: Include those customers whose service may be interrupted only during emergencies, are to be considered firm. If any residential, "other", or resale categories are interruptible, please list the appropriate terms and dollars on a separate sheet. (F8 for More or Less Sales (Columns 1 and 2, Lines 11, 12, 13, and 14): Include Data Pertaining to sales and revenues in FERC Accounts 482 and 484. or Operating Revenues (Line 19): Include total FERC Accounts 485 through 496.

		Volumes Units(c) (a) Column 1	Revenues (\$000) (b) Column 2	Average Column 3	Customers Year End Column 4
Residential Sales					
1. With Heating	20,1,	31475869	226868	314144	324671
2. Without Heating	20,2,	0	0	0	0
Commercial Sales					
3. Firm	20,3,	12927760	87928	31943	33219
4. Interruptible	20,4,	0	0	0	0
Industrial Sales					
5. Firm-Excluding Electric Generation	20,5,	2071020	13016	1182	1292
6. Interruptible-Excluding Electric Generation	20,6,	0	0	0	0
Electric Utilities-Firm	20,7,	0	0	0	0
8. Electric Utilities-Interruptible	20,8,	0	0	0	0
9. Nonutility Generation-Firm	20,9,	0	0	0	0
10. Nonutility Generation-Interruptible	20,10,	0	0	0	0
Other Sales					
11. Refueling Stations for Vehicular Fuel	20,11,	0	0	0	0
12. Municipal and Other Public Authorities	20,12,	1412297	8974	914	939
13. Interdepartmental	20,13,	228506	757	0	0
14. Other	20,14,	0	0	0	0
15. TOTAL SALES, LINES 1 THRU 14	20,15,	48115452	337543	348183	360121
16. Gas Utilities (for Resale)	20,16,	0	0	0	0
17. TOTAL GAS SALES, REVENUES, CUSTOMERS	20,17,	48115452	337543	348183	360121
18. Transportation Volumes to End Users	20,18,	37673989	51072	45430	38398
19. Other Operating Revenues	20,19,		4311		
20. Less Provision for Rate Refund	20,20,		0		
21. TOTAL GAS OPERATING REVENUES (c)	20,21,		392926		
22. Average BTU as Distributed	20,22,	1.029			

If billed at different Btu value from that shown on Line 22, indicate Btu value for billing: 0 per cubic foot.

Includes unbilled revenues of m\$ 26299 for 2275549 on line(s) 2

Should agree with Schedule II, Gas Column, Line 1.

Note: Figures for each class of service, other than gas for resale, should agree with Schedule XXIII.

CLASSIFICATIONS OF GAS VOLUMES, REVENUES AND CUSTOMERS  
 COMPANY: CINERGY CORP.

LINE PERIOD: 2007  
 STATE: IL

Schedule XX - CLASSIFICATIONS OF GAS VOLUMES, REVENUES AND CUSTOMERS

Companies operating in more than one state should complete this schedule for each state in which they operate.

Report Data for All Types of Gases EXCEPT BOTTLED GAS.

Average number of bills rendered should be based on twelve monthly figures. Utilities not reading all meters each month for unread meters of active customers. Enter count of customers who fall into more than one category only in category of Residential Heating Data: Furnish estimates, if figures are not available directly from company records, of all residential heating

made amounts associated with other appliance usage of these customers.

Interruptible: Include those customers whose service may be interrupted only during emergencies, are to be considered firm. If any residential, "other", or resale categories are interruptible, please list the appropriate terms and dollars on a separate sheet. (P& for More  
 Other Sales (Columns 1 and 2, Lines 11, 12, 13, and 14): Include Data Pertaining to sales and revenues in FERC Accounts 482 and 484.  
 Other Operating Revenues (Line 19): Include total FERC Accounts 485 through 496.

	Volumes Units(c) (a) Column 1	Revenues (\$000) (b) Column 2	Average Column 3	Customers Year End Column 4
<b>Residential Sales</b>				
1. With Heating	20,1, 489843	3877	5311	5384
2. Without Heating	20,2, 0	0	0	0
<b>Commercial Sales</b>				
3. Firm	20,3, 251662	1538	642	659
4. Interruptible	20,4, 0	0	0	0
<b>Industrial Sales</b>				
5. Firm-Excluding Electric Generation	20,5, 107239	535	20	18
6. Interruptible-Excluding Electric Generation	20,6, 0	0	0	0
<b>Electric Generation</b>				
7. Electric Utilities-Firm	20,7, 0	0	0	0
8. Electric Utilities-Interruptible	20,8, 0	0	0	0
9. Nonutility Generation-Firm	20,9, 0	0	0	0
10. Nonutility Generation-Interruptible	20,10, 0	0	0	0
<b>Other Sales</b>				
11. Refueling Stations for Vehicular Fuel	20,11, 0	0	0	0
12. Municipal and Other Public Authorities	20,12, 59659	347	61	60
13. Interdepartmental	20,13, 0	0	0	0
14. Other	20,14, 0	0	0	0
15. TOTAL SALES, LINES 1 THRU 14	20,15, 908403	6297	6034	6121
16. Gas Utilities (for Resale)	20,16, 318143	1334	1	1
17. TOTAL GAS SALES, REVENUES, CUSTOMERS	20,17, 1226546	7631	6035	6122
18. Transportation Volumes to End Users	20,18, 798632	312	6	6
19. Other Operating Revenues	20,19, 42	42		
20. Less Provision for Rate Refund	20,20, 0	0		
21. TOTAL GAS OPERATING REVENUES (c)	20,21, 7985	7985		
22. Average BTU as Distributed	20,22, 1.025			

Bill at different Btu value from that shown on Line 22, indicate Btu value for billing: 0 per cubic foot.

Includes unbilled revenues of \$394 for 30744 on line(s) 2

(c) Should agree with Schedule II, Gas Column, Line 1.

Note: Figures for each class of service, other than gas for resale, should agree with Schedule XXIII.



Schedule XX - CLASSIFICATIONS OF GAS VOLUMES, REVENUES AND CUSTOMERS

Companies operating in more than one state should complete this schedule for each state in which they operate.

Report Data for All Types of Gases EXCEPT BOTTLED GAS.

Average number of bills rendered should be based on twelve monthly figures. Utilities not reading all meters each month

should report for unread meters of active customers. Enter count of customers who fall into more than one category only in category of

Residential Heating Data: Furnish estimates, if figures are not available directly from company records, of all residential heating

include amounts associated with other appliance usage of these customers.

Interruptible: Include those customers whose service may be interrupted only during emergencies, are to be considered firm. If any  
identical, "other", or resale categories are interruptible, please list the appropriate terms and dollars on a separate sheet. (F8 for More  
Resale Sales(Columns 1 and 2, Lines 11, 12, 13, and 14): Include Data Pertaining to sales and revenues in FERC Accounts 482 and 484.

Other Operating Revenues(Line 19): Include total FERC Accounts 485 through 496.

	Volumes Units(c) (a) Column 1	Revenues (\$000) (b) Column 2	Average Column 3	Customers Year End Column 4
<b>Residential Sales</b>				
1. With Heating	20,1, 7365904	57008	76344	77578
2. Without Heating	20,2, 0	0	0	0
<b>Commercial Sales</b>				
3. Firm	20,3, 3105952	20862	6473	6561
4. Interruptible	20,4, 0	0	0	0
<b>Industrial Sales</b>				
5. Firm-Excluding Electric Generation	20,5, 672620	4234	245	247
6. Interruptible-Excluding Electric Generation	20,6, 0	0	0	0
<b>Electric Generation</b>				
7. Electric Utilities-Firm	20,7, 0	0	0	0
8. Electric Utilities-Interruptible	20,8, 0	0	0	0
9. Nonutility Generation-Firm	20,9, 0	0	0	0
10. Nonutility Generation-Interruptible	20,10, 0	0	0	0
<b>Other Sales</b>				
11. Refueling Stations for Vehicular Fuel	20,11, 0	0	0	0
12. Municipal and Other Public Authorities	20,12, 495912	3243	352	355
13. Interdepartmental	20,13, 4700	31	0	0
14. Other	20,14, 0	0	0	0
15. TOTAL SALES, LINES 1 THRU 14	20,15, 11645088	85378	83414	84741
16. Gas Utilities(for Resale)	20,16, 0	1211	0	0
17. TOTAL GAS SALES, REVENUES, CUSTOMERS	20,17, 11645088	86589	83414	84741
18. Transportation Volumes to End Users	20,18, 3877817	4502	70	68
19. Other Operating Revenues	20,19, 0	859		
20. Less Provision for Rate Refund	20,20, 0	0		
21. TOTAL GAS OPERATING REVENUES (c)	20,21, 0	91950		
22. Average BTU as Distributed	20,22, 1.034			

If billed at different Btu value from that shown on Line 22, indicate Btu value for billing: 0 per cubic foot.

Unbilled revenues of \$5193 for 497114 on line(s) 2

Should agree with Schedule II, Gas Column, Line 1.

Note: Figures for each class of service, other than gas for resale, should agree with Schedule XXIII.

Company: Cinergy Corp. (CIN)

**SCHEDULE XX - CLASSIFICATION OF GAS VOLUMES, REVENUES, REVENUES AND CUSTOMERS**

**NOTES: REMARKS AND SUPPLEMENTAL INFORMATION:**

- (d) Scheduled XX Classification of Gas Volumes, Revenues, Revenues and Customers will not tie to line 14 of Schedule XVIII Gas Transported for Others, due to Schedule XX requested sales information, whereas Schedule XVIII is gas transportation information.
- (e) The total system page automatically totals Cinergy's utility subsidiaries, consolidates the average Btu statistics, and does not include non-utility and inter-company information. Therefore, Schedule XX, line 21, column 2 will not tie to Schedule II, line 1, column 3; and Schedule XX, line 15 will not tie to Schedule XIV, line 24, column 2.

EDULE XXII - MAXIMUM AND MINIMUM DAY SENDOUT (M-DEKATHERMS)

Report smallest/greatest actual total gas sendout occurring in a specified 24-hour period. If contract with pipeline supplier(s)  
 ify that all firm requirements of your company will be supplied, please check here.

		Minimum Day Sendout (a)	Maximum Day Sendout
Regular Production(b)	22.1	0	0
Peak Shaving Facilities	22.2	30621	31497
Purchases	22.3	810595	833778
Company Owned Underground Storage	22.4	308	316
Withdrawn from Other Storage(d)	22.5	0	0
Other Supply ( ) (e)	22.6	0	0
TOTAL	22.7	841524	865591
Date maximum or Minimum occurred.	MIN:	07/01/2000	MAX 01/27/2000
Sendout to interruptible Customers	22.8	0	0
Curtailment of interruptible Customers	22.9	XXXXXXXX	0
Average Temperature on Day of Maximum	22.10	XXXXXXXX	0

- ) Excluding injections into underground
- ) Including natural gas and/or manufactured
- ) Include company owned gas which is stored
- ) Includes supplies withdrawn from buried
- ) Show transportation volumes here.

**SCHEDULE XXVI - MILES OF PIPELINE AND COMPRESSOR STATION DATA**

**INSTRUCTIONS:** Companies operating in more than one state should complete this schedule for each state in which they operate.

**FIELD & GATHERING:** Include pipe transporting natural gas from individual wells to compressor station, processing point, or main trunk pipe line, whichever is located closest to wells on the line system.

**TRANSMISSION:** Include main trunk pipe lines and branch lines transporting gas to city gates or between retail service areas, as well as subsidiary lines not included in field and gathering.

**TRIBUTION:** Include mains and pipe transporting gas within retail service areas.

**ALL TYPES OF GAS**

		Gross New Mileage Installed During Year (a)			Total Mileage as of _____		
		Steel	Plastic	Other	Steel	Plastic	Other
Field & Gathering	26.1	0	0	0	0	0	0
Underground Storage	26.2	0	0	0	0	0	0
Transmission	26.3	0	0	0	350	0	0
Distribution Mains (Total)	26.4	-1	102	-3	3358	1474	1191
New	26.5	-1	102	-3	XXXXXXXXXX	XXXXXXXXXX	XXXXXXXXXX
Replacement	26.6	0	0	0	XXXXXXXXXX	XXXXXXXXXX	XXXXXXXXXX
Distribution Services (Total)	26.7	-25	201	31	835.00	3147.00	1496.00
New	26.8	-25	201	31	XXXXXXXXXX	XXXXXXXXXX	XXXXXXXXXX
Replacement	26.9	0.00	0.00	0.00	XXXXXXXXXX	XXXXXXXXXX	XXXXXXXXXX
1) TOTAL MILES	26.10	-26	303	28	4543	4621	2687

**COMPRESSOR STATION DATA (b)**

		Field	Storage	Transmission
1. Number of Active Compressor Stations	26.13	0	0	0
2. Installed Compressor Horsepower	26.14	0	0	0

1) Include replacement and new pipe, even though not yet placed in service

2) Do not include Booster or pumping stations used within a local distribution system.

**SCHEDULE XXVI - MILES OF PIPELINE AND COMPRESSOR STATION DATA**

**INSTRUCTIONS:** Companies operating in more than one state should complete this schedule for each state in which they operate.

**Field & Gathering:** Include pipe transporting natural gas from individual wells to compressor station, processing point, or main trunk pipe line, whichever is located closest to wells on the line system.

**Transmission:** Include main trunk pipe lines and branch lines transporting gas to city gates or between retail service areas, as well as subsidiary lines not included in field and gathering.

**Distribution:** Include mains and pipe transporting gas within retail service areas.

**ALL TYPES OF GAS**

		Gross New Mileage Installed During Year (a)			Total Mileage as of 12/31		
		Steel	Plastic	Other	Steel	Plastic	Other
Field & Gathering	26.1	0	0	0	0	0	0
Storage	26.2	0	0	0	0	0	0
Transmission	26.3	0	0	0	217	0	0
Distribution Mains (Total)	26.4	-5	77	-5	2616	1122	1018
New	26.5	-5	77	-5	XXXXXXXXXX	XXXXXXXXXX	XXXXXXXXXX
Replacement	26.6	0	0	0	XXXXXXXXXX	XXXXXXXXXX	XXXXXXXXXX
Distribution Services (Total)	26.7	-19	144	30	698.00	2462.00	1249.00
New	26.8	-19	144	30	XXXXXXXXXX	XXXXXXXXXX	XXXXXXXXXX
Replacement	26.9	0.00	0.00	0.00	XXXXXXXXXX	XXXXXXXXXX	XXXXXXXXXX
TOTAL MILES	26.10	-24	221	25	3531	3584	2267

**COMPRESSOR STATION DATA (b)**

		Field	Storage	Transmission
1. Number of Active Compressor Stations	26.13	0	0	0
2. Installed Compressor Horsepower	26.14	0	0	0

a) Include replacement and new pipe, even though not yet placed in service

b) Do not include Booster or pumping stations used within a local distribution system.

**SCHEDULE XXVI - MILES OF PIPELINE AND COMPRESSOR STATION DATA**

**INSTRUCTIONS:** Companies operating in more than one state should complete this schedule for each state in which they operate.

**FIELD & GATHERING:** Include pipe transporting natural gas from individual wells to compressor station, processing point, or main trunk pipe line, whichever is located closest to wells on the line system.

**TRANSMISSION:** Include main trunk pipe lines and branch lines transporting gas to city gates or between retail service areas, as well as subsidiary lines not included in field and gathering.

**DISTRIBUTION:** Include mains and pipe transporting gas within retail service areas.

**ALL TYPES OF GAS**

		Gross New Mileage Installed During Year (a)			Total Mileage as of 12/31		
		Steel	Plastic	Other	Steel	Plastic	Other
Field & Gathering	26.1	0	0	0	0	0	0
Underground Storage	26.2	0	0	0	0	0	0
Transmission	26.3	0	0	0	4	0	0
Distribution Mains (Total)	26.4	0	0	3	121	33	1
New	26.5	0	0	3	XXXXXXXXXX	XXXXXXXXXX	XXXXXXXXXX
Replacement	26.6	0	0	0	XXXXXXXXXX	XXXXXXXXXX	XXXXXXXXXX
Distribution Services (Total)	26.7	-2	4	1	23.00	50.00	4.00
New	26.8	-2	4	1	XXXXXXXXXX	XXXXXXXXXX	XXXXXXXXXX
Replacement	26.9	0.00	0.00	0.00	XXXXXXXXXX	XXXXXXXXXX	XXXXXXXXXX
<b>TOTAL MILES</b>	<b>26.10</b>	<b>-2</b>	<b>4</b>	<b>4</b>	<b>148</b>	<b>83</b>	<b>5</b>

**COMPRESSOR STATION DATA (b)**

		Field	Storage	Transmission
1. Number of Active Compressor Stations	26.13	0	0	0
2. Installed Compressor Horsepower	26.14	0	0	0

a) Include replacement and new pipe, even though not yet placed in service

b) Do not include Booster or pumping stations used within a local distribution system.

**SCHEDULE XXVI - MILES OF PIPELINE AND COMPRESSOR STATION DATA**

**INSTRUCTIONS:** Companies operating in more than one state should complete this schedule for each state in which they operate.

**FIELD & GATHERING:** Include pipe transporting natural gas from individual wells to compressor station, processing point, or main trunk pipe line, whichever is located closest to wells on the line system.

**TRANSMISSION:** Include main trunk pipe lines and branch lines transporting gas to city gates or between retail service areas, as well as subsidiary lines not included in field and gathering.

**DISTRIBUTION:** Include mains and pipe transporting gas within retail service areas.

**ALL TYPES OF GAS**

		Gross New Mileage Installed During Year (a)			Total Mileage as of 12/31		
		Steel	Plastic	Other	Steel	Plastic	Other
Field & Gathering	26.1	0	0	0	0	0	0
Underground Storage	26.2	0	0	0	0	0	0
Transmission	26.3	0	0	0	129	0	0
Distribution Mains (Total)	26.4	4	25	-1	621	319	172
New	26.5	4	25	-1	XXXXXXXX	XXXXXXXX	XXXXXXXX
Replacement	26.6	0	0	0	XXXXXXXX	XXXXXXXX	XXXXXXXX
Distribution Services (Total)	26.7	4	53	0	114.00	635.00	243.00
New	26.8	4	53	0	XXXXXXXX	XXXXXXXX	XXXXXXXX
Replacement	26.9	0.00	0.00	0.00	XXXXXXXX	XXXXXXXX	XXXXXXXX
<b>TOTAL MILES</b>	<b>26.10</b>	<b>0</b>	<b>78</b>	<b>-1</b>	<b>864</b>	<b>954</b>	<b>415</b>

**COMPRESSOR STATION DATA (b)**

		Field	Storage	Transmission
1. Number of Active Compressor Stations	26.13	0	0	0
2. Installed Compressor Horsepower	26.14	0	0	0

a) Include replacement and new pipe, even though not yet placed in service

b) Do not include Booster or pumping stations used within a local distribution system.

CONFIDENTIAL  
INFORMATION

ALL TYPES OF GAS		Construction Expenditures (Thousands of \$)				
		Actual	Estimated			
		2000	2001	2002	2003	2004
Intangible Plant	27.1	0	0	0	0	0
General and Miscellaneous Plant	27.2	1557	1445	1488	1531	1579
Production						
SNG Plant	27.3	0	0	0	0	0
LNG Plant	27.4	0	0	0	0	0
LNG Ships	27.5	0	0	0	0	0
Propane Plant	27.6	450	962	989	1017	1047
Exploration & Drilling	27.7	0	0	0	0	0
Other (specify)	27.8	0	0	0	0	0
TOTAL PRODUCTION	27.9	450	962	989	1017	1047
Transmission						
0. New & Replacement Pipelines	27.10	0	0	0	0	0
1. Compressor Stations	27.11	63	0	0	0	0
2. Other (specify)	27.12	0	0	0	0	0
3. TOTAL TRANSMISSION	27.13	63	0	0	0	0
Storage						
4. Underground Storage	27.14	0	0	0	0	0
5. LNG Storage, Terminaling, & Processing	27.15	0	0	0	0	0
6. Other (specify)	27.16	0	0	0	0	0
17. TOTAL STORAGE	27.17	0	0	0	0	0
Distribution						
18. New & Replacement Main and Service Lines	27.18	23238	61609	109961	103720	104915
19. Compressor Stations	27.19	0	0	0	0	0
20. Other (specify) Measuring & Regulating	27.20	20892	23667	22949	23615	24299
21. TOTAL DISTRIBUTION	27.21	44130	85276	132910	127335	129214
22. TOTAL CONSTRUCTION EXPENDITURES	27.22	46200	87683	135387	129883	131840
23. Additional Funds Necessary in excess of Construction Expenditures	27.23	0	0	0	0	0
24. Total Funds Required (line 22 + 23)	27.24	46200	87683	135387	129883	131840
Method of Financing Funds (Percent)						
25. Internal Sources (a)	27.25	0.00	0.00	0.00	0.00	0.00
26. Equity Issues (a)	27.26	0.00	0.00	0.00	0.00	0.00
27. Debt Issues (a)	27.27	100.00	100.00	100.00	100.00	100.00
28. Bonds (if available)(b)	27.28	0.00	0.00	0.00	0.00	0.00
29. Debentures (if available)(b)	27.29	0.00	0.00	0.00	0.00	0.00
30. Long Term Notes (if available)(b)	27.30	0.00	0.00	0.00	0.00	0.00
31. Short Term Notes (Net, if available)(b)	27.31	0.00	100.00	100.00	100.00	100.00
			27.32	0		

\* If figures are in Constant Dollars, please give adjustment factor used

(a) Sum of Lines 25, 26, and 27 should equal 100%

(b) Sum of Lines 28, 29, 30, and 31 should equal 100% and represent percentage breakdown of "Debt Issues Total" on Line 27.



date XXI Residential Gas Housekeeping Survey

OPERATING STATE

OH

POTENTIAL CUSTOMER DATA

a. % of homes in service area with gas service

percentage of your customers that use gas for space heat

2000 RESIDENTIAL GAS APPLIANCE INFORMATION

annual Consumption per unit furnace/boiler (Mcf)

0

annual Consumption per unit Water Heater (Mcf)

0

annual Consumption per unit Gas Range (Mcf)

0

annual Consumption per unit Gas Clothes Dryer (Mcf)

0

annual Consumption per unit Gas Fireplace/ Hearth products (Mcf)

0

BILL PAYMENT ASSISTANCE PROGRAMS

Total dollar amount of bill payment assistance provided by Ratepayers

0

Total dollar amount of bill payment assistance provided by Shareholders

0

Total dollar amount of bill payment assistance provided by Others

0

2000 GAS SPACE HEATING UNIT INVENTORY

ADDITIONS from New Construction

0

Total Conversions TO Natural Gas

0

Conversions TO Natural Gas from Existing electric heated units

0

Conversions TO Natural Gas from existing oil heated units

0

Conversions TO Natural Gas from other/unknown

0

Total Losses from Demolition and Conversions

0

Estimated % of new residential customers from conversions

COMPETITIVE FUEL PRICES

Propane residential price (cents/gallon)

0.0000

Distillate Oil (#2) residential price (cents/gallon)

0.0000

GLOSSARY

**BILL PAYMENT ASSISTANCE**- Amount of funds the utility helped to provide energy customers for defraying energy bills. Excludes government assistance from LIHEAP

**CONVERSIONS**- Existing housing units, which formerly consumed an energy other than natural gas (oil, propane, electricity, coal, wood, or renewables) to meet space heating requirements, that converted to operate on natural gas in 1999. Do not include conversion from one type of natural gas equipment to another.

**NEW CONSTRUCTION**- new single-family residential gas homes that were COMPLETED in 2000

**SERVICE AREA**- Defined as the territory in which a utility system is required or has the right to supply gas service to all potential customers

**GAS HEARTH/FIREPLACE PRODUCTS**- Refers to products that burn natural gas and includes stoves, ventless, and gas logs. Not wood burning products.

**DUKE ENERGY OHIO, INC.**  
Case No. 08-709-EL-AIR  
Supplemental Information (C)(3)

---

Prospectuses of current stock and/or bond offering of the applicant, and/or of parent company if applicant is a wholly owned subsidiary. In the event there are no current offerings, then provide the most recent offerings.

**Response:** See Attached.

**Sponsoring Witness:** Stephen De May

CALCULATION OF REGISTRATION FEE		
Title of Each Class of Securities Offered	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee(1)
5.650% Senior Notes due 2013	\$250,000,000	\$ 9,825
6.250% Senior Notes due 2018	250,000,000	9,825
Total Notes	\$500,000,000	\$19,650

(1) The amount of registration fee is calculated in accordance with Rules 456(b) and 457(p) under the Securities Act of 1933.

**PROSPECTUS SUPPLEMENT**  
(To Prospectus dated October 3, 2007)



**\$250,000,000 5.65% Senior Notes due 2013**  
**\$250,000,000 6.25% Senior Notes due 2018**

We are offering \$500,000,000 aggregate principal amount of Senior Notes in two series. We are offering \$250,000,000 aggregate principal amount of 5.65% Senior Notes due 2013 (the "2013 Notes") and \$250,000,000 aggregate principal amount of 6.25% Senior Notes due 2018 (the "2018 Notes," and together with the 2013 Notes the "Notes"). We will pay interest on the 2013 Notes at a rate of 5.65% per annum, payable semi-annually in arrears on June 15 and December 15 of each year, beginning on December 15, 2008. The 2013 Notes will mature as to principal on June 15, 2013. We will pay interest on the 2018 Notes at a rate of 6.25% per annum, payable semi-annually in arrears on June 15 and December 15 of each year, beginning on December 15, 2008. The 2018 Notes will mature as to principal on June 15, 2018.

We may redeem either series of the Notes at our option at any time and from time to time, in whole or in part, as described in this prospectus supplement under the caption "Description of the Notes — Optional Redemption." The Notes do not have the benefit of any sinking fund. The Notes are unsecured, senior obligations of Duke Energy Corporation.

Investing in the Notes involves risks. See the section captioned "Risk Factors" in our annual report on Form 10-K for the year ended December 31, 2007, which has been filed with the Securities and Exchange Commission and is incorporated by reference in this prospectus supplement.

	Price to Public (1)	Underwriting Discount (2)	Proceeds to Duke Energy Corporation before expenses(1)
Per 2013 Note	99.803%	.60%	99.203%
Total 2013 Notes	\$ 249,507,500	\$ 1,500,000	\$ 248,007,500
Per 2018 Note	99.743%	.65%	99.093%
Total 2018 Notes	\$ 249,357,500	\$ 1,625,000	\$ 247,732,500

(1) Plus accrued interest, if any, from June 16, 2008, if settlement occurs after that date.

(2) The underwriters have agreed to make a payment to us in an amount equal to \$1,125,000, including in respect of expenses incurred by us in connection with the offering. See "Underwriting."

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

We expect the Notes to be ready for delivery only in book-entry form through the facilities of The Depository Trust Company for the accounts of its participants, including Clearstream Banking, société anonyme, Luxembourg and Euroclear Bank N.V./S.A. on or about June 16, 2008.

**Joint Book-Running Managers**

**Credit Suisse**

**Goldman, Sachs &  
Co.**

**Lehman Brothers**

*Co-Managers*

**Citi**

**Lazard Capital Markets**

**Scotia Capital**

**Sun Trust Robinson Humphrey**

The date of this prospectus supplement is June 11, 2008.

---

## Table of Contents

You should rely only on the information contained in or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not, and the underwriters have not, authorized anyone to provide you with information that is different. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer is not permitted. You should not assume that the information provided by or incorporated by reference in this prospectus supplement or the accompanying prospectus is accurate as of any date other than the date of the document containing the information.

### **TABLE OF CONTENTS**

#### **Prospectus Supplement**

	<u>Page</u>
<u>About This Prospectus Supplement</u>	i
<u>Prospectus Supplement Summary</u>	S-1
<u>Risk Factors</u>	S-4
<u>Cautionary Statement Regarding Forward-Looking Information</u>	S-4
<u>Ratio of Earnings to Fixed Charges</u>	S-5
<u>Use of Proceeds</u>	S-5
<u>Description of the Notes</u>	S-6
<u>Certain U.S. Federal Income Tax Considerations for Non-U.S. Holders</u>	S-8
<u>Book-Entry System</u>	S-10
<u>Underwriting</u>	S-14
<u>Experts</u>	S-17
<u>Legal Matters</u>	S-17
<u>Where You Can Find More Information</u>	S-18

#### **Prospectus**

	<u>Page</u>
The Company	1
Risk Factors	1
Use of Proceeds	1
Ratio of Earnings to Fixed Charges	2
Description of Capital Stock	2
Description of Debt Securities	4
Plan of Distribution	12
Experts	13
Validity of the Securities	13
Where You Can Find More Information	13

### **ABOUT THIS PROSPECTUS SUPPLEMENT**

This document is in two parts. The first part is this prospectus supplement, which describes the specific terms of these offerings. The second part, the accompanying prospectus, gives more general information, some of which may not apply to these offerings.

If the description of the offerings varies between this prospectus supplement and the accompanying prospectus, you should rely on the information contained in or incorporated by reference in this prospectus supplement.

Unless we have indicated otherwise, or the context otherwise requires, references in this prospectus supplement and the accompanying prospectus to "Duke Energy," "we," "us" and "our" or similar terms are to Duke Energy Corporation and its subsidiaries.

## PROSPECTUS SUPPLEMENT SUMMARY

*The following summary is qualified in its entirety by, and should be read together with, the more detailed information, including "Risk Factors," in our annual report on Form 10-K for the year ended December 31, 2007 and the financial statements incorporated by reference in this prospectus supplement and the accompanying prospectus.*

### Duke Energy Corporation

Duke Energy is one of the largest electric power companies in the United States, and supplies and delivers energy to approximately 4 million U.S. customers. We have approximately 37,000 megawatts of electric generating capacity in the Midwest and the Carolinas, and natural gas distribution services in Ohio and Kentucky. In addition, we own and operate approximately 4,000 megawatts of electric generation in Latin America, and we are a joint-venture partner in a U.S. real estate company. Headquartered in Charlotte, N.C., Duke Energy is a Fortune 500 company traded on the New York Stock Exchange under the symbol "DUK." We have the following segments: U.S. Franchised Electric & Gas, Commercial Power, Duke Energy International and Crescent Resources, LLC ("Crescent").

U.S. Franchised Electric & Gas generates, transmits, distributes and sells electricity in central and western North Carolina, western South Carolina and Indiana; and provides combined electric and gas sales, transmission and distribution service in the southwestern portion of Ohio and northern Kentucky.

Commercial Power operates and manages power plants, primarily in the Midwestern portion of the U.S., and markets electric power and natural gas related to these plants and other contractual positions. It also performs energy risk management activities and provides customized energy solutions.

Duke Energy International operates and manages power generation facilities and engages in sales and marketing of electric power and natural gas outside the United States. Its activities target power generation in Latin America.

Crescent is a joint venture of which we own approximately 50 per cent. It develops and manages high-quality commercial, residential and multi-family real estate projects primarily in the Southeastern and Southwestern United States. Some of these projects are developed and managed through joint ventures. Crescent also manages "legacy" land holdings in North and South Carolina.

We are a Delaware corporation. The address of our principal executive offices is 526 South Church Street, Charlotte, North Carolina 28202-1803. Our telephone number is (704) 594-6200.

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

<b>The Offerings</b>	
<b>Issuer</b>	Duke Energy Corporation
<b>Securities Offered</b>	We are offering \$250,000,000 aggregate principal amount of 5.65% 2013 Senior Notes and offering \$250,000,000 aggregate principal amount of 6.25% 2018 Senior Notes.
<b>Maturity</b>	The 2013 Notes will mature on June 15, 2013. The 2018 Notes will mature on June 15, 2018.
<b>Interest Rates</b>	5.65% per year for the 2013 Notes. 6.25% per year for the 2018 Notes.
<b>Interest Payment Dates</b>	Interest on the Notes shall be payable semi-annually in arrears on June 15 and December 15 of each year, beginning on December 15, 2008.
<b>Ratings</b>	Baa2/BBB+
<b>Ranking</b>	The Notes will be our direct, unsecured and unsubordinated obligations, ranking equally in priority with all of our existing and future unsecured and unsubordinated indebtedness and senior in right of payment to all of our existing and future subordinated debt. The Notes will be structurally subordinated to all liabilities of our subsidiaries. As of March 31, 2008, we had approximately \$671 million of unsecured and unsubordinated obligations that will rank equally in priority with respect to the Notes. Also as of March 31, 2008, our subsidiaries had approximately \$11.4 billion of obligations to which the Notes will be structurally subordinated, payment upon approximately \$2.9 billion of which is guaranteed by Duke Energy Corporation. Substantially all of such guarantees were granted to the holders of certain unsecured debt of our subsidiary Duke Energy Carolinas, LLC, in connection with changes in our corporate structure relating to the closing of our merger with Cinergy Corp. in 2006. Our Indenture contains no restrictions on the amount of additional indebtedness that we may issue under it.
<b>Optional Redemption</b>	Each series of the Notes is redeemable at the option of Duke Energy Corporation at any time and from time to time, in whole or in part, at a redemption price equal to the greater of (1) 100% of the principal amount of the Notes being redeemed and (2) the sum of the present values of the remaining scheduled payments of principal and interest on the Notes being redeemed (exclusive of interest accrued to the redemption date) up to, but not including, the redemption date, discounted to such redemption date on a semi-annual basis (assuming a 360-day year consisting of 12 30-day months) at the Treasury Rate plus 40 basis points in the case of the 2013 Notes and 40 basis points in the case of the 2018 Notes, plus, in either case, accrued and unpaid interest on the Notes being redeemed to such redemption date. See "Description of the Notes — Optional Redemption" for a description of how the redemption price is calculated.
<b>No Sinking Fund</b>	The Notes do not have the benefit of a sinking fund.
<b>Use of Proceeds</b>	The aggregate net proceeds from the sale of the Notes, after deducting the respective underwriting discounts and related offering

	<p>expenses and giving effect to the reimbursement, will be approximately \$496.4 million. The net proceeds from the sale of the Notes will be used to redeem all or a portion of our commercial paper as it matures, to fund capital expenditures in our unregulated businesses and for general corporate purposes. As of June 4, 2008, we had approximately \$428 million of commercial paper outstanding, with a weighted average interest rate of 2.85%. Our outstanding commercial paper matures no later than 30 days after its date of issue. Duke Energy Corporation issues commercial paper from time to time to fund working capital and other needs of Duke Energy Corporation and its subsidiaries.</p> <p>We expect that the sales of the 2013 Notes and the 2018 Notes will take place concurrently. However, the sales of the 2013 Notes and the 2018 Notes are not conditioned upon each other, and we may consummate the sale of one series and not the other, or consummate the sales at different times.</p>
<b>Book-Entry</b>	<p>Each series of the Notes will be represented by one or more global securities registered in the name of and deposited with or on behalf of The Depository Trust Company ("DTC") or its nominee. Beneficial interests in the Notes will be represented through book-entry accounts of financial institutions acting on behalf of beneficial owners as direct and indirect participants in DTC. Investors may elect to hold interests in the global securities through either DTC in the United States or Clearstream, Luxembourg or Euroclear in Europe if they are participants in those systems, or indirectly through organizations which are participants in those systems. This means that you will not receive a certificate for your Notes and Notes will not be registered in your name, except under certain limited circumstances described under the caption "Book-Entry System."</p>
<b>Trustee</b>	<p>The Bank of New York Trust Company, N.A.</p>



## **RISK FACTORS**

You should carefully consider the risk factors under the heading "Risk Factors" in our annual report on Form 10-K for the year ended December 31, 2007, which is incorporated by reference in this prospectus supplement, as well as the other information included or incorporated by reference in this prospectus supplement and the accompanying prospectus, before making an investment decision.

### **CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION**

This prospectus supplement and the accompanying prospectus include forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are based on management's beliefs and assumptions. These forward-looking statements are identified by terms and phrases such as "anticipate," "believe," "intend," "estimate," "expect," "continue," "should," "could," "may," "plan," "project," "predict," "will," "potential," "forecast," "target," and similar expressions. Forward-looking statements involve risks and uncertainties that may cause actual results to be materially different from the results predicted. Factors that could cause actual results to differ materially from those indicated in any forward-looking statement include, but are not limited to:

- State, federal and foreign legislative and regulatory initiatives, including costs of compliance with existing and future environmental requirements;
- State, federal and foreign legislative and regulatory initiatives and rulings that affect cost and investment recovery or have an impact on rate structures;
- Costs and effects of legal and administrative proceedings, settlements, investigations and claims;
- Industrial, commercial and residential growth in Duke Energy's service territories;
- Additional competition in electric markets and continued industry consolidation;
- Political and regulatory uncertainty in other countries in which Duke Energy conducts business;
- The influence of weather and other natural phenomena on Duke Energy's operations, including the economic, operational and other effects of hurricanes, ice storms, droughts and tornados;
- The timing and extent of changes in commodity prices, interest rates and foreign currency exchange rates;
- Unscheduled generation outages, unusual maintenance or repairs and electric transmission system constraints;
- The performance of electric generation and of projects undertaken by Duke Energy's non-regulated businesses;
- The results of financing efforts, including Duke Energy's ability to obtain financing on favorable terms, which can be affected by various factors, including Duke Energy's credit ratings and general economic conditions;
- Declines in the market prices of equity securities and resultant cash funding requirements for Duke Energy's defined benefit pension plans;
- The level of creditworthiness of counterparties to Duke Energy's transactions;
- Employee workforce factors, including the potential inability to attract and retain key personnel;
- Growth in opportunities for Duke Energy's business units, including the timing and success of efforts to develop domestic and international power and other projects;
- The effect of accounting pronouncements issued periodically by accounting standard-setting bodies; and
- The ability to successfully complete merger, acquisition or divestiture plans.

In light of these risks, uncertainties and assumptions, the events described in the forward-looking statements included or incorporated by reference in this prospectus supplement and the accompanying prospectus might not occur or might occur to a different extent or at a different time than we have described. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

### RATIO OF EARNINGS TO FIXED CHARGES

The ratio of earnings to fixed charges is calculated using the Securities and Exchange Commission guidelines.

	Quarter Ended March 31, 2008	2007	2006	2005	2004	2003
			Year Ended December 31, (dollars in millions)			
Earnings (as defined for the fixed charges calculation):						
Add:						
Pretax income (loss) from continuing operations(a)(b)	\$ 643	\$ 2,078	\$ 1,421	\$ 1,169	\$ 723	\$ (812)
Fixed charges	213	797	1,382	1,159	1,433	1,620
Distributed income of equity investees	37	147	893	473	140	263
Deduct:						
Preference security dividend requirements of consolidated subsidiaries	—	—	27	27	31	139
Interest capitalized(c)	18	71	56	23	18	58
Total earnings(as defined for the fixed charges calculation)	<u>\$ 875</u>	<u>\$ 2,951</u>	<u>\$ 3,613</u>	<u>\$ 2,751</u>	<u>\$ 2,247</u>	<u>\$ 874</u>
Fixed charges:						
Interest on debt, including capitalized portions	\$ 200	\$ 756	\$ 1,311	\$ 1,096	\$ 1,365	\$ 1,441
Estimate of interest within rental expense	13	41	44	36	37	40
Preference security dividend requirements of consolidated subsidiaries	—	—	27	27	31	139
Total fixed charges	<u>\$ 213</u>	<u>\$ 797</u>	<u>\$ 1,382</u>	<u>\$ 1,159</u>	<u>\$ 1,433</u>	<u>\$ 1,620</u>
Ratio of earnings to fixed charges	4.1	3.7	2.6	2.4	1.6	(d)

(a) Amount for 2006 has been adjusted for the synthetic fuel business reclassified to discontinued operations during 2007.

(b) Excludes minority interest expenses and income or loss from equity investees.

(c) Excludes equity costs related to Allowance for Funds Used During Construction that are included in Other Income and Expenses in the Consolidated Statements of Operations.

(d) Earnings were inadequate to cover fixed charges by \$746 million for the year ended December 31, 2003.

### USE OF PROCEEDS

The aggregate net proceeds from the sale of the Notes, after deducting the respective underwriting discounts and related offering expenses and giving effect to the reimbursement, will be approximately \$496.4 million. The net proceeds from the sale of the Notes will be used to redeem all or a portion of our commercial paper as it matures, to fund capital expenditures in our unregulated businesses and for general corporate purposes. As of June 4, 2008, we had approximately \$428 million of commercial paper outstanding, with a weighted average interest rate of 2.85%. Our outstanding commercial paper matures no later than 30 days after its date of issue. Duke Energy Corporation issues commercial paper from time to time to fund working capital and other needs of Duke Energy Corporation and its subsidiaries.

We expect that the sales of the 2013 Notes and the 2018 Notes will take place concurrently. However, the sales of the 2013 Notes and the 2018 Notes are not conditioned upon each other, and we may consummate the sale of one series and not the other, or consummate the sales at different times.

## DESCRIPTION OF THE NOTES

### General

The following description of the terms of the 2013 Notes and the 2018 Notes summarizes certain general terms that will apply to the Notes. The 2013 Notes and the 2018 Notes will be issued as separate series of senior debt securities under an Indenture between us and The Bank of New York Trust Company, N.A., as Trustee, dated as of June 3, 2008, as supplemented from time to time, including by the First Supplemental Indenture, to be dated as of June 16, 2008, collectively referred to as the Indenture. This description is not complete, and we refer you to the accompanying prospectus and the Indenture. Defined terms have the meanings assigned to them in the Indenture.

The Notes are issuable in denominations of \$2,000 or any integral multiple of \$1,000 in excess thereof. The 2013 Notes will be issued in an aggregate principal amount of \$250,000,000 and the 2018 Notes will be issued in an aggregate principal amount of \$250,000,000.

We may from time to time, without the consent of existing holders, create and issue further Notes having the same terms and conditions as the Notes being offered hereby in all respects, except for issue date, issue price and, if applicable, the first payment of interest thereon and the initial interest accrual date. Additional Notes issued in this manner will be consolidated with and will form a single series with the previously outstanding Notes of like tenor.

As used in this prospectus supplement, "business day" means, with respect to the Notes, any day other than a Saturday or Sunday that is neither a legal holiday nor a day on which banking institutions in New York, New York are authorized or required by law, regulation or executive order to close, or a day on which the Corporate Trust Office is closed for business.

### Ranking

The Notes will be our direct, unsecured and unsubordinated obligations. The Notes will rank equal in priority with all of our existing and future unsecured and unsubordinated indebtedness and senior in right of payment to all of our existing and future subordinated debt. As of March 31, 2008, we had approximately \$671 million of unsecured and unsubordinated obligations that will rank equally in priority with respect to the Notes. Also as of March 31, 2008, our subsidiaries had approximately \$11.4 billion of obligations to which the Notes will be structurally subordinated, payment upon approximately \$2.9 billion of which is guaranteed by Duke Energy Corporation. Substantially all of such guarantees were granted to the holders of certain unsecured debt of our subsidiary Duke Energy Carolinas, LLC, in connection with changes in our corporate structure relating to the closing of our merger with Cinergy Corp. in 2006. Our Indenture contains no restrictions on the amount of additional indebtedness that we may issue under it.

### Interest

The 2013 Notes will mature on June 15, 2013 and will bear interest at a rate of 5.65% per annum and the 2018 Notes will mature on June 15, 2018 and will bear interest at a rate of 6.25% per annum. Interest shall be payable semi-annually in arrears on June 15 and December 15 of each year, commencing December 15, 2008. If an interest payment date falls on a day that is not a business day, interest will be payable on the next succeeding business day (and without any interest or payment in respect of any such delay) with the same force and effect as if made on such interest payment date. Interest will be paid to the person in whose name each Note is registered at the close of business on the fifteenth calendar day next preceding each semi-annual interest payment date (whether or not a business day). Interest will be calculated on the basis of a 360-day year, consisting of twelve 30-day months, and will accrue from June 16, 2008 or from the most recent interest payment date to which interest has been paid or duly provided for.

### **Optional Redemption**

We will have the right to redeem the Notes, in whole or in part at any time and from time to time, at a redemption price equal to the greater of (1) 100% of the principal amount of the 2013 Notes or the 2018 Notes to be redeemed and (2) the sum of the present values of the remaining scheduled payments of principal and interest on such Notes (exclusive of interest accrued to the redemption date) discounted to the redemption date on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 40 basis points in the case of the 2013 Notes and 40 basis points in the case of the 2018 Notes, plus, in either case, accrued and unpaid interest, on the principal amount being redeemed, to such redemption date.

*"Comparable Treasury Issue"* means the United States Treasury security selected by the Quotation Agent as having a maturity comparable to the remaining term of the Notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of such Notes.

*"Comparable Treasury Price"* means with respect to any redemption date for Notes, (1) the average of three Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest such Reference Treasury Dealer Quotations, or (2) if fewer than three such Reference Treasury Dealer Quotations are obtained, the average of all such Reference Treasury Dealer Quotations.

*"Quotation Agent"* means a Reference Treasury Dealer appointed by us.

*"Reference Treasury Dealer"* means each of Credit Suisse Securities (USA) LLC, Goldman, Sachs & Co., and Lehman Brothers Inc., and their respective successors; provided, however, that if any of the foregoing ceases to be a primary U.S. Government securities dealer in the United States (a "Primary Treasury Dealer"), we will substitute therefor another Primary Treasury Dealer.

*"Reference Treasury Dealer Quotations"* means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Quotation Agent, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Quotation Agent by such Reference Treasury Dealer at 5:00 p.m., New York City time, on the third business day preceding such redemption date.

*"Treasury Rate"* means, with respect to any redemption date, (1) the yield, under the heading which represents the average for the immediately preceding week, appearing in the most recently published statistical release designated "H.15 (519)" or any successor publication that is published weekly by the Board of Governors of the Federal Reserve System and that establishes yields on actively traded United States Treasury securities adjusted to constant maturity under the caption "Treasury Constant Maturities," for the maturity corresponding to the Comparable Treasury Issue for the Notes being redeemed (if no maturity is within three months before or after the maturity date of the Notes to be redeemed, yields for the two published maturities most closely corresponding to such Comparable Treasury Issue will be determined, and the Treasury Rate will be interpolated or extrapolated from such yields on a straight-line basis, rounding to the nearest month) or (2) if such release (or any successor release) is not published during the week preceding the calculation date or does not contain such yields, the rate per year equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue for the Notes being redeemed, calculated using a price for such Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date. The Treasury Rate will be calculated on the third business day preceding the redemption date.

### **Redemption Procedures**

We will provide not less than 30 nor more than 60 days' notice mailed to each registered holder of the Notes to be redeemed. If the redemption notice is given and funds deposited as required, then interest will cease to accrue from and after the redemption date on the Notes or portions of such Notes called for redemption. In the event that any redemption date is not a business day, we will pay the redemption price on the next business day without any interest or other payment due to the delay.

## **Sinking Fund**

There is no provision for a sinking fund applicable to the Notes.

## **Reports**

We will provide the trustee any information, documents or reports required to be filed by Duke Energy Corporation with the SEC under Section 13 or Section 15(d) of the Securities Exchange Act of 1934, or the Exchange Act, within 15 days after the same is filed with the SEC. See "Where You Can Find More Information."

## **Ratings**

We expect that the Notes will be rated "Baa2" by Moody's Investors Service, Inc. and "BBB+" by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organization. Each rating should be evaluated independently of any other rating.

## **CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS FOR NON-U.S. HOLDERS**

The following discussion summarizes certain U.S. federal income tax considerations relevant to the acquisition, ownership and disposition of the Notes, and does not purport to be a complete analysis of all potential U.S. federal income tax considerations. This discussion only applies to Notes that are held as capital assets within the meaning of Section 1221 of the Internal Revenue Code of 1986, as amended (the "Code"), and that are purchased in the initial offering at the initial offering price, by Non-U.S. Holders (as defined below). This summary is based on the Code, administrative pronouncements, judicial decisions and regulations of the Treasury Department, changes to any of which subsequent to the date of this prospectus supplement may affect the tax consequences described herein. This discussion does not describe all of the U.S. federal income tax considerations that may be relevant to Non-U.S. Holders in light of their particular circumstances or to Non-U.S. Holders subject to special rules, such as certain financial institutions; tax-exempt organizations; insurance companies; traders or dealers in securities or commodities; persons holding Notes as part of a hedge or other integrated transaction; or certain former citizens or residents of the United States.

Persons considering the purchase of Notes are urged to consult their tax advisors with regard to the application of the U.S. federal income tax laws to their particular situations as well as any tax consequences arising under the laws of any state, local or foreign taxing jurisdiction. Furthermore, this discussion does not describe the effect of U.S. federal estate and gift tax laws or the effect of any applicable foreign, state or local law.

We have not and will not seek any rulings or opinions from the Internal Revenue Service (the "IRS") or counsel with respect to the matters discussed below. There can be no assurance that the IRS will not take a different position concerning the tax consequences of the acquisition, ownership or disposition of the Notes or that any such position would not be sustained.

**Prospective investors should consult their own tax advisors with regard to the application of the U.S. federal income tax considerations discussed below to their particular situations as well as the application of any state, local, foreign or other tax laws, including gift and estate tax laws.**

For purposes of this summary, a "Non-U.S. Holder" means a beneficial owner of a Note that, for U.S. federal income tax purposes, is not (i) an individual that is a citizen or resident of the United States; (ii) a corporation or other entity treated as a corporation for U.S. federal income tax purposes that is created or organized under the laws of the United States, any states thereof or the District of Columbia; (iii) an estate the income of which is subject to U.S. federal income taxation; (iv) a trust if (A) a court within the United States is able to exercise primary control over its administration and one or more United States persons (as defined in the Code) have the authority to control all substantial decisions of such trust, or (B) the trust has made an election under the applicable Treasury regulations to be treated as a United States person.

## Table of Contents

If a partnership, or other entity or arrangement treated as a partnership for U.S. federal income tax purposes, holds Notes, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. Partners of a partnership holding Notes should consult their tax advisor as to the particular U.S. federal income tax considerations relevant to the acquisition, ownership and disposition of the Notes applicable to them.

### **Interest**

A Non-U.S. Holder generally will not be subject to U.S. federal income or withholding tax on payments of interest on the Notes provided that such holder (A) does not directly or indirectly, actually or constructively, own 10% or more of the total combined voting power of all classes of our stock entitled to vote, (B) is not a controlled foreign corporation that is related to us directly or constructively through stock ownership, and (C) satisfies certain certification requirements. Such certification requirements will be met if (x) the Non-U.S. Holder provides its name and address, and certifies on an IRS Form W-8 BEN (or a substantially similar form), under penalties of perjury, that it is not a U.S. person or (y) a securities clearing organization or certain other financial institutions holding the Notes on behalf of the Non-U.S. Holder certifies on IRS Form W-8IMY, under penalties of perjury, that such certification has been received by it and furnishes us or our paying agent with a copy thereof. In addition, we or our paying agent must not have actual knowledge or reason to know that the beneficial owner of the Notes is a U.S. person.

If interest on the Notes is not effectively connected with the conduct by the Non-U.S. Holder of a trade or business within the United States, but such Non-U.S. Holder does not satisfy the other requirements outlined in the preceding sentence, interest on the Notes generally will be subject to U.S. withholding tax at a 30% rate (or lower applicable treaty rate).

If interest on the Notes is effectively connected with the conduct by a Non-U.S. Holder of a trade or business within the United States, and, if certain tax treaties apply, is attributable to a permanent establishment or fixed base within the United States, then the Non-U.S. Holder generally will be subject to U.S. federal income tax on a net income basis at the rate applicable to United States persons generally (and, with respect to corporate holders, may also be subject to a 30% branch profits tax (or a lower applicable treaty rate)). If interest is subject to U.S. federal income tax on a net income basis in accordance with these rules, such interest payments will not be subject to U.S. withholding tax so long as the Non-U.S. Holder provides us or our paying agent with the appropriate documentation (generally an IRS Form W-8ECI).

### **Sale or Other Taxable Disposition of the Notes**

A Non-U.S. Holder generally will not be subject to U.S. federal withholding tax with respect to gain, if any, recognized on the sale or other taxable disposition of the Notes. A Non-U.S. Holder will also generally not be subject to U.S. federal income tax with respect to such gain, unless (i) the gain is effectively connected with the conduct by such Non-U.S. Holder of a trade or business within the United States, and, if certain tax treaties apply, is attributable to a permanent establishment or fixed base within the United States, or (ii) in the case of a Non-U.S. Holder that is a nonresident alien individual, such holder is present in the United States for 183 or more days in the taxable year and certain other conditions are satisfied. In the case described in (i) above, gain or loss recognized on the disposition of such Notes generally will be subject to U.S. federal income taxation in the same manner as if such gain or loss were recognized by a U.S. person, and, in the case of a Non-U.S. Holder that is a foreign corporation, may also be subject to the branch profits tax at a rate of 30% (or a lower applicable treaty rate). In the case described in (ii) above, the Non-U.S. Holder will be subject to a 30% tax on any capital gain recognized on the disposition of the Notes (after being offset by certain U.S. source capital losses).

### **Information Reporting and Backup Withholding**

Information returns will be filed annually with the IRS in connection with payments we make on the Notes. Copies of these information returns may also be made available under the provisions of a specific tax treaty or other agreement to the tax authorities of the country in which the Non-U.S. Holder resides. Unless

## Table of Contents

the Non-U.S. Holder complies with certification procedures to establish that it is not a United States person, information returns may be filed with the IRS in connection with the proceeds from a sale or other disposition and the Non-U.S. Holder may be subject to backup withholding tax (currently at a rate of 28%) on payments on the Notes or on the proceeds from a sale or other disposition of the Notes. The certification procedures required to claim the exemption from withholding tax on interest described above will satisfy the certification requirements necessary to avoid the backup withholding tax as well. The amount of any backup withholding from a payment to a Non-U.S. Holder will be allowed as a credit against the Non-U.S. Holder's U.S. federal income tax liability and may entitle the Non-U.S. Holder to a refund, provided that the required information is furnished to the IRS.

### **BOOK-ENTRY SYSTEM**

We have obtained the information in this section concerning The Depository Trust Company, or DTC, and its book-entry system and procedures from sources that we believe to be reliable, but we take no responsibility for the accuracy of this information.

Each series of the Notes initially will be represented by one or more fully registered global securities. Each global security will be deposited with, or on behalf of, DTC or any successor thereto and registered in the name of Cede & Co., DTC's nominee.

Investors may elect to hold interests in the global Notes through either DTC in the United States or Clearstream Banking, société anonyme ("Clearstream, Luxembourg") or Euroclear Bank S.A./N.V., as operator of the Euroclear System (the "Euroclear System"), in Europe if they are participants of such systems, or indirectly through organizations which are participants in such systems. Clearstream, Luxembourg and the Euroclear System will hold interests on behalf of their participants through customers' securities accounts in Clearstream, Luxembourg's and the Euroclear System's names on the books of their respective depositories, which in turn will hold such interests in customers' securities accounts in the depositories' names on the books of DTC. Citibank N.A. will act as depository for Clearstream, Luxembourg and JPMorgan Chase Bank, N.A. will act as depository for the Euroclear System (in such capacities, the "U.S. Depositories").

You may hold your interests in a global security in the United States through DTC, either as a participant in such system or indirectly through organizations which are participants in such system. So long as DTC or its nominee is the registered owner of the global securities representing the Notes, DTC or such nominee will be considered the sole owner and holder of the Notes for all purposes of the Notes and the indenture governing the Notes. Except as provided below, owners of beneficial interests in the Notes will not be entitled to have the Notes registered in their names, will not receive or be entitled to receive physical delivery of the Notes in definitive form and will not be considered the owners or holders of the Notes under the indenture governing the Notes, including for purposes of receiving any reports that we or the Trustee deliver pursuant to the indenture governing the Notes. Accordingly, each person owning a beneficial interest in a Note must rely on the procedures of DTC or its nominee and, if such person is not a participant, on the procedures of the participant through which such person owns its interest, in order to exercise any rights of a holder of Notes.

Unless and until we issue the Notes in certificated form under the limited circumstances described below under the heading "— Certificated Notes":

- you will not be entitled to receive physical delivery of a certificate representing your interest in the Notes;
- all references in this prospectus supplement or in the accompanying prospectus to actions by holders will refer to actions taken by DTC upon instructions from its direct participants; and
- all references in this prospectus supplement or the accompanying prospectus to payments and notices to holders will refer to payments and notices to DTC or Cede & Co., as the registered holder of the Notes, for distribution to you in accordance with DTC procedures.

### **The Depository Trust Company**

DTC will act as securities depository for the Notes. The Notes will be issued as fully registered securities registered in the name of Cede & Co. DTC is:

- a limited-purpose trust company organized under the New York Banking Law;
- a “banking organization” under the New York Banking Law;
- a member of the Federal Reserve System;
- a “clearing corporation” under the New York Uniform Commercial Code; and
- a “clearing agency” registered under the provision of Section 17A of the Securities Exchange Act of 1934.

DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds securities that its direct participants deposit with DTC. DTC also facilitates the settlement among participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in direct participants’ accounts, thereby eliminating the need for physical movement of securities certificates.

Direct participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn is owned by a number of direct participants of DTC and members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation and Emerging Markets Clearing Corporation (which are also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC and the Financial Industry Regulatory Authority, Inc. Access to the DTC system is also available to indirect participants such as securities brokers and dealers, banks and trust companies that clear transactions through or maintain a custodial relationship with a direct participant, either directly or indirectly. The rules applicable to DTC and its participants are on file with the SEC. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

If you are not a direct participant or an indirect participant and you wish to purchase, sell or otherwise transfer ownership of, or other interests in the Notes, you must do so through a direct participant or an indirect participant. DTC agrees with and represents to DTC participants that it will administer its book-entry system in accordance with its rules and by-laws and requirements of law. The SEC has on file a set of the rules applicable to DTC and its direct participants.

Purchases of the Notes under DTC’s system must be made by or through direct participants, which will receive a credit for the Notes on DTC’s records. The ownership interest of each beneficial owner is in turn to be recorded on the records of direct participants and indirect participants. Beneficial owners will not receive written confirmation from DTC of their purchase, but beneficial owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the direct or indirect participants through which such beneficial owners entered into the transaction. Transfers of ownership interests in the Notes are to be accomplished by entries made on the books of direct and indirect participants acting on behalf of beneficial owners. Beneficial owners will not receive physical delivery of certificates representing their ownership interests in the Notes, except as provided below in “— Certificated Notes.”

To facilitate subsequent transfers, all Notes deposited with DTC are registered in the name of DTC’s nominee, Cede & Co. The deposit of Notes with DTC and their registration in the name of Cede & Co. has no effect on beneficial ownership. DTC has no knowledge of the actual beneficial owners of the Notes. DTC’s records reflect only the identity of the direct participants to whose accounts such Notes are credited, which



## Table of Contents

may or may not be the beneficial owners. The participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to direct participants, by direct participants to indirect participants and by direct and indirect participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

### **Book-Entry Format**

Under the book-entry format, the Trustee will pay interest and principal payments to Cede & Co., as nominee of DTC. DTC will forward the payment to the direct participants, who will then forward the payment to the indirect participants or to the beneficial owners. You may experience some delay in receiving your payments under this system.

DTC is required to make book-entry transfers on behalf of its direct participants and is required to receive and transmit payments of principal, premium, if any, and interest on the Notes. Any direct participant or indirect participant with which you have an account is similarly required to make book-entry transfers and to receive and transmit payments with respect to Notes on your behalf. We and the Trustee have no responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

The Trustee will not recognize you as a holder of any Notes under the indenture governing the Notes and you can only exercise the rights of a holder indirectly through DTC and its direct participants. DTC has advised us that it will only take action regarding a Note if one or more of the direct participants to whom the Note is credited direct DTC to take such action. DTC can only act on behalf of its direct participants. Your ability to pledge Notes to indirect participants, and to take other actions, may be limited because you will not possess a physical certificate that represents your Notes.

### **Certificated Notes**

Unless and until they are exchanged, in whole or in part, for Notes in definitive form in accordance with the terms of the Notes, the Notes may not be transferred except as a whole by DTC to a nominee of DTC; as a whole by a nominee of DTC to DTC or another nominee of DTC; or as a whole by DTC or nominee of DTC to a successor of DTC or a nominee of such successor.

We will issue Notes to you or your nominees, in fully certificated registered form, rather than to DTC or its nominees, only if:

- we advise the Trustee in writing that DTC is no longer willing or able to discharge its responsibilities properly or that DTC is no longer a registered clearing agency under the Securities Exchange Act of 1934, and the Trustee or we are unable to locate a qualified successor within 90 days;
- an event of default has occurred and is continuing under indenture governing the Notes; or
- we, at our option, elect to terminate use of the book-entry system through DTC.

If any of the above events occurs, DTC is required to notify all direct participants that Notes in fully certificated registered form are available through DTC. DTC will then surrender the global security representing the Notes along with instructions for re-registration. The Trustee will re-issue the Notes in fully certificated registered form and will recognize the registered holders of the certificated Notes as holders under the indenture governing the Notes.

### **Global Clearance and Settlement Procedures**

Initial settlement for the Notes will be made in immediately available funds. Secondary market trading between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled in

## Table of Contents

immediately available funds using DTC's Same-Day Funds Settlement System. Secondary market trading between Clearstream Participants and/or Euroclear Participants will occur in the ordinary way in accordance with the applicable rules and operating procedures of Clearstream, Luxembourg and the Euroclear System, as applicable.

Cross-market transfers between persons holding directly or indirectly through DTC on the one hand, and directly or indirectly through Clearstream Participants or Euroclear Participants on the other, will be effected through DTC in accordance with DTC rules on behalf of the relevant European international clearing system by its U.S. Depositary; however, such cross-market transactions will require delivery of instructions to the relevant European international clearing system by the counterparty in such system in accordance with its rules and procedures and within its established deadlines (European time). The relevant European international clearing system will, if the transaction meets its settlement requirements, deliver instructions to its U.S. Depositary to take action to effect final settlement on its behalf by delivering or receiving securities in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Clearstream Participants and Euroclear Participants may not deliver instructions directly to their respective U.S. Depositaries.

Because of time-zone differences, credits of Notes received in Clearstream, Luxembourg or the Euroclear System as a result of a transaction with a DTC participant will be made during subsequent securities settlement processing and dated the business day following the DTC settlement date. Such credits or any transactions in such Notes settled during such processing will be reported to the relevant Euroclear Participant or Clearstream Participant on such business day. Cash received in Clearstream, Luxembourg or the Euroclear System as a result of sales of the Notes by or through a Clearstream Participant or a Euroclear Participant to a DTC participant will be received with value on the DTC settlement date but will be available in the relevant Clearstream, Luxembourg or the Euroclear System cash account only as of the business day following settlement in DTC.

Although DTC, Clearstream, Luxembourg and the Euroclear System have agreed to the foregoing procedures in order to facilitate transfers of Notes among participants of DTC, Clearstream, Luxembourg and the Euroclear System, they are under no obligation to perform or continue to perform such procedures and such procedures may be discontinued or changed at any time.

## UNDERWRITING

We have entered into an underwriting agreement with respect to the Notes with the underwriters listed below, for which Credit Suisse Securities (USA) LLC, Goldman, Sachs & Co. and Lehman Brothers Inc. are acting as representatives. Subject to certain conditions, each of the underwriters has severally agreed to purchase the principal amounts of Notes indicated in the following table:

Name	Principal Amount of	Principal Amount of
	2013 Notes	2018 Notes
Credit Suisse Securities (USA) LLC	\$ 67,500,000	\$ 67,500,000
Goldman, Sachs & Co.	67,500,000	67,500,000
Lehman Brothers Inc.	67,500,000	67,500,000
Citigroup Global Markets Inc.	11,875,000	11,875,000
Lazard Capital Markets LLC	11,875,000	11,875,000
Scotia Capital (USA) Inc.	11,875,000	11,875,000
Sun Trust Robinson Humphrey, Inc.	11,875,000	11,875,000
Total	\$ 250,000,000	\$ 250,000,000

The underwriting agreement provides that the obligations of the several underwriters to pay for and accept delivery of the Notes are subject to certain conditions, including the receipt of legal opinions relating to certain matters. The underwriters must purchase all the 2013 Notes or the 2018 Notes, respectively, if they purchase any of the 2013 Notes or the 2018 Notes. However, the sales of the 2013 Notes and the 2018 Notes are not conditioned upon each other, and we may consummate the sale of one series and not the other or consummate the sales at different times. If an underwriter defaults, the underwriting agreement provides that the purchase commitments of the nondefaulting underwriters may be increased or the underwriting agreement may be terminated.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933 as amended, or to contribute to payments the underwriters may be required to make in respect of any of these liabilities.

The underwriters are offering the Notes, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the Notes, and other conditions contained in the underwriting agreement, such as the receipt by the underwriters of officer's certificates and legal opinions. The underwriters reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

### Commissions and Discounts

The Notes sold by the underwriters to the public will initially be offered at the initial prices to the public set forth on the cover of this prospectus supplement and may be offered to certain dealers at those prices less a concession not in excess of (i) .35% of the aggregate principal amount of the 2013 Notes and (ii) .45% of the aggregate principal amount of the 2018 Notes. The underwriters may allow, and those dealers may reallow, a discount not in excess of (i) 0.25% of the aggregate principal amount of the 2013 Notes and (ii) .20% of the aggregate principal amount of the 2018 Notes to certain other dealers. If all the Notes are not sold at the initial prices to public, the underwriters may change the offering prices and the other selling terms.

The expenses of the offerings, not including the underwriting discounts, are estimated to be \$500,000. The underwriters have agreed to make a payment to us in an amount equal to \$1,125,000, including in respect of expenses incurred by us in connection with the offering.

## Table of Contents

### **New Issues of Notes**

The Notes are new issues of securities with no established trading market. We have been advised by the underwriters that the underwriters intend to make a market in each series of the Notes, but they are not obligated to do so and may discontinue market making at any time without notice. No assurance can be given as to the liquidity of any trading markets for the Notes.

### **Price Stabilization, Short Positions and Penalty Bid**

In connection with the offerings, the underwriters may engage in transactions that stabilize, maintain, or otherwise affect the prices of the Notes. These transactions may include short sales, stabilizing transactions and purchases to cover positions created by short sales. Short sales involve the sale by the underwriters of a greater aggregate principal amount of Notes than they are required to purchase in the offerings. Stabilizing transactions consist of certain bids or purchases made for the purpose of preventing or retarding a decline in the market prices of the Notes while the offerings are in process.

These activities by the underwriters may stabilize, maintain or otherwise affect the market prices of the Notes. As a result, the prices of the Notes may be higher than the prices that otherwise might exist in the open market. If these activities are commenced, they may be discontinued by the underwriters at any time. These transactions may be effected in the over-the-counter market or otherwise.

The underwriters also may impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the representatives have repurchased notes sold by or for the account of such underwriter in stabilizing or short covering transactions.

### **Other Relationships**

In the ordinary course of their respective businesses, some of the underwriters and/or their affiliates have in the past and may in the future provide us and our subsidiaries and affiliates with financial advisory and other services for which they have and in the future will receive customary fees.

Lazard Capital Markets LLC ("Lazard Capital Markets") has entered into an agreement with Mitsubishi UFJ Securities (USA), Inc. ("MUS(USA)") pursuant to which MUS(USA) provides certain advisory and/or other services to Lazard Capital Markets, including in respect of this offering. In return for the provision of such services by MUS(USA) to Lazard Capital Markets, Lazard Capital Markets will pay to MUS(USA) a mutually agreed upon fee.

### **UK Selling Restrictions**

Each underwriter has represented and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act (the "FSMA") received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to us; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

### **EEA Selling Restrictions**

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), each underwriter has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date") it has not made and will not make an offer of Notes which are the

## Table of Contents

subject of the offerings contemplated by this prospectus supplement to the public in that Relevant Member State other than:

- (a) to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;
- (b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000; and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;
- (c) to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the lead underwriters; or
- (d) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes shall require us or any underwriter to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer of Notes to the public” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression “Prospectus Directive” means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

### ***Hong Kong***

The Notes may not be offered or sold by means of any document other than (1) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), or (ii) to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap.571, Laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a “prospectus” within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), and no advertisement, invitation or document relating to the Notes may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap.571, Laws of Hong Kong) and any rules made thereunder.

### ***Japan***

The Notes have not been and will not be registered under the Securities and Exchange Law of Japan (the Securities and Exchange Law) and each underwriter has agreed that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

### ***Singapore***

This prospectus supplement has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus supplement and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes may not be circulated or distributed, nor may the Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether

## Table of Contents

directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "SPA"), (ii) to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SPA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SPA.

Where the Notes are subscribed or purchased under Section 275 by a relevant person which is: (a) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor, shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest in that trust shall not be transferable for 6 months after that corporation or that trust has acquired the Notes under Section 275 except: (1) to an institutional investor under Section 274 of the SEA or to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA; (2) where no consideration is given for the transfer; or (3) by operation of law.

## **EXPERTS**

The consolidated financial statements and the related financial statement schedule, incorporated in this prospectus supplement by reference from Duke Energy Corporation's Annual Report on Form 10-K for the year ended December 31, 2007, and the effectiveness of Duke Energy Corporation's internal control over financial reporting have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report, which is incorporated herein by reference (which report (1) expresses an unqualified opinion on the financial statements and financial statement schedule and includes an explanatory paragraph referring to the spin-off of the natural gas business and (2) expresses an unqualified opinion on the effectiveness of internal control over financial reporting). Such financial statements and financial statement schedule have been so incorporated in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

The consolidated financial statements and the related financial statement schedule of DCP Midstream, LLC as of and for the years ended December 31, 2006 and 2005, incorporated in this prospectus supplement by reference from Duke Energy Corporation's Annual Report on Form 10-K for the year ended December 31, 2006, have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report, which is incorporated herein by reference, and has been so incorporated in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

The consolidated financial statements of TEPPCO Partners, L.P. as of December 31, 2005 and 2004, and for each of the years in the three-year period ended December 31, 2005 have been incorporated by reference herein in reliance upon the report of KPMG LLP, independent registered public accounting firm, incorporated by reference herein, and upon the authority of said firm as experts in accounting and auditing. The audit report dated February 28, 2006, except for the effects of discontinued operations, as discussed in Note 5, which is as of June 1, 2006, contains a separate paragraph that states that as discussed in Note 20 to the consolidated financial statements, TEPPCO Partners, L.P. has restated its consolidated balance sheet as of December 31, 2004, and the related consolidated statements of income, partners' capital and comprehensive income, and cash flows for the years ended December 31, 2004 and 2003.

## **LEGAL MATTERS**

The validity of the Notes will be passed upon for Duke Energy Corporation by Robert T. Lucas III, Esq., who is Duke Energy Corporation's Associate General Counsel and Assistant Secretary. Certain legal matters with respect to the offerings of the Notes will be passed upon for Duke Energy Corporation by Skadden, Arps, Slate, Meagher & Flom LLP, Washington, D.C. and for the underwriters by Sidley Austin LLP, New York, New York.

## **WHERE YOU CAN FIND MORE INFORMATION**

We are subject to the informational requirements of the Securities Exchange Act of 1934 and, in accordance therewith, file annual, quarterly and current reports and other information with the Securities and Exchange Commission, or the SEC. Such reports and other information can be inspected and copied at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may also obtain copies of these documents at prescribed rates from the Public Reference Section of the SEC at its Washington, D.C. address. Please call the SEC at 1-800-SEC-0330 for further information. Our filings with the SEC, as well as additional information about us are also available to the public through our website at <http://www.duke-energy.com> and are made available as soon as reasonably practicable after such material is filed with or furnished to the SEC. The information on our website is not a part of this prospectus supplement. Our filings are also available to the public through the SEC website at <http://www.sec.gov>.

The SEC allows us to "incorporate by reference" into this prospectus supplement the information we file with it, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be a part of this prospectus supplement, and information that we file later with the SEC will automatically update and supersede this information. This prospectus supplement incorporates by reference the documents incorporated in the accompanying prospectus at the time the registration statement became effective and all later documents filed with the SEC, in all cases as updated and superseded by later filings with the SEC. We incorporate by reference the documents listed below and any future documents filed by Duke Energy Corporation with the SEC under Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 until the offerings are completed.

- Annual Report on Form 10-K for the year ended December 31, 2007;
- Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2008; and
- Current reports on Form 8-K filed February 22, 2008 (except Item 2.02 and Exhibits 99.1 and 99.2 furnished under Item 9.01); March 3, 2008; March 12, 2008; April 16, 2008; May 9, 2008; May 14, 2008; and May 28, 2008.

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

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

Prospectus

# DUKE ENERGY CORPORATION

## Common Stock Debt Securities

From time to time, we may offer the securities described in the prospectus separately or together in any combination, in one or more classes or series, in amounts, at prices and on terms that we will determine at the time of the offering.

We will provide specific terms of these offerings and securities in supplements to this prospectus. You should read carefully this prospectus, the information incorporated by reference in this prospectus and any prospectus supplement before you invest. This prospectus may not be used to offer or sell any securities unless accompanied by a prospectus supplement.

Our common stock is listed on the New York Stock Exchange, or NYSE, under the trading symbol "DUK."

**Investing in our securities involves risks. You should carefully consider the information in the section entitled "Risk Factors" contained in our periodic reports filed with the Securities and Exchange Commission and incorporated by reference into this prospectus before you invest in any of our securities.**

We may offer and sell the securities directly, through agents we select from time to time or to or through underwriters or dealers we select. If we use any agents, underwriters or dealers to sell the securities, we will name them and describe their compensation in a prospectus supplement. The price to the public of those securities and the net proceeds we expect to receive from that sale will also be set forth in a prospectus supplement.

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

The date of this prospectus is October 3, 2007.

---



## Table of Contents

	<u>Page</u>
<u>The Company</u>	1
<u>Risk Factors</u>	1
<u>Use of Proceeds</u>	1
<u>Ratio of Earnings to Fixed Charges</u>	2
<u>Description of Capital Stock</u>	2
<u>Description of Debt Securities</u>	4
<u>Plan of Distribution</u>	12
<u>Experts</u>	13
<u>Validity of the Securities</u>	13
<u>Where You Can Find More Information</u>	13

## REFERENCES TO ADDITIONAL INFORMATION

This prospectus incorporates important business and financial information about us from other documents that are not included in or delivered with this prospectus. This information is available for you to review at the SEC's public reference room located at 100 F Street, N.E., Room 1580, Washington, DC 20549, and through the SEC's website, [www.sec.gov](http://www.sec.gov). You can also obtain those documents incorporated by reference in this prospectus by requesting them in writing or by telephone from the company at the following address and telephone number:

Duke Energy  
526 South Church Street  
Charlotte, North Carolina 28202  
(800) 488-3853  
Attention: Investor Relations  
[www.duke-energy.com/investors](http://www.duke-energy.com/investors)

See "Where You Can Find More Information" beginning on page 9.

## ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that Duke Energy filed with the SEC utilizing a "shelf" registration process. Under the shelf registration process, we are registering an unspecified amount of our common stock and debt securities, and may issue any of such securities in one or more offerings.

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

Unless we have indicated otherwise, or the context otherwise requires, references in this prospectus to "Duke Energy," "we," "us" and "our" or similar terms are to Duke Energy Corporation and its subsidiaries.

## **FORWARD-LOOKING STATEMENTS**

This prospectus and the information incorporated by reference in this prospectus include forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. These forward-looking statements are based on our management's beliefs and assumptions and on information currently available to us. Forward-looking statements include information concerning our possible or assumed future results of operations and statements preceded by, followed by or that include the words "may," "will," "could," "projects," "believes," "expects," "anticipates," "intends," "plans," "estimates" or similar expressions.

Forward-looking statements involve risks, uncertainties and assumptions. Actual results may differ materially from those expressed in these forward-looking statements. Factors that could cause actual results to differ materially from these forward-looking statements include, but are not limited to, those discussed elsewhere in this prospectus and the documents incorporated by reference in this prospectus. You should not put undue reliance on any forward-looking statements. We do not have any intention or obligation to update forward-looking statements after we distribute this prospectus.

## **THE COMPANY**

Duke Energy Corporation ("Duke Energy") is one of the largest electric power companies in the United States, and supplies and delivers energy to approximately 4 million U.S. customers. We have approximately 37,000 megawatts of electric generating capacity in the Midwest and the Carolinas, and natural gas distribution services in Ohio and Kentucky. In addition, we own and operate approximately 4,000 megawatts of electric generation in Latin America, and we are a joint-venture partner in a U.S. real estate company. Headquartered in Charlotte, N.C., Duke Energy is a Fortune 500 company traded on the New York Stock Exchange under the symbol "DUK." We are a Delaware corporation, and our principal executive offices are located at 526 South Church Street, Charlotte, North Carolina, 28202-1803. Our telephone number is (704) 594-6200.

We have the following segments: U.S. Franchised Electric & Gas, Commercial Power, Duke Energy International and Crescent Resources, LLC ("Crescent").

U.S. Franchised Electric & Gas generates, transmits, distributes and sells electricity in central and western North Carolina, western South Carolina and Indiana; and provides combined electric and gas sales, transmission and distribution service in the southwestern portion of Ohio and northern Kentucky.

Commercial Power operates and manages power plants, primarily in the Midwestern portion of the U.S., and markets electric power and natural gas related to these plants and other contractual positions. It also performs energy risk management activities and provides customized energy solutions.

Duke Energy International operates and manages power generation facilities and engages in sales and marketing of electric power and natural gas outside the United States. Its activities target power generation in Latin America.

Crescent is a joint venture of which we own approximately 50 per cent. It develops and manages high-quality commercial, residential and multi-family real estate projects primarily in the Southeastern and Southwestern United States. Some of these projects are developed and managed through joint ventures. Crescent also manages "legacy" land holdings in North and South Carolina.

## **RISK FACTORS**

Investing in our securities involves risks. Before purchasing any securities we offer, you should carefully consider the risk factors that are incorporated by reference herein from the section captioned "Risk Factors" in our Form 10-K for the year ended December 31, 2006, together with all of the other information included in this prospectus and any prospectus supplement and any other information that we have incorporated by reference, including filings made with the Securities and Exchange Commission (the "SEC") subsequent to the date hereof. Any of these risks, as well as other risks and uncertainties, could harm our financial condition, results of operations or cash flows.

## **USE OF PROCEEDS**

Unless otherwise set forth in a prospectus supplement, we intend to use the net proceeds of any offering of securities sold by us for general corporate purposes, which may include acquisitions, repayment of debt, capital expenditures and working capital. When a particular series of securities is offered, the prospectus supplement relating to that offering will set forth our intended use of the net proceeds received from the sale of those securities. The net proceeds may be invested temporarily in short-term marketable securities or applied to repay short-term debt until they are used for their stated purpose.

## RATIO OF EARNINGS TO FIXED CHARGES

The ratio of earnings to fixed charges is calculated using the Securities and Exchange Commission guidelines (a).

	Period Ended June 30, 2007	Year Ended December 31, (Dollars in millions)				
		2006	2005	2004	2003	2002
Earnings as defined for fixed charges calculation						
Add:						
Pretax (loss) income from continuing operations(b)	\$ 809	\$ 1,414	\$ 1,189	\$ 720	\$ (990)	\$ 1,054
Fixed charges	379	1,382	1,159	1,433	1,620	1,550
Distributed income of equity investees	59	893	473	140	263	369
Deduct:						
Preference security dividend requirements of consolidated subsidiaries	—	27	27	31	139	170
Interest capitalized(c)	34	56	23	18	58	193
Total earnings(as defined for the Fixed Charges calculation)	\$ 1,213	\$ 3,606	\$ 2,771	\$ 2,244	\$ 696	\$ 2,610
Fixed charges:						
Interest on debt, including capitalized portions	\$ 358	\$ 1,311	\$ 1,096	\$ 1,365	\$ 1,441	\$ 1,340
Estimate of interest within rental expense	21	44	36	A-1	40	40
Preference security dividend requirements of consolidated subsidiaries	—	27	27	31	139	170
Total fixed charges	\$ 379	\$ 1,382	\$ 1,159	\$ 1,433	\$ 1,620	\$ 1,550
Ratio of earnings to fixed charges	3.2	2.6	2.4	1.6	(d)	1.7

- (a) Certain prior year Income Statement amounts above have been adjusted for businesses reclassified to discontinued operations during 2007.
- (b) Excludes minority interest expenses and income or loss from equity investees.
- (c) Excludes equity costs related to Allowance for Funds Used During Construction that are included in Other Income and Expenses in the Consolidated Statements of Operations.
- (d) Earnings were inadequate to cover fixed charges by \$924 million for the year ended December 31, 2003.

## DESCRIPTION OF CAPITAL STOCK

The following summary of our capital stock is subject in all respects to the applicable provisions of the Delaware General Corporation Law (the "DGCL"), and our amended and restated certificate of incorporation. The following discussion is a summary of our amended and restated certificate of incorporation and by-laws and is qualified in its entirety by reference to those documents.

### General

Our total number of authorized shares of capital stock consists of 2 billion shares of common stock, par value \$0.001 per share, and 44 million shares of preferred stock, par value \$0.001 per share.

## Table of Contents

### **Common Stock**

Except as otherwise required by law and subject to the rights of the holders of any class or series of preferred stock, with respect to all matters upon which shareholders are entitled to vote or to which shareholders are entitled to give consent, the holders of any outstanding shares of common stock vote together as a class, and every holder of common stock is entitled to cast one vote in person or by proxy for each share of common stock standing in such holder's name on our books. We do not have a classified board of directors nor do we permit cumulative voting.

Holders of common stock are not entitled to any preemptive rights to subscribe for additional shares of common stock nor are they liable to further capital calls or to assessments by us.

Subject to applicable law and the rights, if any, of the holders of any class or series of preferred stock having a preference over the rights to participate with the common stock with respect to the payment of dividends, holders of our common stock are entitled to receive dividends or other distributions as declared by our board of directors at its discretion.

The board of directors may create a class or series of preferred stock with dividends the rate of which is calculated by reference to, and payment of which is concurrent with, dividends on shares of common stock.

### **Preferred Stock**

Our board of directors has the full authority permitted by law, at any time and from time to time, to divide the authorized and unissued shares of preferred stock into one or more classes or series and, with respect to each such class or series, to determine by resolution or resolutions the number of shares constituting such class or series and the designation of such class or series, the voting powers, if any, of the shares of such class or series, and the preferences and relative, participating, optional or other special rights, if any, and any qualifications, limitations or restrictions thereof, of the shares of any such class or series of preferred stock to the full extent now or as may in the future be permitted by the law of the State of Delaware. The powers, preferences and relative, participating, optional and other special rights of each class or series of preferred stock and the qualifications, limitations or restrictions thereof, if any, may differ from those of any and all other classes or series at any time outstanding. Except as otherwise required by law, as provided in the certificate of incorporation or as determined by our board of directors, holders of preferred stock will not have any voting rights and will not be entitled to any notice of shareholder meetings.

### **Provisions that Have or May Have the Effect of Delaying or Prohibiting a Change in Control**

Under our certificate of incorporation, the board of directors has the full authority permitted by Delaware law to determine the voting rights, if any, and designations, preferences, limitations and special rights of any class or any series of any class of the preferred stock.

The certificate of incorporation also provides that a director may be removed from office with or without cause. However, subject to applicable law, any director elected by the holders of any series of preferred stock may be removed without cause only by the holders of a majority of the shares of such series of preferred stock.

Our certificate of incorporation requires an affirmative vote of the holders of at least 80% of the combined voting power of the then outstanding shares of stock of all our classes entitled to vote generally in the election of directors, voting together as a single class, to amend, alter or repeal provisions in the certificate of incorporation which relate to the number of directors and vacancies and newly created directorships.

Our certificate of incorporation provides that any action required to be taken at any annual or special meeting of shareholders may be taken without a meeting and without prior notice only if consent in writing setting forth the action to be taken is signed by all the holders of our issued and outstanding capital stock entitled to vote in respect of such action.

Our by-laws provide that, except as expressly required by the certificate of incorporation or by applicable law, and subject to the rights of the holders of any series of preferred stock, special meetings of the

## Table of Contents

shareholders or of any series entitled to vote may be called for any purpose or purposes only by the Chairman of the board of directors or by the board of directors. Shareholders are not entitled to call special meetings.

The provisions of our certificate of incorporation and by-laws conferring on our board of directors the full authority to issue preferred stock, the restrictions on removing directors elected by holders of preferred stock, the supermajority voting requirements relating to the amendment, alteration or repeal of the provisions governing the number of directors and filling of vacancies and newly created directorships, the requirement that shareholders act at a meeting unless all shareholders agree in writing, and the inability of shareholders to call a special meeting, in certain instances could have the effect of delaying, deferring or preventing a change in control or the removal of existing management.

### **DESCRIPTION OF DEBT SECURITIES**

Duke Energy will issue the debt securities, whether senior or subordinated, in one or more series under its Indenture, as supplemented from time to time. Unless otherwise specified in the applicable prospectus supplement, the trustee under the Indenture will be The Bank of New York. A form of the Indenture is an exhibit to the registration statement, of which this prospectus is a part.

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

Holders of debt securities will generally have a junior position to claims of creditors of our subsidiaries, including trade creditors, debtholders, secured creditors, taxing authorities, guarantee holders and any holders of preferred stock. In addition to trade debt, certain of our operating subsidiaries have ongoing corporate debt programs used to finance their business activities. As of June 30, 2007, on a consolidated basis (including securities due within one year), we had approximately \$12.0 billion of outstanding debt, of which approximately \$11.3 billion was subsidiary debt. Unless otherwise specified in a prospectus supplement, the Indenture will not limit the amount of indebtedness or preferred stock issuable by our subsidiaries.

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

#### **General**

The Indenture does not limit the amount of debt securities that Duke Energy may issue under it. Duke Energy may issue debt securities from time to time under the Indenture in one or more series by entering into supplemental indentures or by its board of directors or a duly authorized committee authorizing the issuance.

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

#### **Provisions Applicable to Particular Series**

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

- the title of the series;
- the total principal amount of the debt securities of the series;
- the date or dates on which principal is payable or the method for determining the date or dates, and any right that Duke Energy has to change the date on which principal is payable;

## Table of Contents

- the interest rate or rates, if any, or the method for determining the rate or rates, and the date or dates from which interest will accrue;
- any interest payment dates and the regular record date for the interest payable on each interest payment date, if any;
- whether Duke Energy may extend the interest payment periods and, if so, the terms of the extension;
- the place or places where payments will be made;
- whether Duke Energy has the option to redeem the debt securities and, if so, the terms of its redemption option;
- any obligation that Duke Energy has to redeem the debt securities through a sinking fund or to purchase the debt securities through a purchase fund or at the option of the holder;
- whether the provisions described under "Defeasance and Covenant Defeasance" will not apply to the debt securities;
- the currency in which payments will be made if other than U.S. dollars, and the manner of determining the equivalent of those amounts in U.S. dollars;
- if payments may be made, at Duke Energy's election or at the holder's election, in a currency other than that in which the debt securities are stated to be payable, then the currency in which those payments may be made, the terms and conditions of the election and the manner of determining those amounts;
- the portion of the principal payable upon acceleration of maturity, if other than the entire principal;
- whether the debt securities will be issuable as global securities and, if so, the securities depositary;
- any changes in the events of default or covenants with respect to the debt securities;
- any index or formula used for determining principal, premium or interest;
- the terms of the subordination of any series of subordinated debt;
- if the principal payable on the maturity date will not be determinable on one or more dates prior to the maturity date, the amount which will be deemed to be such principal amount or the manner of determining it; and
- any other terms.

Unless Duke Energy states otherwise in the applicable prospectus supplement, Duke Energy will issue the debt securities only in fully registered form without coupons, and there will be no service charge for any registration of transfer or exchange of the debt securities. Duke Energy may, however, require payment to cover any tax or other governmental charge payable in connection with any transfer or exchange. Subject to the terms of the Indenture and the limitations applicable to global securities, transfers and exchanges of the debt securities may be made at The Bank of New York, 101 Barclay Street, New York, New York 10286 or at any other office maintained by Duke Energy for such purpose.

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

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

**Book-Entry Debt Securities**

We may issue debt securities of a series in whole or in part in the form of one or more global securities. We will deposit such global securities with, or on behalf of, a depository identified in the applicable prospectus supplement. We may issue global securities in either registered or bearer form and in either temporary or permanent form. Unless we specify otherwise in the applicable prospectus supplement, debt securities that are represented by a global security will be issued in denominations of \$1,000 or any integral multiple thereof and will be issued in registered form only, without coupons. We will make payments of principal of, premium, if any, and interest on debt securities represented by a global security to the applicable trustee under the applicable indenture, which will then forward such payments to the depository.

We anticipate that any global securities will be deposited with, or on behalf of, The Depository Trust Company, New York, New York ("DTC"), and that such global securities will be registered in the name of Cede & Co., DTC's nominee. We further anticipate that the following provisions will apply to the depository arrangements with respect to any such global securities. We will describe any additional or differing terms of the depository arrangements in the applicable prospectus supplement relating to a particular series of debt securities issued in the form of global securities.

So long as DTC or its nominee is the registered owner of a global security, DTC or its nominee, as the case may be, will be considered the sole holder of the debt securities represented by such global security for all purposes under the applicable indenture. Except as described below, owners of beneficial interests in a global security:

- will not be entitled to have debt securities represented by such global security registered in their names;
- will not receive or be entitled to receive physical delivery of debt securities in certificated form; and
- will not be considered the owners or holders thereof under the applicable indenture.

The laws of some states require that certain purchasers of securities take physical delivery of such securities in certificated form; accordingly, such laws may limit the transferability of beneficial interests in a global security.

Unless we specify otherwise in the applicable prospectus supplement, each global security representing book-entry notes will be exchangeable for certificated notes only if:

- DTC notifies us that it is unwilling or unable to continue as depository or DTC ceases to be a clearing agency registered under the Exchange Act (if so required by applicable law or regulation) and, in either case, a successor depository is not appointed by us within ninety (90) days after we receive such notice or become aware of such unwillingness, inability or ineligibility;
- we, in our sole discretion and subject to DTC's procedures, determine that the global securities shall be exchangeable for certificated notes; or
- there shall have occurred and be continuing an event of default under an indenture with respect to the notes and beneficial owners representing a majority in aggregate principal amount of the book-entry notes represented by global securities advise DTC to cease acting as depository. Upon any such exchange, owners of a beneficial interest in the global security or securities representing book-entry notes will be entitled to physical delivery of individual debt securities in certificated form of like tenor and rank, equal in principal amount to such beneficial interest, and to have such debt securities in certificated form registered in the names of the beneficial owners, which names shall be provided by DTC's relevant participants (as identified by DTC) to the applicable trustee.

Unless we describe otherwise in the applicable prospectus supplement, debt securities so issued in certificated form will be issued in denominations of \$1,000 or any integral multiple thereof, and will be issued in registered form only, without coupons.

DTC will act as securities depository for the debt securities. The debt securities will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as



## Table of Contents

may be requested by an authorized representative of DTC. Except as otherwise provided, one fully registered debt security certificate will be issued with respect to each series of the debt securities, each in the aggregate principal amount of such series, and will be deposited with DTC. If, however, the aggregate principal amount of any series exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount and an additional certificate will be issued with respect to any remaining principal amount of such series.

The following is based on information furnished to us by DTC:

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC rules applicable to its Participants are on file with the SEC. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

Purchases of debt securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the debt securities on DTC's records. The ownership interest of each actual purchaser of each debt security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are, however, expected to receive a written confirmation providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in debt securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in debt securities, except in the event that use of the book-entry system for the debt securities is discontinued.

To facilitate subsequent transfers, all debt securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co, or such other name as may be requested by an authorized representative of DTC. The deposit of the debt securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the debt securities; DTC's records reflect only the identities of the Direct Participants to whose accounts debt securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the debt securities unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails a proxy (an "Omnibus Proxy") to the issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose

## Table of Contents

accounts the debt securities are credited on the record date (identified on a list attached to the Omnibus Proxy).

Principal, premium, if any, interest payments and redemption proceeds on the debt securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from us or the trustee, on the payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name" and will be the responsibility of such Participant and not of DTC, nor its nominee, the applicable Trustee or us, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, interest and redemption proceeds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is our responsibility or the applicable Trustee's, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

If applicable, redemption notices shall be sent to DTC. If less than all of the book-entry notes within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

A Beneficial Owner shall give notice of any option to elect to have its book-entry notes repaid by us, through its Participant, to the applicable Trustee, and shall effect delivery of such book-entry notes by causing the Direct Participant to transfer the Participant's interest in the global security or securities representing such book-entry notes, on DTC's records, to such Trustee. The requirement for physical delivery of book-entry notes in connection with a demand for repayment will be deemed satisfied when the ownership rights in the global security or securities representing such book-entry notes are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered securities to the Trustee's DTC account.

DTC may discontinue providing its services as securities depository with respect to the debt securities at any time by giving reasonable notice to the applicable Trustee or us. Under such circumstances, in the event that a successor securities depository is not appointed, debt security certificates are required to be printed and delivered.

We may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, debt security certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that we believe to be reliable, but we take no responsibility for the accuracy thereof.

Unless stated otherwise in the prospectus supplement, the underwriters or agents with respect to a series of debt securities issued as global securities will be Direct Participants in DTC.

Neither we, the applicable Trustee nor any applicable paying agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial interests in a global security, or for maintaining, supervising or reviewing any records relating to such beneficial interest.

### **Redemption**

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

## Table of Contents

those funds, the redemption notice will not apply, and Duke Energy will not be required to redeem those debt securities.

Duke Energy will not be required to:

- issue, register the transfer of, or exchange any debt securities of a series during the period beginning fifteen (15) days before the date the notice is mailed identifying the debt securities of that series that have been selected for redemption; or
- register the transfer of or exchange any debt security of that series selected for redemption except the unredeemed portion of a debt security being partially redeemed.

### **Consolidation, Merger, Conveyance or Transfer**

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

### **Modification; Waiver**

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

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

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

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

## Table of Contents

### **Events of Default**

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

- failure to pay principal of or any premium on any Debt security of that series when due;
- failure to pay when due any interest on any Debt security of that series that continues for sixty (60) days; for this purpose, the date on which interest is due is the date on which Duke Energy is required to make payment following any deferral of interest payments by it under the terms of debt securities that permit such deferrals;
- failure to make any sinking fund payment when required for any Debt security of that series that continues for sixty (60) days;
- failure to perform any covenant in the Indenture (other than a covenant expressly included solely for the benefit of other series) that continues for ninety (90) days after the Indenture Trustee or the holders of at least 33% of the outstanding debt securities of that series give Duke Energy written notice of the default; and
- certain bankruptcy, insolvency or reorganization events with respect to Duke Energy.

In the case of the fourth event of default listed above, the Indenture Trustee may extend the grace period.

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

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

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

- Duke Energy has paid or deposited with the Indenture Trustee all overdue interest, the principal and any premium due otherwise than by the declaration and any interest on such amounts, and any interest on overdue interest, to the extent legally permitted, in each case with respect to that series, and all amounts due to the Indenture Trustee; and
- all events of default with respect to that series, other than the nonpayment of the principal that became due solely by virtue of the declaration, have been cured or waived.

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

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

## Table of Contents

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

### **Payments; Paying Agent**

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

- by wire transfer to an account at a banking institution in the United States that is designated in writing to the Indenture Trustee at least sixteen (16) days prior to the date of payment by the person entitled to that interest; or
- By check mailed to the address of the person entitled to that interest as that address appears in the security register for those debt securities.

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

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

### **Defeasance and Covenant Defeasance**

The Indenture provides that Duke Energy may be:

- discharged from its obligations, with certain limited exceptions, with respect to any series of debt securities, as described in the Indenture, such a discharge being called a "defeasance" in this prospectus; and
- released from its obligations under certain restrictive covenants especially established with respect to any series of debt securities, as described in the Indenture, such a release being called a "covenant defeasance" in this prospectus.

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

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

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

## Table of Contents

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

### **Concerning the Indenture Trustee**

The Bank of New York is the Indenture Trustee. Duke Energy and certain of its affiliates maintain deposit accounts and banking relationships with The Bank of New York. The Bank of New York also serves as trustee or agent under other indentures and agreements pursuant to which securities of Duke Energy and of certain of its affiliates are outstanding.

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

### **PLAN OF DISTRIBUTION**

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

- the name or names of any underwriters;
- the purchase price of the securities and the proceeds to us from the sale;
- any underwriting discounts and other items constituting underwriters' compensation;
- any public offering price;
- any discounts or concessions allowed or reallocated or paid to dealers; and
- any securities exchange or market on which the securities may be listed.

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

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

We may sell the securities directly or through agents we designate from time to time. Any agent involved in the offer or sale of the securities covered by this prospectus will be named in a prospectus supplement relating to such securities. Commissions payable by us to agents will be set forth in a prospectus supplement relating to the securities being offered. Unless otherwise indicated in a prospectus supplement, any such agents will be acting on a best-efforts basis for the period of their appointment.

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

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

## Table of Contents

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

### **EXPERTS**

The consolidated financial statements and the related financial statement schedule incorporated in this prospectus by reference from Duke Energy Corporation's October 1, 2007 Report on Form 8-K, and management's report on the effectiveness of internal control over financial reporting incorporated in this prospectus by reference from Duke Energy Corporation's Annual Report on Form 10-K for the year ended December 31, 2006, have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their reports (which reports (1) express an unqualified opinion on the financial statements and financial statement schedule and include explanatory paragraphs regarding the adoption of a new accounting standard and the January 2, 2007 spin-off of the Company's natural gas businesses, (2) express an unqualified opinion on management's assessment regarding the effectiveness of internal control over financial reporting, and (3) express an unqualified opinion on the effectiveness of internal control over financial reporting), which are incorporated herein by reference, and have been so incorporated in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.

The consolidated financial statements and the related financial statement schedule of DCP Midstream, LLC as of and for the years ended December 31, 2006 and 2005, incorporated in this prospectus by reference from Duke Energy Corporation's Annual Report on Form 10-K/A for the year ended December 31, 2006, have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report, which is incorporated herein by reference, and has been so incorporated in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

The consolidated financial statements of TEPPCO Partners, L.P. as of December 31, 2005 and 2004, and for each of the years in the three-year period ended December 31, 2005 have been incorporated by reference herein in reliance upon the report of KPMG LLP, independent registered public accounting firm, incorporated by reference herein, and upon the authority of said firm as experts in accounting and auditing. The audit report dated February 28, 2006, except for the effects of discontinued operations, as discussed in Note 5, which is as of June 1, 2006, contains a separate paragraph that states that as discussed in Note 20 to the consolidated financial statements, TEPPCO Partners, L.P. has restated its consolidated balance sheet as of December 31, 2004, and the related consolidated statements of income, partners' capital and comprehensive income, and cash flows for the years ended December 31, 2004 and 2003.

### **VALIDITY OF THE SECURITIES**

Robert T. Lucas III, Esq., who is our Associate General Counsel and Assistant Secretary, and/or counsel named in the applicable prospectus supplement, will issue an opinion about the validity of the securities we are offering in the applicable prospectus supplement. Counsel named in the applicable prospectus supplement will pass upon certain legal matters on behalf of any underwriters.

### **WHERE YOU CAN FIND MORE INFORMATION**

We are subject to the informational requirements of the Securities Exchange Act of 1934 and, in accordance therewith, file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission, or the SEC. Such reports and other information can be inspected and copied at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may also obtain copies of these documents at prescribed rates from the Public Reference Section of the SEC at its Washington, D.C. address. Please call the SEC at 1-800-SEC-0330 for further information. Our filings are also available to the public through Duke Energy's web site at <http://www.duke-energy.com> and are made available

## Table of Contents

as soon as reasonably practicable after such material is filed with or furnished to the SEC. The information on our website is not a part of this prospectus. Our filings are also available to the public through the SEC web site at <http://www.sec.gov>.

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

The SEC allows us to "incorporate by reference" into this prospectus the information we file with them, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be a part of this prospectus, and information that we file later with the SEC will automatically update and supersede this information. This prospectus incorporates by reference the documents incorporated in the prospectus at the time the registration statement became effective and all later documents filed with the SEC, in all cases as updated and superseded by later filings with the SEC. Duke Energy incorporates by reference the documents listed below and any future filings made with the SEC under Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 until the offering is completed.

- Annual Report on Form 10-K for the year ended December 31, 2006;
- Amendment No. 1 to Form 10-K for the year ended December 31, 2006, on Form 10-K/A filed March 22, 2007;
- Proxy Statement filed on Schedule 14A, April 4, 2007;
- Quarterly Reports on Form 10-Q for the quarterly periods ended March 31, 2007, and June 30, 2007; and
- Current reports on Form 8-K filed January 31, 2007; February 28, 2007; March 8, 2007; March 12, 2007; May 8, 2007; May 15, 2007; June 1, 2007; June 25, 2007; July 5, 2007; July 18, 2007; and October 1, 2007.

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

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

You should rely only on the information contained or incorporated by reference in this prospectus. We have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not making an offer to sell the securities described in this prospectus in any state where the offer or sale is not permitted. You should assume that the information contained in the prospectus is accurate only as of its date. Our business, financial condition, results of operations and prospects may have changed since that date.

**DUKE ENERGY CORPORATION**  
**COMMON STOCK** (par value \$0.001 per share)  
**DEBT SECURITIES**

**PROSPECTUS**



## New Issue-Book-Entry-Only

*In the opinion of Squire, Sanders & Dempsey L.L.P., Bond Counsel, under existing law (i) assuming continuing compliance with certain covenants and the accuracy of certain representations, interest on the Bonds is excluded from gross income for federal income tax purposes, except interest on any Bond for any period during which it is held by a "substantial user" or a "related person," as those terms are used in Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code"); (ii) interest on the Bonds is an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations and (iii) interest on, and any profit made on the sale, exchange or other disposition of, the Bonds are exempt from the Ohio personal income tax, the Ohio commercial activity tax, the net income base of the Ohio corporate franchise tax, and municipal and school district income taxes in Ohio. For a more complete discussion of the tax aspects, see "TAX MATTERS."*

**\$140,000,000**

**Ohio Air Quality Development Authority  
State of Ohio**

**Air Quality Development Revenue Bonds  
(Duke Energy Ohio, Inc. Project)**

**\$70,000,000**

**\$70,000,000**

**Series 2007A**

**Series 2007B**

**Dated: Date of Issuance**

**Due: December 1, 2041**

The Series 2007A Bonds and the Series 2007B Bonds (together, the "Bonds") will be issued to provide funds to finance a portion of the costs of the acquisition, construction and installation of portions of certain solid waste disposal facilities comprising air quality facilities at various generating facilities for Duke Energy Ohio, Inc.

The Bonds will be special obligations of the State of Ohio (the "State") issued by the Ohio Air Quality Development Authority (the "Issuer"). The Bonds will not constitute a debt, or a pledge of the faith and credit, of the Issuer or the State or of any political subdivision thereof, and the holders or owners of the Bonds will have no right to have taxes levied by the General Assembly of the State or the taxing authority of any political subdivision of the State for the payment of the principal or purchase price thereof or premium, if any, or interest thereon. The Bonds will be payable solely, except to the extent paid out of moneys attributable to proceeds thereof, from and secured by an assignment by the Issuer of loan payments to be received under separate, but substantially identical, Loan Agreements with

### **Duke Energy Ohio, Inc.**

Payment of the principal of and interest on the Bonds when due will be insured by separate bond insurance policies to be issued by Ambac Assurance Corporation simultaneously with the delivery of the Bonds.

### **Ambac**

Interest on each series of the Bonds will accrue at the Auction Rate from the date of issuance and will be payable on the Business Day after the Auction Period, subject to certain exceptions. The Initial Period for the Series 2007A Bonds will be the period from and including the date of issuance of the Series 2007A Bonds to but not including January 7, 2008 (the initial Interest Payment Date for the Series 2007A Bonds) and, unless changed in accordance with the Auction Procedures described in this Official Statement, the Series 2007A Bonds thereafter will bear interest as Auction Rate Bonds during an ARS Rate Period at Auction Period Rates applicable during each Auction Period for 35-day Auction Periods with Auction Dates generally every fifth Friday. The Initial Period for the Series 2007B Bonds will be the period from and including the date of issuance of the Series 2007B Bonds to but not including January 14, 2008 (the initial Interest Payment Date for the Series 2007B Bonds) and, unless changed in accordance with the Auction Procedures described in this Official Statement, the Series 2007B Bonds thereafter will bear interest as Auction Rate Bonds during an ARS Rate Period at Auction Period Rates applicable during each Auction Period for 35-day Auction Periods with Auction Dates generally every fifth Friday. The Auction Period Rate for the Bonds for each Auction Period after the Initial Period will be the rate of interest per annum that the Auction Agent advises results from an Auction conducted in accordance with the Auction Procedures, subject to certain conditions. Deutsche Bank National Trust Company will serve as Trustee, Paying Agent and Registrar and Deutsche Bank Trust Company Americas will serve as the initial Auction Agent under separate, but substantially identical, Trust Indentures. Banc of America Securities LLC will serve as the initial Broker-Dealer and as Remarketing Agent for the Bonds.

The method for determining the interest rate to be borne by the Bonds may be changed from an Auction Rate to a Daily Rate, Weekly Rate, Commercial Paper Rate or a Term Rate at the times and in the manner set forth in this Official Statement.

Prospective purchasers should carefully review the Auction Procedures described in this Official Statement and should note that (i) a Bid or a Sell Order constitutes a commitment to purchase or sell Auction Rate Bonds based upon the results of an Auction, (ii) Auctions will be conducted through telephone or telefax communications and (iii) settlement for purchases and sales will be made on the Business Day following an Auction. Auction Rate Bonds may be transferred only pursuant to a Bid or a Sell Order placed in an Auction or to or through a Broker-Dealer. See also "THE BONDS - Certain Considerations Affecting Auction Rate Securities."

The Bonds will be subject to optional, extraordinary optional and mandatory redemption and optional and mandatory tender prior to maturity, in each case at the price, in the manner and at the time set forth in this Official Statement.

The Bonds will be issued only as fully registered bonds and initially will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as a securities depository for the Bonds. Purchases of beneficial interests in the Bonds initially will be made in book-entry-only form (without certificates) in denominations of \$25,000 or any integral multiple thereof and under certain circumstances are exchangeable as more fully described herein. Principal of and any premium on the Bonds will be payable upon presentation and surrender of the Bonds at the corporate trust office of the Registrar. So long as DTC or its nominee, Cede & Co., is the registered owner of the Bonds, payments of the principal of, premium, if any, and interest on the Bonds will be made directly to Cede & Co. See "THE BONDS - Book-Entry-Only System" herein.

**Price: 100%**

*The Bonds are offered when, as and if issued by the Issuer and accepted by the Underwriter, subject to prior sale, withdrawal or modification of the offer without notice, the approval of legality by Squire, Sanders & Dempsey L.L.P., as Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for Duke Energy Ohio, Inc. by Robert T. Lucas III, Esq., Associate General Counsel of Duke Energy Corporation, and Richard G. Beach, Esq., Assistant General Counsel of Duke Energy Corporation, as counsel to the Company; for the Ohio Air Quality Development Authority by Forbes, Fields & Associates Co., L.P.A.; and for the Underwriter by Squire, Sanders & Dempsey L.L.P. It is expected that delivery of the Bonds in book-entry-only form will be made on or about December 6, 2007 in New York, New York, against payment therefor.*

### **Banc of America Securities LLC**

Dated: November 29, 2007

No dealer, broker, salesman or other person has been authorized by the Issuer, Duke Energy Ohio, Inc. (the "*Company*") or Banc of America Securities LLC (the "*Underwriter*") to give any information or to make any representation with respect to the Bonds, other than those contained in this Official Statement, and, if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing. Certain information contained herein has been obtained from the Issuer, the Company, Ambac Assurance Corporation and the Underwriter and other sources which are believed to be reliable.

The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the parties referred to above since the date hereof.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF SUCH BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

## TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTORY STATEMENT .....	1
THE ISSUER .....	3
APPLICATION OF PROCEEDS .....	4
THE BONDS .....	4
THE BOND INSURER .....	30
THE LOAN AGREEMENTS .....	34
THE INDENTURES .....	40
TAX MATTERS .....	49
CONTINUING DISCLOSURE AGREEMENTS .....	51
RATINGS .....	54
LEGAL MATTERS .....	55
UNDERWRITING .....	55

Appendix A – Duke Energy Ohio, Inc.

Appendix B – Certain Definitions

Appendix C – Auction Procedures

Appendix D – Proposed Form of Bond Counsel Opinion

Appendix E – Specimen Bond Insurance Policy

## OFFICIAL STATEMENT

**\$140,000,000**

**Ohio Air Quality Development Authority  
State of Ohio**

**Air Quality Development Revenue Bonds  
(Duke Energy Ohio, Inc. Project)**

**\$70,000,000  
Series 2007A**

**\$70,000,000  
Series 2007B**

---

## INTRODUCTORY STATEMENT

This Official Statement, including the cover page and Appendices, of the Ohio Air Quality Development Authority (the "*Issuer*"), is provided to furnish information in connection with the offer and sale by the Issuer of \$70,000,000 aggregate principal amount of its State of Ohio Air Quality Development Revenue Bonds, Series 2007A (Duke Energy Ohio, Inc. Project) (the "*Series 2007A Bonds*") and \$70,000,000 aggregate principal amount of its State of Ohio Air Quality Development Revenue Bonds, Series 2007B (Duke Energy Ohio, Inc. Project) (the "*Series 2007B Bonds*"; together with the Series 2007A Bonds, the "*Bonds*"), to be issued under separate, but substantially identical, Trust Indentures, dated as of December 1, 2007 (each an "*Indenture*"; together the "*Indentures*"), between the Issuer and Deutsche Bank National Trust Company, as trustee (the "*Trustee*"). The Registrar and Paying Agent will be Deutsche Bank National Trust Company, located in Chicago, Illinois and Deutsche Bank Trust Company Americas will be the initial Auction Agent. Terms used as defined terms and not otherwise defined herein are used as defined in the Indentures.

The proceeds of the Bonds will be loaned by the Issuer to Duke Energy Ohio, Inc., a public utility and corporation organized and existing under the laws of the State of Ohio (the "*Company*"), pursuant to separate, but substantially identical, Loan Agreements dated as of December 1, 2007 (each a "*Loan Agreement*"; together the "*Loan Agreements*"), between the Company and the Issuer. The Bonds are being issued to provide funds in order to assist the Company in financing its portion of the costs of acquiring, constructing and installing portions of certain solid waste disposal facilities comprising air quality facilities at various generating stations (the "*Generating Stations*") located in Ohio (collectively, the "*Projects*"). See "APPLICATION OF PROCEEDS." The Company will agree in each Loan Agreement to make payments sufficient to pay when due the principal of and interest and any premium on the Bonds and any other amounts relating thereto, including payments of the purchase price. See "THE LOAN AGREEMENTS."

*The Company's obligations under each Loan Agreement will be unsecured. There is no requirement in either Indenture for the Company to provide or deliver any security for its obligations under the Loan Agreements.*

The Bonds will be dated the date of their original issuance, will mature on December 1, 2041, will be subject to optional and mandatory tender for purchase, and will be subject to optional, extraordinary optional and mandatory redemption, as provided in each Indenture and as further described in this Official Statement. The Series 2007A Bonds will bear interest initially at an interest rate determined for the Initial Period from and including the date of issuance of the Series 2007A Bonds to but not including January 7, 2008 (the initial Interest Payment Date for the Series 2007A Bonds). The Series 2007B Bonds will bear interest initially at an interest rate determined for the Initial Period from and including the date of issuance of the Series 2007B Bonds to but not including January 14, 2008 (the initial Interest Payment Date for the Series 2007B Bonds). Thereafter the Bonds will bear interest as Auction Rate Bonds during an ARS Rate Period at Auction Period Rates applicable during each Auction Period (initially for 35-day Auction Periods with Auction Dates generally every fifth Friday), unless changed in accordance with the Auction Procedures described herein or until a conversion to a different interest rate determination method or until the maturity of the Bonds.

The Bonds are special obligations of the State of Ohio, issued by the Issuer and payable solely from the revenues and other amounts received by the Trustee pursuant to the Loan Agreements and the Indentures. **The Bonds do not constitute a debt or a pledge of the faith and credit of the State of Ohio or any political subdivision thereof and the holders or owners of the Bonds have no right to have taxes levied by the General Assembly of the State of Ohio or taxing authority of any political subdivision of the State of Ohio for the payment of the principal of, or redemption price of, or interest on, or purchase price of, the Bonds. The Issuer has no taxing power.**

Prospective investors should note that the Loan Agreements allow the Company to transfer all or any part of its electric generating facilities and associated assets and liabilities to one or more other entities, to assign all of its obligations under the Loan Agreements (which represent the source of repayment of the Bonds) to any one or more of such entities and to be released from its obligations under the Loan Agreements. While the Company contemplates that any such ultimate obligor will be capitalized so as not to impair that entity's ability to fulfill its obligations under the Loan Agreements, there is no requirement in the Loan Agreements that the Company or any ultimate obligor of the Company's obligations hold any particular assets. The Company may only make such an assignment if certain conditions have been satisfied, including that the Company either (i) makes the assignment as of a date on which the Bonds are subject to mandatory tender for purchase *or* (ii) has delivered to the Issuer written evidence from each of Moody's Investor Service, Inc. ("*Moody's*") and Standard & Poor's Ratings Service ("*S&P*") that the Bonds have received, after taking into account the assignment, an Investment Grade Rating (as defined below) from such rating agency. The Issuer and the Trustee must acknowledge and agree to any such assignment and assumption agreement. See "THE LOAN AGREEMENTS – Restructuring Transaction."

Upon the issuance of the Bonds, Ambac Assurance Corporation (the "*Bond Insurer*") will issue separate, but substantially identical, bond insurance policies (together, the "*Bond Insurance Policies*") that will guarantee the payment of the principal of and interest on the related series of the Bonds when due and upon special mandatory redemption on determination of taxability as hereinafter described. The Bond Insurance Policies will be issued pursuant to separate, but substantially identical, Insurance Agreements between the Company and the Bond

Insurer to be dated the date of issuance of the Bonds (each an "*Insurance Agreement*"; together the "*Insurance Agreements*"). The Bond Insurance Policies will not insure payment of the purchase price of the Bonds subject to mandatory purchase or purchase on the demand of the bondholders thereof, losses suffered as a result of a bondholder's inability to sell the Bonds at an Auction, or payment of the principal, premium or interest on the Bonds as a result of an acceleration, redemption (other than special mandatory redemption on determination of taxability) or other advancement of maturity. Certain information with respect to the Bond Insurance Policies, the Insurance Agreements and the Bond Insurer is included in this Official Statement. See "THE BOND INSURER" and Appendix E. So long as the related Bond Insurance Policy is in full force and effect with respect to a series of the Bonds and the Bond Insurer is not in default under that Bond Insurance Policy, the related Indenture and Loan Agreement may not be amended or supplemented without the prior written consent of the Bond Insurer, in accordance with the provisions of the Indenture, and upon the occurrence of an Event of Default under the Indenture, the Bond Insurer will be entitled to control and direct the enforcement of all rights and remedies granted under the Indenture to the bondholders or the Trustee. See "THE INDENTURES – Events of Default" and "– Rights of Bond Insurer."

Brief descriptions of the Issuer, the Bonds, the Bond Insurance Policies, the Insurance Agreements, the Loan Agreements, the Indentures and the Continuing Disclosure Agreements are included in this Official Statement. Certain information with respect to the Company is included as or incorporated by reference in Appendix A hereto. Appendix B sets forth Certain Definitions; Appendix C describes the Auction Procedures for the Bonds; Appendix D contains the proposed form of the opinion of Bond Counsel to be delivered in connection with the issuance and delivery of the Bonds; and Appendix E is a Specimen Bond Insurance Policy.

All references herein to the documents are qualified in their entirety by reference to such documents, and references herein to the Bonds are qualified in their entirety by reference to the definitive forms thereof included in each related Indenture. Copies of certain of the financing documents will be available for inspection at the corporate trust office of the Trustee and, until the issuance of the Bonds, may be obtained from the Underwriter. Appendix A to this Official Statement and all information contained under the heading "APPLICATION OF PROCEEDS" has been furnished by the Company. The information contained under the heading "THE BONDS – Book-Entry-Only System" has been furnished by DTC, and none of the Issuer, the Company, the Underwriter or Bond Counsel assume any responsibility for the accuracy or completeness of such information. The information relating to Bond Insurer and the Bond Insurance Policies contained under the heading "THE BOND INSURER" and in Appendix E has been provided by the Bond Insurer and none of the Issuer, the Company, the Underwriter or Bond Counsel assume any responsibility for the accuracy or completeness of such information.

## **THE ISSUER**

The Issuer is a body politic and corporate, organized and existing under the laws of the State of Ohio (the "*State*"), including Section 13 of Article VIII of the Ohio Constitution and Chapter 3706, Ohio Revised Code, as amended (collectively, the "*Act*"). Pursuant to the Act, the Issuer is authorized to issue the Bonds and to loan the proceeds thereof to the Company for the purpose of financing the Company's portion of the cost of acquiring, constructing and installing

the Projects and to secure the Bonds by an assignment of the payments under the Loan Agreements. To accomplish such actions, the Issuer is authorized to enter into the Indentures and the Loan Agreements.

The Bonds are special obligations of the State, issued by the Issuer and payable solely from the revenues and other amounts received by the Trustee pursuant to the Loan Agreements and the Indentures. **The Bonds do not constitute a debt or a pledge of the faith and credit of the State or any political subdivision thereof and the holders or owners of the Bonds have no right to have taxes levied by the General Assembly of the State or taxing authority of any political subdivision of the State for the payment of the principal of, or redemption price of, or interest on, or the purchase price of, the Bonds. The Issuer has no taxing power.**

### **APPLICATION OF PROCEEDS**

The proceeds of the Bonds will be applied to finance the acquisition and construction of the Company's interest in certain solid waste disposal facilities comprising air quality facilities (the "*Project Facilities*") at the following Generating Facilities of the Company:

- Units 7 and 8 of the Miami Fort Generating Station, each rated at 525 MW and located in Hamilton County, Ohio (the Company owns as a tenant in common approximately 64% of the Miami Fort Generating Station)
- Unit 2 of the Killen Generating Station, rated at 600 MW and located in Adams County, Ohio (the Company owns as a tenant in common approximately 33% of the Killen Generating Station)
- Units 1-4 of the J.M. Stuart Generating Station, each rated at 585 MW and located in Brown and Adam Counties, Ohio (the Company owns as a tenant in common approximately 39% of the J.M. Stuart Generating Station)
- Unit 4 of the Conesville Generating Station, rated at 780 MW and located in Coshocton County, Ohio (the Company owns as a tenant in common approximately 40% of the Conesville Generating Station)

The proceeds of the Bonds also will be applied to pay costs of issuance of the Bonds.

The Issuer does not monitor the operation of the Projects by the Company but relies upon the representations of the Company contained in the Loan Agreements.

### **THE BONDS**

*Each series of the Bonds will be issued under a separate Indenture, although each Indenture contains substantially identical terms and provisions. The occurrence of an event of default with respect to one series of the Bonds will not, in and of itself, constitute an event of default with respect to the other series of the Bonds. Redemption or conversion of one series of the Bonds may be made in the manner described herein without the redemption or conversion of the Bonds of the other series. Funds pledged under an Indenture to secure one series of the*

*Bonds will not be available for or pledged to the other series of the Bonds. In the following summary of terms of the Bonds, references to the Bonds, the Indenture, the Loan Agreement, the Broker-Dealer Agreement, the Auction Agreement and the Remarketing Agreement and other defined terms should be read as separately referring to each series of the Bonds and the related Indenture, Loan Agreement, Broker-Dealer Agreement, Auction Agreement, Remarketing Agreement and other defined terms, except as otherwise noted.*

## **General**

The Bonds will be issued under the Indenture in the aggregate principal amount and mature on the date set forth on the cover page hereof, subject to optional, extraordinary optional and mandatory redemption and optional and mandatory tender prior to maturity as described below. The Bonds will bear interest determined as described below. The Bonds will be issuable as fully registered Bonds without coupons in Authorized Denominations.

During any ARS, Commercial Paper, Daily or Weekly Rate Period, payments of principal or redemption price of the Bonds will be payable in immediately available funds. During a Term Rate Period, payments of principal or redemption price of the Bonds will be payable in clearinghouse funds; provided that the holder of at least \$1,000,000 in aggregate principal amount of Bonds may deliver a written request to the Paying Agent prior to the applicable Regular Record Date or Special Record Date, and in that case interest accrued will be paid by wire transfer to a bank within the continental United States to such holder, by direct deposit thereof to the account of the holder if such account is maintained with the Paying Agent or, for any holder who has entered into a special agreement with the Paying Agent in accordance with the Indenture, according to the directions contained therein. Each Bond will bear interest at the applicable rate determined pursuant to the Indenture for such Interest Period from the last preceding Interest Payment Date for which interest has been paid or duly provided for (or its date if no interest thereon has been paid or duly provided for). Subject to the provisions of the Indenture with respect to the establishment of a Special Record Date, the interest due on any Bond on any Interest Payment Date will be paid to the person in whose name such Bond is registered as shown on the register on the Regular Record Date. The amount of interest so payable will be computed (A) on the basis of a 365 or 366-day year, as applicable, for the number of days actually elapsed during Commercial Paper, Daily or Weekly Rate Periods, (B) on the basis of a 360-day year consisting of twelve 30-day months during a Term Rate Period, (C) on the basis of a 360-day year for the number of days actually elapsed if Auction Rate Bonds are in an Auction Period of 180 days or less, and (D) on the basis of a 360-day year consisting of twelve 30-day months if Auction Rate Bonds are in an Auction Period greater than 180 days.

## **Auction Rate Bonds**

**Auction Rates.** Interest on the Bonds will accrue from the date of issuance and delivery. For the Initial Period, the interest rate will be the rate of interest per annum that is the minimum rate necessary to sell the Bonds on the date of issuance of the Bonds at the principal amount thereof (without regard to accrued interest). After the Initial Period, and prior to any subsequent selection of a new interest rate determination method, the Bonds will be Auction Rate Bonds during an ARS Rate Period. The interest rate on Auction Rate Bonds (the "Auction Period Rate") for each Auction Period after the Initial Period will, subject to certain exceptions

described below, be the rate that the Auction Agent advises has resulted on the Auction Date from the implementation of auction procedures set forth in Appendix C to this Official Statement (the "*Auction Procedures*"), in which persons determine to hold or offer to sell or, based on interest rates bid by them, offer to purchase or sell Auction Rate Bonds. Each periodic implementation of the Auction Procedures is an "*Auction*."

The rate of interest on the Auction Rate Bonds for each Auction Period will be the Auction Period Rate. In the event the Auction Agent fails to calculate or, for any reason, fails to provide the Auction Rate on the Auction Date, the Auction Period and the Auction Period Rate for the new Auction Period will be established as set forth in the Auction Procedures. In no event will the Auction Period Rate be an interest rate in excess of the Maximum Rate on any Auction Date or the Maximum Interest Rate at any time. Notwithstanding the foregoing, if: (a) the ownership of the Auction Rate Bonds is no longer maintained in the Book-Entry System, the Auctions will cease and the Auction Period Rate will be the Maximum Rate and (b) in the event of a failed conversion from an Auction Period to any other period or in the event of a failure to change the length of the current Auction Period due to the lack of Sufficient Clearing Bids at the Auction on the Auction Date for the first new Auction Period, the Auction Period Rate for the next Auction Period will be the Maximum Rate and the Auction Period will be a seven-day Auction Period. See Appendix C, "*Auction Procedures*."

*Auction Periods and Dates.* An Auction to determine the Auction Period Rate for each Auction Period after the Initial Period will occur on each Auction Date. The Auction Date for each Auction Period (other than a daily or Flexible Auction Period) will be the Business Day next preceding each Interest Payment Date for the Bonds (whether or not an Auction is conducted on such date); provided, however, that the last Auction Date with respect to the Bonds in an Auction Period other than a daily Auction Period or Flexible Auction Period will be the earlier of (i) the Business Day next preceding the Interest Payment Date next preceding the Conversion Date for the Bonds and (ii) the Business Day next preceding the Interest Payment Date next preceding the final maturity date for the Bonds. It is presently anticipated that an Auction Period of 35 days will be maintained for the Bonds and, therefore, Auctions for the Bonds are anticipated to be held every fifth Friday, commencing January 4, 2008 for the Series 2007A Bonds and January 11, 2008 for the Series 2007B Bonds. The Company may change the length of one or more Auction Periods or establish a different day as the Auction Date for future Auction Periods. See "Changes in the Auction Terms" below.

*Interest Payment Dates.* Interest on the Auction Rate Bonds (other than for a daily or Flexible Auction Period) will be payable on the Business Day immediately following each Auction Period. It is presently anticipated that each Auction Period for the Bonds will be 35 days, in which case the Interest Payment Dates after the initial Interest Payment Date (January 7, 2008 for the Series 2007A Bonds and January 14, 2008 for the Series 2007B Bonds) generally will be every fifth Monday.

The determination of any interest rate by the Remarketing Agent in accordance with the Indenture or by the Auction Agent in accordance with the Auction Procedures will be conclusive and binding upon the Issuer, the Trustee, the Paying Agent, the Auction Agent, the Remarketing Agent, the Company, all Broker-Dealers and the registered and beneficial owners



of Auction Rate Bonds. Failure of the Remarketing Agent, the Paying Agent, the Trustee, the Auction Agent or DTC or any DTC Participant to give any of the notices described in the Indenture, or any defect therein, will not affect the interest rate to be borne by any Auction Rate Bonds nor the applicable Auction Period.

In no event will the Auction Rate be more than the Maximum Rate on any Auction Date or the Maximum Interest Rate at any time.

*Auction Agreement.* The Trustee will enter into an agreement (the "*Auction Agreement*") with Deutsche Bank Trust Company Americas (together with any successor bank or trust company or other entity entering into a similar agreement, the "*Auction Agent*"), at the direction of, and acknowledged by, the Company, which provides, among other things, that the Auction Agent will follow the Auction Procedures for the purposes of determining the Auction Rate so long as the Auction Rate is to be based on the results of an Auction.

The Auction Agent is acting as non-fiduciary agent for the Trustee in connection with Auctions. In the absence of willful misconduct or gross negligence on its part, the Auction Agent will not be liable for any action taken, suffered or omitted or for any error of judgment made by it in the performance of its duties under the Auction Agreement and will not be liable for any error of judgment made in good faith unless the Auction Agent has been grossly negligent in ascertaining (or failing to ascertain) the pertinent facts necessary to make such judgment.

The Auction Agent may terminate the Auction Agreement upon written notice in accordance with the Auction Agreement on a date no earlier than 60 days (30 days if the Auction Agent fee has not been paid for more than 30 days) after the date of delivery of the notice. The Auction Agent may be removed at any time by the Trustee if the Auction Agent is an entity other than the Trustee, acting at the written direction of (i) the Company or (ii) the holders of a majority of the aggregate principal amount of the Auction Rate Bonds upon at least 90 days' written notice in accordance with the Auction Agreement. If the Auction Agent and the Trustee are the same entity, the Auction Agent may be removed as described above, with the Company acting in lieu of the Trustee. If the Auction Agent should resign or be removed, the Company is obligated under the Remarketing Agreement to use its best efforts to appoint a successor Auction Agent and enter into an agreement with a successor Auction Agent, containing substantially the same terms and conditions as the Auction Agreement.

*Broker-Dealer Agreements.* Each Auction requires the participation of one or more broker-dealers. The Auction Agent and the Company will enter into an agreement with the Underwriter (or an affiliate thereof) and may enter into similar agreements (collectively, the "*Broker-Dealer Agreements*") with one or more additional broker-dealers (collectively, the "*Broker-Dealers*") selected by the Company with the approval of the Remarketing Agent (which approval will not be unreasonably withheld) which provide for the participation of Broker-Dealers in Auctions. The Broker-Dealer will be paid a fee calculated as set forth in the Broker-Dealer Agreements. In the event that there is more than one Broker-Dealer, the Company will specify which Broker-Dealer is to perform certain functions under the Indenture.

Remarketing Agreement. The Company will enter into a Remarketing Agreement (the "*Remarketing Agreement*") with Banc of America Securities LLC with respect to the Bonds (together with any successor as remarketing agent under the Indenture, the "*Remarketing Agent*"), which sets forth the Remarketing Agent's duties and responsibilities and provides for the remarketing of Bonds bearing an interest rate other than an Auction Rate. For each Rate Period, the interest rate for the Bonds will be determined by the Remarketing Agent in accordance with the Indenture; provided that, the interest rate or rates borne by the Bonds may not exceed the least of (a) 13% per annum, (b) the maximum rate of interest permitted under State law, or (c) in the case of Bonds bearing interest at a Variable Rate, the maximum rate of interest permitted by any Liquidity Facility then in effect (the "*Maximum Interest Rate*"). See also "THE INDENTURES – Remarketing Agent."

Liquidity Facility. Under the Indenture, upon conversion to a Rate Period that provides for either optional or mandatory tender for purchase of Bonds prior to maturity, a Liquidity Facility acceptable to the Bond Insurer must be delivered to the Trustee to provide for the payment of purchase price of Bonds tendered for optional or mandatory purchase, unless the requirement to deliver a Liquidity Facility is waived by the Bond Insurer. *No Liquidity Facility will be provided in connection with Auction Rate Bonds.* As a consequence, certain provisions in the Indenture that would be applicable to the Bonds if a Liquidity Facility were delivered are not described in this Official Statement. If, at the option of the Company, a Liquidity Facility is delivered with respect to the Bonds, the Bonds will be subject to mandatory tender for purchase at a purchase price equal to 100% of the principal amount thereof on the date of the delivery of the Liquidity Facility.

Depository. Unless a successor securities depository is designated pursuant to the Indenture, or unless the Company otherwise directs, DTC will act as the Depository for its members and participants (the "*DTC Participants*") with respect to Auction Rate Bonds. On the date of delivery of Auction Rate Bonds offered hereby, the Auction Rate Bonds will be issued in a global Bond in the denomination equal to the aggregate principal amount of Auction Rate Bonds authorized pursuant to the Indenture. It is anticipated that such Bond will be registered in the name of Cede & Co., a nominee of DTC. The global Bond will bear a legend to the effect that such global Bond is issued subject to the provisions restricting transfers of Auction Rate Bonds contained in the Indenture. Stop-transfer instructions will be issued to the Paying Agent. DTC or its nominee will be the holder of record of all issued and outstanding Auction Rate Bonds and beneficial owners of such Auction Rate Bonds may not obtain physical possession of Auction Rate Bonds beneficially owned by them.

Payment of principal, interest and premium, if any, on Auction Rate Bonds will be made to DTC or its nominee, Cede & Co., as registered owner of Auction Rate Bonds. Upon receipt of moneys, the current practice of DTC is to credit immediately the accounts of the DTC Participants in accordance with their respective holdings shown on the records of DTC. Payments by DTC Participants to beneficial owners are governed by standing instructions and customary practices, as is now the case with municipal securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such DTC Participants and not of DTC, the Issuer, the Trustee, the Paying Agent, the Auction Agent or the Company, subject to any statutory and regulatory requirements as may be in effect from

time to time. No assurances can be provided that in the event of bankruptcy or insolvency of DTC or a DTC Participant through which a beneficial owner holds its interest in Auction Rate Bonds, payment will be made by DTC or the DTC Participant on a timely basis.

The Issuer, the Trustee, the Paying Agent, the Company and the Remarketing Agent will recognize DTC or its nominee as the registered owner of Auction Rate Bonds for all purposes, including notices and consents. Conveyance of notices and other communications by DTC to DTC Participants and by DTC Participants to beneficial owners will be governed by arrangements among them, subject to any statutory and regulatory requirements as may be in effect from time to time.

Bond certificates are required to be issued in exchange for a global certificate and registered in such names of the Beneficial Owner and in Authorized Denominations as the Depository, pursuant to instructions from the Participants or otherwise, will instruct the Trustee under the following circumstances:

(a) The Depository determines to discontinue providing its service with respect to the Bonds and no successor has been appointed within 90 days after the Company receives notice thereof. Such a determination may be made by a Depository at any time by giving notice to the Company, the Issuer, the Trustee, the Auction Agent, the Registrar and the Paying Agent and discharging its responsibilities with respect thereto under applicable law.

(b) The Company determines that continuation of the system of Book-Entry transfers through the Securities Depository is not in the best interests of the Beneficial Owners.

(c) The Remarketing Agent has notified the Issuer, the Company, the Auction Agent, the Registrar, the Paying Agent and the Trustee that the Auction Rate Bonds should not be maintained in the Book-Entry System.

(d) The Depository is no longer registered or in good standing under the Securities Exchange Act or other applicable statute or regulation and no successor has been appointed within 90 days after the Company receives notice thereof.

DTC, which is a New York-chartered, limited purpose trust company, performs services for its participants (including the DTC Participants), some of whom (and/or their representatives) own DTC. DTC maintains lists of its participants and will maintain the positions (ownership interests) held by each DTC Participant in Auction Rate Bonds, whether as an Existing Holder for its own account or as a nominee for another Existing Holder. Each beneficial owner of Auction Rate Bonds must make arrangements with its DTC Participant or Broker-Dealer to receive notices and payments with respect to Auction Rate Bonds.

Beneficial Owners of the Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults and proposed amendments to the Bond documents. Beneficial

Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners, or in the alternative, Beneficial Owners may wish to provide their names and addresses to the Registrar and request that copies of notices be provided directly to them.

THE ISSUER, THE COMPANY, THE TRUSTEE, THE REGISTRAR, THE PAYING AGENT, THE AUCTION AGENT, THE BROKER-DEALER AND THE REMARKETING AGENT HAVE NO RESPONSIBILITY WITH RESPECT TO (I) THE ACCURACY OF THE RECORDS OF DTC OR ANY DTC PARTICIPANT AS TO THE BENEFICIAL OWNERSHIP OF AUCTION RATE BONDS; (II) THE DELIVERY OF EITHER NOTICES OR PAYMENT TO ANY PARTY OTHER THAN DTC OR ITS NOMINEE AS REGISTERED OWNER OF AUCTION RATE BONDS; (III) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC OR ITS NOMINEE AS THE HOLDER OF RECORD OF ALL ISSUED AND OUTSTANDING AUCTION RATE BONDS; OR (IV) THE SELECTION BY DTC OR ANY DTC PARTICIPANTS OF ANY BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF AUCTION RATE BONDS.

See "Book-Entry-Only System" below for further information about DTC and its procedures.

#### **Changes in the Auction Terms**

*Changes in Auction Period.* During any ARS Rate Period, the Company may, from time to time on the Interest Payment Date immediately following the end of any Auction Period, change the length of the Auction Period with respect to all of the Bonds among daily, seven-days, 28-days, 35-days, three months, six months or a Flexible Auction Period in order to accommodate economic and financial factors that may affect or be relevant to the length of the Auction Period and the interest rate borne by the Bonds. The Company will initiate the change in the length of the Auction Period by giving written notice to the Issuer, the Trustee, the Auction Agent, the Broker-Dealers and the Depository that the Auction Period will change if the conditions described in the Auction Procedures are satisfied and the proposed effective date of the change, at least 10 Business Days prior to the Auction Date for such Auction Period. The change in length of the Auction Period will take effect only if Sufficient Clearing Bids exist at the Auction on the Auction Date for such new Auction Period. If there are not Sufficient Clearing Bids for the first Auction Period, the Auction Rate for the new Auction Period will be the Maximum Rate, and the Auction Period will be a seven-day Auction Period.

*Changes in Auction Date.* During any ARS Rate Period, the Auction Agent, at the direction of the Company, may specify an earlier or later Auction Date (but in no event more than five Business Days earlier or later) than the Auction Date that would otherwise be determined in accordance with the definition of "Auction Date" in order to conform with then current market practice with respect to similar securities or to accommodate economic and financial factors that may affect or be relevant to the day of the week constituting an Auction Date and the interest rate borne by the Bonds. The Auction Agent will provide notice of the Company's direction to specify an earlier Auction Date for an Auction Period by means of a

written notice delivered at least 45 days prior to the proposed changed Auction Date to the Trustee, the Issuer, the Company and the Broker-Dealers with a copy to the Depository. In the event the Auction Agent is instructed to specify an earlier or later Auction Date, the days of the week on which an Auction Period begins and ends, the day of the week on which an Auction Period ends and the Interest Payment Dates relating to a such Auction Period will be adjusted accordingly.

*Changes Resulting from Unscheduled Holidays.* If, in the opinion of the Auction Agent and the Broker-Dealers, there is insufficient notice of an unscheduled holiday to allow the efficient implementation of the Auction Procedures, the Auction Agent and the Broker-Dealers may, as they deem appropriate and in accordance with the Auction Procedures, set a different Auction Date and adjust any Interest Payment Dates and Auction Periods affected by such unscheduled holiday.

### **Certain Considerations Affecting Auction Rate Securities**

*Role of Broker-Dealer.* Banc of America Securities LLC (the “*Broker-Dealer*”) has been appointed by the issuers or obligors of various auction rate securities to serve as a dealer in the auctions for those securities and is paid by the issuers or obligors for its services. Banc of America Securities LLC receives broker-dealer fees from such issuers or obligors at an agreed-upon annual rate that is applied to the principal amount of securities sold or successfully placed through Banc of America Securities LLC in such auctions.

Banc of America Securities LLC is designated in the Broker-Dealer Agreement as the Broker-Dealer to contact Existing Owners and Potential Owners and solicit Bids for the Bonds. The Broker-Dealer will receive Broker-Dealer Fees from the Company with respect to the Bonds sold or successfully placed through it in Auctions for the Bonds. The Broker-Dealer may share a portion of such fees with other dealers that submit Orders through it that are filled in the Auction for the Bonds.

*Bidding by Broker-Dealer.* The Broker-Dealer is permitted, but not obligated, to submit Orders in Auctions for the Bonds for its own account either as a buyer or seller and routinely does so in the auction rate securities market in its sole discretion. If the Broker-Dealer submits an Order for its own account, it would have an advantage over other Bidders because the Broker-Dealer would have knowledge of the other Orders placed through it in that Auction for the Bonds and thus, could determine the rate and size of its Order so as to increase the likelihood that (i) its Order will be accepted in the Auction for the Bonds and (ii) the Auction for the Bonds will clear at a particular rate. For this reason, and because the Broker-Dealer is appointed and paid by the Company to serve as a Broker-Dealer in the Auctions for the Bonds, the Broker-Dealer’s interests in serving as Broker-Dealer in an Auction for the Bonds may differ from those of Existing Owners and Potential Owners who participate in Auctions for the Bonds. See “Role of Broker-Dealer.” The Broker-Dealer would not have knowledge of Orders submitted to the Auction Agent by any other firm that is, or may in the future be, appointed to accept Orders pursuant to a Broker-Dealer Agreement.

The Broker-Dealer is the only Broker-Dealer appointed by the Company to serve as Broker-Dealer in the Auctions for the Bonds, and as long as that remains the case it will be the only Broker-Dealer that submits Orders to the Auction Agent in the Auctions for the Bonds. As a result, in such circumstances, the Broker-Dealer may discern the clearing rate before the Orders are submitted to the Auction Agent and set the clearing rate with its Order.

The Broker-Dealer routinely places bids in auctions generally for its own account to acquire securities for its inventory, to prevent an "Auction Failure" (which occurs if there are insufficient clearing bids and results in the auction rate being set at the maximum rate) or to prevent an auction from clearing at a rate that the Broker-Dealer believes does not reflect the market for such securities. The Broker-Dealer may place one or more Bids in an Auction for the Bonds for its own account to acquire the Bonds for its inventory, to prevent an Auction Failure or to prevent Auctions for the Bonds from clearing at a rate that the Broker-Dealer believes does not reflect the market for the Bonds. The Broker-Dealer may place such Bids even after obtaining knowledge of some or all of the other Orders submitted through it. When Bidding in an Auction for the Bonds for its own account, the Broker-Dealer also may Bid inside or outside the range of rates that it posts in its Price Talk. See "Price Talk."

The Broker-Dealer also may encourage Bidding by others in Auctions for the Bonds to prevent an Auction for the Bonds from clearing at a rate that the Broker-Dealer believes does not reflect the market for the Bonds. The Broker-Dealer may encourage such Bids even after obtaining knowledge of some or all of the other Orders submitted through it.

Bids by the Broker-Dealer are likely to affect (i) the Auction Rate – including preventing the Auction Rate from being set at the Maximum Rate or otherwise causing Bidders to receive a lower rate than they might have received had the Broker-Dealer not Bid and (ii) the allocation of the Bonds being auctioned – including displacing some Bidders who may have their Bids rejected or receive fewer Bonds than they would have received if the Broker-Dealer had not Bid. Because of these practices, the fact that an Auction for the Bonds clears successfully does not mean that an investment in the Bonds involves no significant liquidity or credit risk. The Broker-Dealer is not obligated to continue to place such Bids in any particular Auction for the Bonds to prevent an Auction Failure or an Auction for the Bonds from clearing at a rate the Broker-Dealer believes does not reflect the market for the Bonds. Investors should not assume that the Broker-Dealer will place Bids so that Auction Failures will not occur. Investors should also be aware that Bids by the Broker-Dealer may cause lower Auction Rates to occur.

The statements herein regarding Bidding by a Broker-Dealer apply only to a Broker-Dealer's auction desk and any other business units of the Broker-Dealer that are not separated from the auction desk by an information barrier designed to limit inappropriate dissemination of bidding information.

In any particular Auction for the Bonds, if all outstanding Bonds are the subject of Submitted Hold Orders, the Auction Rate for the next succeeding Auction Period will be the All Hold Rate (such a situation is called an "*All Hold Auction*"). If the Broker-Dealer holds any Bonds for its own account on an Auction Date, it is the Broker-Dealer's practice to submit a Sell Order into the Auction for the Bonds with respect to such Bonds, which would prevent that

Auction for the Bonds from being an All Hold Auction. The Broker-Dealer may, but is not obligated to, submit Bids for its own account in that same Auction for the Bonds, as set forth above. The Broker-Dealer may also encourage additional or revised investor bidding in order to prevent an All-Hold Auction. The Broker-Dealer may, but is not obligated to, advise Existing Holders of the Bonds that the rate that will apply in an All-Hold Auction is often a lower rate than would apply if Existing Holders submit bids, and such advice, if given, may facilitate the submission of bids by Existing Holders that would avoid the occurrence of an All-Hold Auction. A Broker-Dealer may, but is not obligated to, encourage additional or revised investor bidding in order to prevent an All-Hold Auction.

Price Talk. Before the start of an Auction for the Bonds, the Broker-Dealer, in its discretion, may make available to its customers who are Existing Owners and Potential Owners the Broker-Dealer's good faith judgment of the range of likely clearing rates for the Auction for the Bonds based on market and other information. This is known as "Price Talk." Price Talk is not a guaranty that the Auction Rate established through the Auction for the Bonds will be within the Price Talk, and Existing Owners and Potential Owners are free to use it or ignore it.

"All-or-Nothing" Bids. The Broker-Dealer will not accept "all-or-nothing" Bids (i.e., Bids whereby the Bidder proposes to reject an allocation smaller than the entire quantity Bid) or any other type of Bid that allows the Bidder to avoid Auction Procedures that require the pro rata allocation of Bonds where there are not sufficient Sell Orders to fill all Bids at the Winning Bid Rate.

No Assurances Regarding Auction Outcomes. The Broker-Dealer provides no assurance as to the outcome of any Auction. The Broker-Dealer also does not provide any assurance that any Bid will be successful, in whole or in part, or that the Auction for the Bonds will clear at a rate that a Bidder considers acceptable. Bids may be only partially filled, or not filled at all, and the Auction Rate on any Bonds purchased or retained in the Auction for the Bonds may be lower than the market rate for similar investments.

The Broker-Dealer will not agree before an Auction to buy Bonds from or sell Bonds to a customer after the Auction.

Deadlines. Each particular Auction for the Bonds has a formal deadline by which all Bids must be submitted by the Broker-Dealer to the Auction Agent. This deadline is called the "Submission Deadline." To provide sufficient time to process and submit customer Bids to the Auction Agent before the Submission Deadline, the Broker-Dealer imposes an earlier deadline for all customers – called the "Broker-Dealer Deadline" – by which Bidders must submit Bids to the Broker-Dealer. The Broker-Dealer Deadline is subject to change by the Broker-Dealer. Potential Owners should consult with the Broker-Dealer as to its Broker-Dealer Deadline. The Broker-Dealer may allow for correction of Clerical Errors after the Broker-Dealer Deadline and prior to the Submission Deadline. The Broker-Dealer may submit Bids for its own account at any time until the Submission Deadline and may change Bids it has submitted for its own account at any time until the Submission Deadline. The Auction Procedures provide that until one hour after the Auction Agent completes the dissemination of the results of an Auction, new Orders can be submitted to the Auction Agent if such Orders were received by the Broker-Dealer

or generated by the Broker-Dealer for its own account prior to the Submission Deadline and the failure to submit such Orders prior to the Submission Deadline was the result of force majeure, a technological failure or a Clerical Error. In addition until one hour after the Auction Agent completes the dissemination of the results of an Auction, the Broker-Dealer may modify or withdraw an Order submitted to the Auction Agent prior to the Submission Deadline if the Broker-Dealer determines that such Order contained a Clerical Error. In the event of such a submission, modification or withdrawal the Auction Agent will rerun the Auction, if necessary, taking into account such submission, modification or withdrawal.

*Existing Owner's Ability to Resell Auction Rate Securities May Be Limited.* An Existing Owner may sell, transfer or dispose of a Bond (i) in an Auction for the Bonds, only pursuant to a Bid or Sell Order in accordance with the Auction Procedures, or (ii) outside an Auction for the Bonds, only to or through the Broker-Dealer.

Existing Owners will be able to sell all of the Bonds that are the subject of their Submitted Sell Orders only if there are Bidders willing to purchase all those Bonds in the Auction for the Bonds. If Sufficient Clearing Bids have not been made, Existing Owners that have submitted Sell Orders will not be able to sell in the Auction for the Bonds all, and may not be able to sell any, of the Bonds subject to such Submitted Sell Orders. In such event, no assurance can be given that Sufficient Clearing Bids will be obtained on any succeeding Auction Date. As discussed above (see "Bidding by Broker-Dealer"), the Broker-Dealer may submit a Bid in an Auction for the Bonds to avoid an Auction Failure, but it is not obligated to do so. There may not always be enough Bidders to prevent an Auction Failure in the absence of the Broker-Dealer Bidding in the Auction for the Bonds for its own account or encouraging others to Bid. Therefore, Auction Failures are possible, especially if the Bond Insurer's or the Company's credit were to deteriorate, if a market disruption were to occur or if, for any reason, the Broker-Dealer were unable or unwilling to Bid.

Between Auctions for the Bonds, there can be no assurance that a secondary market for the Bonds will develop or, if it does develop, that it will provide Existing Owners the ability to resell the Bonds on the terms or at the times desired by an Existing Owner. The Broker-Dealer, in its own discretion, may decide to buy or sell the Bonds in the secondary market for its own account from or to investors at any time and at any price, including at prices equivalent to, below, or above par for the Bonds. However, the Broker-Dealer is not obligated to make a market in the Bonds and may discontinue trading in the Bonds without notice for any reason at any time; and no assurance can be given that the Broker-Dealer will purchase or will otherwise be able to locate a purchaser for Bonds that an Existing Owner may wish to sell between Auctions. Existing Owners who resell between Auctions for the Bonds may receive an amount less than par, depending on market conditions.

If an Existing Owner purchased a Bond through a dealer which is not the Broker-Dealer for the Bonds, such Existing Owner's ability to sell its Bonds may be affected by the continued ability of its dealer to transact trades for the Bonds through the Broker-Dealer.

The ability to resell the Bonds will depend on various factors affecting the market for the Bonds, including news relating to the Bond Insurer or the Company, the attractiveness of



alternative investments, investor demand for short term securities, the perceived risk of owning the Bonds (whether related to credit, liquidity or any other risk), the tax or accounting treatment accorded the Bonds (including U.S. generally accepted accounting principles as they apply to the accounting treatment of auction rate securities), reactions of market participants to regulatory actions (such as those described in "Securities and Exchange Commission Settlements" below) or press reports, financial reporting cycles and market conditions generally. Demand for the Bonds may change without warning, and declines in demand may be short-lived or continue for longer periods.

*Resignation of the Auction Agent or the Broker-Dealer Could Impact the Ability to Hold Auctions.* The Auction Agreement provides that the Auction Agent may terminate the Auction Agreement by giving at least 60 days notice (not less than 30 days notice if the Auction Agent fee has not been paid for more than 30 days) to the Trustee, the Company, the Bond Insurer and the Issuer and does not require, as a condition to the effectiveness of such resignation, that a replacement Auction Agent be in place if its fee has not been paid. The Broker-Dealer Agreement provides that the Broker-Dealer thereunder may resign upon five Business Days notice or suspend its duties immediately, in certain circumstances, and does not require, as a condition to the effectiveness of such resignation or suspension, that a replacement Broker-Dealer be in place. For any Auction Period during which there is no duly appointed Auction Agent or Broker-Dealer, it will not be possible to hold Auctions for the Bonds, with the result that the interest rate on the Bonds will be determined as described in the Auction Procedures.

*Securities and Exchange Commission Settlements.* On May 31, 2006, the U.S. Securities and Exchange Commission (the "SEC") announced that it had settled its investigation of fifteen firms, including Banc of America Securities LLC (the "Settling Broker-Dealers"), that participate in the auction rate securities market regarding their respective practices and procedures in this market. The SEC alleged in the settlement that the firms had managed auctions for auction rate securities in which they participated in ways that were not adequately disclosed. As part of the settlement, the Settling Broker-Dealers agreed to pay civil penalties. In addition, each Settling Broker-Dealer, without admitting or denying the SEC's allegations, agreed to provide to customers written descriptions of its material auction practices and procedures and to implement procedures reasonably designed to detect and prevent any failures by that Settling Broker-Dealer to conduct the auction process in accordance with disclosed procedures. No assurance can be offered as to how the settlement may affect the market for auction rate securities or the Bonds.

In addition on January 9, 2007, the SEC announced that it had settled its investigation of three banks, including Deutsche Bank Trust Company Americas (the "Settling Auction Agents"), that participate as auction agents in the auction rate securities market, regarding their respective practices and procedures in this market. The SEC alleged in the settlement that the Settling Auction Agents allowed broker-dealers in auctions to submit bids or revise bids after the submission deadlines and allowed broker-dealers to intervene in auctions in ways that may have affected the rates paid on the auction rate securities. As part of the settlement, the Settling Auction Agents agreed to pay civil penalties. In addition, each Settling Auction Agent, without admitting or denying the SEC's allegations, agreed to provide to broker-dealers and issuers

written descriptions of its material auction practices and procedures and to implement procedures reasonably designed to detect and prevent any failures by that Settling Auction Agent to conduct the auction process in accordance with disclosed procedures.

### **Interest Rate Determination Methods**

*Determination of Interest Rates and Rate Periods (other than Auction Rate).* Following Conversion from an ARS Rate Period, each interest rate to be determined by the Remarketing Agent will be the lowest rate of interest which, in the judgment of the Remarketing Agent, would cause the Bonds to have a market value on the commencement date of such Rate Period equal to the principal amount thereof plus accrued and unpaid interest, if any, under prevailing market conditions as of the date of determination. In no event will the Variable Rate be an interest rate in excess of the Maximum Interest Rate. All determinations of Variable Rates, including Commercial Paper Rate Periods and Term Rate Periods, pursuant to the Indenture will be conclusive and binding upon the Issuer, the Company, the Trustee, the Paying Agent, the Liquidity Facility Issuer and the holders of the Bonds. The Variable Rate in effect for Bonds during any Rate Period will be available to Holders on the date such Variable Rate is determined, between 1:00 p.m. and 5:00 p.m., New York City time, from the Remarketing Agent or the Trustee at their principal offices. Under the Indenture, the Bonds may be in different Rate Periods at any one time and the provisions of the Indenture will separately apply with respect to each portion of the Bonds.

During any transitional period for a conversion from the Commercial Paper Rate Period to a Daily or Weekly Rate Period in which the Remarketing Agent is setting different Commercial Paper Rate Periods in order to effect an orderly transition of such conversion, Bonds bearing interest at the Commercial Paper Rate will be governed by the provisions of the Indenture applicable to Commercial Paper Rate Periods and Commercial Paper Rates, and Bonds bearing interest at the Daily Rate or Weekly Rate, as applicable, will be governed by the provisions of the Indenture applicable to such Daily Rates and Daily Rate Periods or Weekly Rates and Weekly Rate Periods, as the case may be.

*Commercial Paper Rate and Commercial Paper Rate Period.* The Commercial Paper Rate Period for each Bond will be determined separately by the Remarketing Agent on or prior to the first day of such Commercial Paper Rate Period as being the Commercial Paper Rate Period which, in the judgment of the Remarketing Agent, will, with respect to each Bond, ultimately produce the lowest overall interest cost on the Bonds during the Commercial Paper Rate Period; provided that each Commercial Paper Rate Period will be from one day to 270 days in length, will begin on a Business Day and end on a day preceding a Business Day or the day preceding the Maturity Date. The Commercial Paper Rate for each Commercial Paper Rate Period will be effective from and including the commencement date of such period and remain in effect to and including the last day thereof. Each such Commercial Paper Rate will be determined by the Remarketing Agent no later than 1:00 p.m., New York City time, on the first day of the Commercial Paper Rate Period as the minimum rate of interest necessary, in the judgment of the Remarketing Agent, to enable the Remarketing Agent to sell such Bond on that day at a price equal to the principal amount thereof. If the Remarketing Agent has received notice of any conversion to a Term Rate Period, the remaining number of days prior to the Conversion Date or, if the Remarketing Agent has received notice of any conversion from a Commercial Paper Rate Period to

a Daily or Weekly Rate Period, the length of each Commercial Paper Rate Period for each Bond will be determined by the Remarketing Agent to be either (i) that length of period that, as soon as possible, will enable the Commercial Paper Rate Periods for all Bonds to end on the day before the Conversion Date, or (ii) that length of period which, based on the Remarketing Agent's judgment, will best promote an orderly transition to the next Rate Period. If a Liquidity Facility is then in effect, no Commercial Paper Rate Period may be established which is longer than a period equal to the maximum number of days' interest coverage provided by such Liquidity Facility minus 15 days or which extends beyond the remaining term of such Liquidity Facility minus 15 days.

*Daily Rate and Daily Rate Period.* Daily Rate Periods will commence on a Business Day and will extend to, but not include, the next succeeding Business Day. The Daily Rate for each Daily Rate Period will be effective from and including the commencement date thereof and will remain in effect during that Daily Rate Period. Each such Daily Rate will be determined by the Remarketing Agent no later than 10:30 a.m., New York City time, on the Business Day which is the commencement date of the Daily Rate Period to which it relates.

*Weekly Rate and Weekly Rate Period.* Weekly Rate Periods will commence on Wednesday of each week and end on Tuesday of the following week, except that (i) in the case of a conversion to a Weekly Rate Period, the initial Weekly Rate Period for Bonds will commence on the Conversion Date and end on Tuesday of the following week; and (ii) in the case of a conversion from a Weekly Rate Period to a different Rate Period, the last Weekly Rate Period prior to conversion will end on the last day immediately preceding the Conversion Date. The Weekly Rate for each Weekly Rate Period will be effective from and including the commencement date of such period and will remain in effect through and including the last day thereof. Each such Weekly Rate will be determined by the Remarketing Agent no later than 10:00 a.m., New York City time, on the commencement date of the Weekly Rate Period to which it relates.

*Term Rate and Term Rate Period.* Term Rate Periods will commence either on a Conversion Date (including a conversion from a Term Rate Period to a Term Rate Period of a different duration) or, if then in a Term Rate Period, the commencement date of an immediately successive Term Rate Period of the same duration and extend to but not include either the commencement date of an immediately successive Term Rate Period (of whatever duration) or the Conversion Date on which an ARS, Daily, Weekly or Commercial Paper Rate Period becomes effective. The Term Rate for each Term Rate Period will be effective from and including the commencement date of such period and remain in effect through and including the last day thereof. Each such Term Rate will be determined by the Remarketing Agent not later than 12:00 noon, New York City time, on the Business Day immediately preceding the commencement date of such period. The duration of each successive Term Rate Period will be the same as the then current Term Rate Period until the Company elects to convert the Term Rate Period to an ARS, Daily, Weekly or Commercial Paper Rate Period, or to a Term Rate Period of a different duration, all as provided in the Indenture.

*Failure of Remarketing Agent to Set Rate.* If the Remarketing Agent fails for any reason to determine the rate for any Rate Period, then the Bonds will bear such interest at the last effective rate established for such Rate Period, except as otherwise set forth in the Indenture.

## Conversions

*Conversions Between Rate Periods.* At the option of the Company, the Bonds may be converted from one Rate Period to another, including a conversion from one Term Rate Period to another Term Rate Period of a different duration. The Conversion Date must be an Interest Payment Date for the Rate Period from which the conversion is to be made; provided, however, that (i) if the conversion is from a Term Rate Period to another Rate Period, including a Term Rate Period of a different duration, the Conversion Date must be limited to any Interest Payment Date upon which the Bonds are subject to optional redemption pursuant to the Indenture or the last Interest Payment Date of that Term Rate Period, as the case may be; (ii) if the conversion is from a Daily Rate Period to a Weekly Rate Period, or from a Weekly Rate Period to a Daily Rate Period, the Conversion Date may be any Wednesday, regardless of whether the Wednesday is an Interest Payment Date; (iii) if the conversion is from an ARS Rate Period, the Conversion Date must be the Interest Payment Date following the final Auction Period; and (iv) if the conversion is from a Commercial Paper Rate Period, the Conversion Date must be the last Interest Payment Date on which interest is payable for all Bonds bearing Commercial Paper Rates theretofore established; provided, however, that if the conversion is from a Commercial Paper Rate Period to a Daily or Weekly Rate Period, there may be more than one Conversion Date in accordance with the Indenture and in that case the Conversion Date with respect to each Bond must be an Interest Payment Date for such Bond.

Not fewer than 15 days prior to the Conversion Date in the case of conversions from ARS, Daily, Weekly and Commercial Paper Rate Periods, and not fewer than 30 days prior to the Conversion Date in the case of a conversion from a Term Rate Period, and not fewer than 30 days prior to the last Business Day before the commencement of a new Term Rate Period, the Trustee will mail by first class mail a written notice of the conversion or of the commencement of such new Term Rate Period to each holder stating: (i) in the case of a conversion, the type of Rate Period to which the conversion will be made and the Conversion Date, or, in the case of a conversion to the ARS Rate Period, the ARS Conversion Date; (ii) that the Bonds will be subject to mandatory tender for purchase on the Conversion Date or on the Business Day immediately succeeding the last day of a Term Rate Period, as the case may be, and the purchase price of the Bonds; (iii) in the case of a conversion to an ARS Rate Period, the length of the Initial Period, the first Auction Date, the first Interest Payment Date following the ARS Conversion Date and the initial Auction Period; and (iv) if the Bonds are no longer in book-entry form and are therefore in certificated form, information with respect to required delivery of bond certificates and payment of the purchase price pursuant to the Indenture.

*Conditions Precedent to Conversions.* Any conversion (i) from a Daily, Weekly or Commercial Paper Rate Period to a Term Rate Period, (ii) from a Term Rate Period to a Daily, Weekly or Commercial Paper Rate Period, (iii) to or from an ARS Rate Period, or (iv) to a Term Rate Period from a Term Rate Period (on a date other than the date originally scheduled as the last Interest Payment Date of the then current Term Rate Period) will be subject to the condition that on or before the Conversion Date, the Company will have delivered to the Issuer, the Trustee, the Auction Agent, the Broker-Dealer, the Paying Agent, the Bond Insurer and the Remarketing Agent an Opinion of Bond Counsel to the effect that the conversion is authorized under the Indenture and

the Act and will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes.

As a condition to any conversion from the ARS Rate Period to a Rate Period that provides for either optional or mandatory tender for purchase of Bonds prior to maturity, unless the Bond Insurer otherwise consents, a Liquidity Facility acceptable to the Bond Insurer must be delivered to the Trustee. The Liquidity Facility, if any, to be held by the Trustee after the Conversion Date must be sufficient to cover the principal of and accrued interest on the outstanding Bonds for the maximum Interest Period permitted for that particular Rate Period plus 15 days, and, if a Liquidity Facility is to be held by the Trustee after the conversion of the Bonds to a Term Rate Period, that Liquidity Facility must also extend for the entire Term Rate Period plus 15 days. If a Liquidity Facility is in effect and the purchase price of the Bonds under the Indenture includes any premium, such conversion will be subject to the condition that the Trustee will have confirmed prior to mailing notice to the holders of such conversion that the Trustee is entitled to draw on that Liquidity Facility in an aggregate amount sufficient to pay the applicable purchase price (including such premium).

*Failure of Conversion.* If for any reason a condition precedent to a conversion of the Bonds (other than a conversion of the Bonds from an ARS Rate Period) is not met, the conversion will not be effective (although any mandatory tender pursuant to the Indenture will be made on such date if the notice required under the Indenture has been sent to holders stating that the Bonds would be subject to mandatory purchase on that date), and the Bonds, except as otherwise provided and subject to the conditions set forth in the Indenture, generally will be converted to a Weekly Rate Period and bear interest at the Weekly Rate determined by the Remarketing Agent as of the date on which the conversion was to occur.

If the conversion is from an ARS Rate Period, at any time prior to 10:00 a.m. New York City time on the Business Day immediately preceding the Conversion Date the Company may withdraw its notice of conversion and the Auction for such Bonds will be held on such Auction Date as if no conversion notice had ever been given. If on a Conversion Date the conversion notice has not been withdrawn as set forth in the preceding sentence and any condition precedent to such conversion has not been satisfied, the Trustee will give notice by Electronic Means as soon as practicable and in any event not later than the next succeeding Business Day to the holders of the Bonds to have been converted, the Issuer, the Auction Agent, the Broker-Dealer and the Bond Insurer that such conversion has not occurred, that the Bonds will not be purchased on the failed Conversion Date, that the Auction Agent will continue to implement the Auction Procedures on the Auction Dates with respect to such Bonds which otherwise would have been converted excluding, however, the Auction Date falling on the Business Day next preceding the failed Conversion Date, and that the interest rate will continue to be the Auction Period Rate; provided, however, that the interest rate borne by the Bonds which otherwise would have been converted during the Auction Period commencing on such failed Conversion Date will be the Maximum Rate, and the Auction Period will be the seven-day Auction Period.

## **Optional Tenders**

*Purchase Price and Purchase Dates.* The holders of Bonds bearing interest for a Daily or Weekly Rate Period may elect to have their Bonds or portions thereof purchased at a purchase price equal to 100% of the principal amount of such Bonds (or portions thereof in an Authorized Denomination), plus any interest accrued from the immediately preceding Interest Payment Date and unpaid. There is no optional tender right while the Bonds are in a Commercial Paper Rate, Term Rate or ARS Rate Period.

*Daily Rate.* Bonds bearing interest at Daily Rates may be tendered for purchase at a price payable in immediately available funds on any Business Day, upon telephonic or electronic notice of tender given not later than 11:00 a.m., New York City time, on the purchase date to the Paying Agent. Any telephonic notice must be promptly confirmed by the holder to the Paying Agent in writing.

*Weekly Rate.* Bonds bearing interest at Weekly Rates may be tendered for purchase at a price payable in immediately available funds on any Business Day, upon delivery of written or electronic notice of tender to the Paying Agent not later than 5:00 p.m., New York City time, on a Business Day not fewer than seven days prior to the purchase date.

*Notice of Tender.* When a book-entry-only system is in effect, a Beneficial Owner through its Direct Participant of that book-entry-only system may tender its interest in a Bond (or portion of Bond) by delivering notice, in the manner and by the time set forth above, to the Paying Agent stating the principal amount of the Bond (or portion of Bond being tendered), payment instructions for the purchase price and the purchase date. The Beneficial Owner will effect delivery of such Bonds by causing such Direct Participant to transfer its interest in the Bonds equal to such Beneficial Owner's interest on the records of DTC to the participant account of the Paying Agent with DTC. When a book-entry-only system is not in effect, a holder of a Bond may tender the Bond (or portion of Bond) by delivering a notice, in the manner and by the time set forth above, to the Paying Agent which states (A) the principal amount of the Bond or Bonds to which the notice relates, (B) that the holder irrevocably demands purchase of such Bond or Bonds or a specified portion thereof in an amount equal to the lowest denomination then authorized or an integral multiple of such lowest denomination, (C) the date on which such Bond or portion is to be purchased, and (D) payment instructions with respect to the purchase price.

## **Mandatory Tenders**

*Commercial Paper Rate Periods.* Each Bond bearing interest at a Commercial Paper Rate will be subject to mandatory tender for purchase, on the Interest Payment Date applicable to such Bond, at a purchase price equal to 100% of the principal amount thereof.

*Conversion Dates.* On any Conversion Date (other than a Conversion Date from a Daily Rate Period to a Weekly Rate Period or from a Weekly Rate Period to a Daily Rate Period), the Bonds will be subject to mandatory tender for purchase on such Conversion Date at a purchase price equal to 100% of the principal amount thereof or, in the case of Bonds bearing interest at a Term Rate which are tendered on a day on which those Bonds are subject to optional redemption at a redemption price of more than 100% of the principal amount redeemed, at a purchase price equal to

that redemption price; provided, however, that in the event that the conditions of a conversion from an ARS Rate Period are not satisfied, including the failure to remarket all such Bonds on the Conversion Date, the Bonds will not be subject to mandatory tender for purchase on that Conversion Date, will be returned to the holders, will automatically convert to a seven-day Auction Period and will bear interest at the Maximum Rate.

*Term Rate Periods.* On the Business Day immediately succeeding the last day of each Term Rate Period, the Bonds will be subject to mandatory tender for purchase on such date at a purchase price equal to 100% of the principal amount thereof.

*Upon Delivery of Liquidity Facility.* If, at the option of the Company, a Liquidity Facility is delivered with respect to the Bonds pursuant to the Indenture, the Bonds will be subject to mandatory tender for purchase at a purchase price equal to 100% of the principal amount thereof on the date of the delivery of the Liquidity Facility.

*Notices of Mandatory Tenders.* Not fewer than 15 days prior to the Conversion Date in the case of conversions from ARS, Daily, Weekly and Commercial Paper Rate Periods or the initial delivery date of a Liquidity Facility, and not fewer than 30 days prior to the Conversion Date in the case of a conversion from a Term Rate Period and not fewer than 30 days prior to the last Business Day before the commencement of a new Term Rate Period, the Trustee will mail by first class mail a written notice to each holder, setting forth those matters required by the Indenture, including a statement that the Bonds will be subject to mandatory purchase on the Conversion Date or on the Business Day immediately succeeding the last day of the current Term Rate Period. No notice will be given in connection with the mandatory purchase of a Bond bearing interest at a Commercial Paper Rate on an Interest Payment Date applicable to such Bond.

### **Remarketing and Purchase of Tendered Bonds**

The Indenture provides that, unless otherwise instructed by the Company, the Remarketing Agent will offer for sale and use its best efforts to find purchasers for all Bonds or portions thereof for which notice of tender has been received or which are subject to mandatory tender for purchase. The Remarketing Agent will not sell any Bond as to which a notice of either conversion from one type of Rate Period to another or redemption has been given by the Trustee, unless the Remarketing Agent has advised the person to whom the sale is made of the conversion or redemption. There will be no purchase of Bonds if an acceleration has been declared under the Indenture due to any Event of Default described under "THE INDENTURE – Events of Default," and there will be no remarketing of Bonds if there has occurred and is continuing an Event of Default or a Default under the Indenture, except in the sole discretion of the Remarketing Agent.

The purchase price of Bonds tendered for purchase will be paid by the Paying Agent from the following funds in the priority indicated: (i) proceeds of the remarketing of such Bonds by the Remarketing Agent to persons other than the Company, its affiliates or the Issuer, (ii) proceeds of the Liquidity Facility, if any, (iii) proceeds of the remarketing of such Bonds by the Remarketing Agent to the Company, and (iv) proceeds of the remarketing of such Bonds by the Remarketing Agent to an Affiliate of the Company or the Issuer.

## **Payment of Purchase Price**

When a book-entry-only system is in effect, the requirement for physical delivery of the Bonds will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on the records of DTC to the participant account of the Paying Agent.

When a book-entry-only system is not in effect, all Bonds to be purchased on any date must be delivered to the Principal Office of the Paying Agent at or before (i) 12:00 noon, New York City time, on the purchase date in the case of Bonds accruing interest at Auction or Weekly Rates; (ii) 1:00 p.m., New York City time, on the purchase date in the case of Bonds bearing interest at Daily or Commercial Paper Rates; or (iii) 3:00 p.m., New York City time, on the purchase date in the case of Bonds bearing interest at a Term Rate. If the holder of any Bond (or portion thereof) that is subject to purchase fails to deliver such Bond to the Paying Agent for purchase on the purchase date, and if the Paying Agent is in receipt of the purchase price, the Bond will be purchased on the day fixed for purchase and ownership of such Bond (or portion thereof) will be transferred to the purchaser. If on the purchase date the Paying Agent is in receipt of the purchase price for all Bonds to be purchased on that purchase date, the holder of any such Bond will have no further rights thereunder except the right to receive the purchase price thereof and, if the purchase date coincides with an Interest Payment Date and if such holder was the holder of the Bond on the Regular Record Date pertaining to the Interest Payment Date, such rights as the holder may have to interest accrued to and unpaid on such Interest Payment Date.

## **Redemption**

*Optional Redemption.* The Bonds will be subject to optional redemption by the Issuer at the direction of the Company, in whole or in part, as follows:

(i) During any ARS Rate Period, on the Interest Payment Date immediately following the end of an Auction Period, at a redemption price equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date, provided that after any optional redemption in part there will not be less than \$10,000,000 in aggregate principal amount of any Bonds bearing interest at an Auction Period Rate unless otherwise consented to by the Broker-Dealer;

(ii) During any Daily or Weekly Rate Period, on any Interest Payment Date, at a redemption price equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date.

(iii) During any Commercial Paper Rate Period for a Bond, on the Interest Payment Date for that Bond, at a redemption price equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date.

(iv) During a Term Rate Period, on any date which occurs on or after the first day of the optional redemption period, and at the redemption prices, expressed as a percentage of the principal amount being redeemed, plus accrued and unpaid interest, if any, to the redemption date, as follows:



<u>Length of Term Rate Period</u>	<u>First Day of Optional Redemption Period</u>	<u>Redemption Price</u>
More than 15 years	Tenth anniversary of commencement of Term Rate Period	100%
More than 10, but not more than 15 years	Eighth anniversary of commencement of Term Rate Period	100%
More than 5, but not more than 10 years	Fifth anniversary of commencement of Term Rate Period	100%
5 years or less	Non-callable	Non-callable

If at the time of the Company's notice to the Trustee of a conversion to a Term Rate Period (including a conversion from a Term Rate Period to a Term Rate Period of a different duration), the Company satisfies certain conditions, including provision of an Opinion of Bond Counsel that a change in the redemption provisions of the Bonds will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes, the redemption periods and redemption prices may be revised, effective as of the date of such conversion.

Extraordinary Optional Redemption During a Term Rate Period. During a Term Rate Period, the Bonds are subject to redemption by the Issuer in whole or in part at a redemption price of 100% of the principal amount redeemed, plus accrued and unpaid interest to the redemption date, upon the occurrence of any of the following events.

(a) A Project or a Generating Station is damaged or destroyed to such an extent that (1) it cannot reasonably be expected to be restored, within a period of six consecutive months, to the condition thereof immediately preceding such damage or destruction or (2) the Company is reasonably expected to be prevented from carrying on its normal operations in connection therewith for a period of six consecutive months.

(b) Title to, or the temporary use of, all or a significant part of a Project or a Generating Station is taken under the exercise of the power of eminent domain (1) to such extent that it cannot reasonably be expected to be restored within a period of six consecutive months to a condition of usefulness comparable to that existing prior to the taking or (2) to such an extent that the Company is reasonably expected to be prevented from carrying on

its normal operations in connection therewith for a period of six consecutive months.

(c) As a result of any changes in the Constitution of the State, the Constitution of the United States of America or any state or federal laws or as a result of legislative or administrative action (whether state or federal) or by final decree, judgment or order of any court or administrative body (whether state or federal) entered after any contest thereof by the Issuer or the Company in good faith, the Loan Agreement becomes void or unenforceable or impossible of performance in accordance with the intent and purpose of the parties as expressed in the Loan Agreement.

(d) Unreasonable burdens or excessive liabilities are imposed upon the Issuer or the Company with respect to a Project or a Generating Station or the operation thereof, including, without limitation, the imposition of federal, state or other ad valorem, property, income or other taxes other than ad valorem taxes at the rates presently levied upon privately owned property used for the same general purpose as a Project or a Generating Station.

(e) Changes in the economic availability of raw materials, operating supplies, energy sources or supplies or facilities (including, but not limited to, facilities in connection with the disposal of industrial wastes) necessary for the operation of a Project or a Generating Station for the Project Purposes occur or technological or other changes occur which the Company cannot reasonably overcome or control and which in the Company's reasonable judgment render a Project or a Generating Station uneconomic or obsolete for the Project Purposes.

(f) Any court or administrative body enters a judgment, order or decree, or takes administrative action, requiring the Company to cease all or any substantial part of its operations served by a Project or a Generating Station to such extent that the Company is or will be prevented from carrying on its normal operations at a Project or a Generating Station for a period of six consecutive months.

(g) The termination by the Company of operations at a Generating Station.

As used under this caption, the term "a Project" means the portion of the Project Facilities at a particular Generating Station.

Mandatory Redemption Upon a Determination of Taxability. The Bonds are subject to mandatory redemption by the Issuer at a redemption price of 100% of the principal amount thereof,

plus interest accrued to the redemption date, at the earliest practicable date selected by the Trustee, after consultation with the Company, but in no event later than 180 days following the receipt by the Trustee of notification of a Determination of Taxability, as defined below. Such redemption will be either in whole or, if in the Opinion of Bond Counsel the Determination of Taxability will not apply to Bonds remaining outstanding after such redemption, in part.

A "*Determination of Taxability*" means written notice from the Company of the occurrence of a final decision, ruling or technical advice by any federal judicial or administrative authority to the effect that, as a result of a failure by the Company to observe or perform any covenant, agreement or obligation on its part to be observed or performed under the Loan Agreement or the inaccuracy of any representation made by the Company in the Loan Agreement, interest on any Bond is or was includable in the gross income of the owner of that Bond for federal income tax purposes, other than an owner who is a "substantial user" of the Projects or a "related person" as those terms are used in Section 147(a) of the Code; provided that, no decision by any court or decision, ruling or technical advice by any administrative authority will be considered final (a) unless the beneficial owner involved in the proceeding or action giving rise to such decision, ruling or technical advice (i) gives the Company and the Trustee prompt notice of the commencement thereof, together with evidence satisfactory to the Company and the Trustee that such party is the beneficial owner and (ii) offers the Company the opportunity to control the contest thereof, provided that the Company has agreed to bear all expenses in connection therewith and to indemnify the beneficial owner against all liabilities in connection therewith, and (b) until the expiration of all periods for judicial review or appeal. A Determination of Taxability will not result from the inclusion of interest on any Bond in the computation of the alternative minimum tax imposed by Section 55 of the Code, the branch profits tax on foreign corporations imposed by Section 884 of the Code or the tax imposed on net excess passive income of certain S corporations under Section 1375 of the Code.

If the Indenture has been released in accordance with its terms prior to the occurrence of a Determination of Taxability, the Bonds will not be subject to mandatory redemption.

*Partial Redemption.* If fewer than all of the Bonds are to be redeemed, the selection of Bonds to be redeemed, or portions thereof in amounts equal to the lowest Authorized Denomination, will be made by lot by the Trustee in any manner which the Trustee may determine. In the case of a partial redemption of Bonds by lot when Bonds of denominations greater than the lowest Authorized Denomination are then outstanding, each unit of face value of principal thereof equal to the lowest Authorized Denomination will be treated as though it were a separate Bond of such lowest Authorized Denomination. If it is determined that one or more, but not all of the units of face value represented by a Bond are to be called for redemption, then upon notice of redemption of a unit or units, the holder of that Bond will surrender the Bond to the Trustee (a) for payment of the redemption price of the unit or units of face value called for redemption (including without limitation, the interest accrued to the date fixed for redemption and any premium), and (b) for issuance, without charge to the holder thereof, of a new Bond or Bonds of any Authorized Denominations in an aggregate principal amount equal to the unmatured and unredeemed portion of the Bond surrendered.

*Notice of Redemption.* The Trustee will give notice of the redemption on behalf of the Issuer by mailing a copy of the redemption notice by first class mail, postage prepaid, at least 30

days but not more than 90 days prior to the redemption date, to the owner of each Bond subject to redemption in whole or in part and to the Auction Agent and the Bond Insurer. Failure to receive any such notice, or any defect therein in respect of any Bond, will not affect the validity of the redemption of any Bond. If at the time of mailing of the notice of redemption there has not been deposited with the Trustee moneys sufficient to redeem all Bonds called for redemption, if the Company so directs, such notice may state that it is conditional, subject to the deposit of moneys sufficient for the redemption with the Trustee not later than the redemption date and such notice will be of no effect unless such moneys are so deposited. If either (A) unconditional notice of redemption was mailed or (B) conditional notice was mailed and the moneys sufficient to redeem all Bonds on the redemption date have been deposited with the Trustee, then in either event, the Bonds and portions thereof called for redemption will become due and payable on the redemption date, and upon presentation and surrender thereof at the place or places specified in that notice, will be paid at the redemption price, plus interest accrued to the redemption date.

So long as Cede & Co., as nominee of DTC, is the registered owner of the Bonds, all notices of redemption will be sent only to Cede & Co., and delivery of notice of redemption to the Direct Participants, if any, will be solely the responsibility of DTC.

#### **Book-Entry-Only System**

*Portions of the following information concerning DTC and DTC's book-entry-only system have been obtained from DTC. The Issuer, the Company, Bond Counsel and the Underwriter make no representation as to the accuracy of such information. See "THE BONDS – Auction Rate Bonds – Depository" for information about DTC and its procedures relating to Auction Rate Bonds.*

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each series of the Bonds, in the aggregate principal amount of such series, and will be deposited with DTC or its custodian.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("*Direct Participants*") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("*DTCC*"). DTCC, in turn, is

owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("*Indirect Participants*"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("*Beneficial Owner*") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those

Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of and interest on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Issuer or Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent, the Issuer or the Company, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of and interest on the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Issuer or Paying Agent, disbursement or such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner may give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Paying Agent, and will effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds on DTC's records to the Paying Agent. The requirement for physical delivery of Bonds in connection with a demand for purchase or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records.

DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to the Issuer or Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The Issuer may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Issuer believes to be reliable, but the Issuer takes no responsibility for the accuracy thereof.

So long as Cede & Co., as nominee of DTC, is the registered owner of any of the Bonds, the Beneficial Owners of such Bonds will not receive or have the right to receive physical delivery of the Bonds, and references herein to the registered owners of such Bonds will mean Cede & Co. and will not mean the Beneficial Owners of such Bonds.

THE ISSUER, THE COMPANY, THE PAYING AGENT, THE REGISTRAR, THE UNDERWRITER AND THE TRUSTEE CANNOT AND DO NOT GIVE ANY ASSURANCES THAT THE DIRECT PARTICIPANTS OR THE INDIRECT PARTICIPANTS WILL DISTRIBUTE TO THE BENEFICIAL OWNERS OF THE BONDS (1) PAYMENTS OF

PRINCIPAL OF OR INTEREST AND PREMIUM, IF ANY, ON THE BONDS, (2) CERTIFICATES REPRESENTING AN OWNERSHIP INTEREST OR OTHER CONFIRMATION OF BENEFICIAL OWNERSHIP INTERESTS IN THE BONDS, OR (3) NOTICES OF REDEMPTION OR OTHER NOTICES SENT TO DTC OR ITS NOMINEE, CEDE & CO., AS THE REGISTERED OWNER OF THE BONDS, OR THAT THEY WILL DO SO ON A TIMELY BASIS OR THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT. THE CURRENT "RULES" APPLICABLE TO DTC ARE ON FILE WITH THE SEC, AND THE CURRENT "PROCEDURES" OF DTC TO BE FOLLOWED IN DEALING WITH PARTICIPANTS MAY BE OBTAINED FROM DTC.

THE ISSUER, THE COMPANY, THE PAYING AGENT, THE REGISTRAR, THE UNDERWRITER AND THE TRUSTEE WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO ANY DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT WITH RESPECT TO: (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY SUCH DIRECT PARTICIPANT OR INDIRECT PARTICIPANT; (2) THE PAYMENT BY ANY PARTICIPANT OF ANY AMOUNT DUE TO THE BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE BONDS; (3) THE DELIVERY BY ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER THAT IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE INDENTURE TO BE GIVEN TO BONDHOLDERS; (4) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE BONDS; OR (5) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS BONDHOLDER.

The book-entry-only system for registration of the ownership of the Bonds may be discontinued at any time if: (i) DTC determines to resign as securities depository for the Bonds; or (ii) the Company determines (and notifies the Issuer in writing of its determination and the Issuer provides 30 days' notice of such discontinuation to the Trustee and DTC) to discontinue the system of book-entry transfers through DTC (or through a successor securities depository). Upon occurrence of either such event, the Issuer may, at the request of the Company, attempt to establish a securities depository book-entry relationship with another securities depository. If the Issuer does not do so, or is unable to do so, and after the Issuer has notified DTC and upon surrender to the Trustee of the Bonds held by DTC, the Issuer will issue and the Trustee will authenticate and deliver the Bonds in registered certificate form in authorized denominations, at the expense of the Company, to such Persons, and in such maturities and principal amounts, as may be designated by DTC, but without any liability on the part of the Issuer, the Company or the Trustee for the accuracy of such designation. In any such event (unless the Issuer appoints a successor securities depository), the Bonds will be delivered in registered certificate form to such persons, and in such maturities and principal amounts, as may be designated by DTC, but without any liability on the part of the Issuer or the Trustee for the accuracy of such designation. Whenever DTC requests the Issuer or the Trustee to do so, the Issuer or the Trustee will cooperate with DTC in taking appropriate action after reasonable notice to arrange for another securities depository to maintain custody of certificates evidencing the Bonds.

## **Revision of Book-Entry-Only System; Replacement Bonds**

The Issuer, pursuant to a request by the Company and the Remarketing Agent, if any, for the removal or replacement of the Depository or the discontinuance of the book-entry-only system for the Bonds, and upon 30 days' notice to the Depository and the Trustee, will agree to remove or replace the Depository or discontinue the book-entry-only system for the Bonds.

In the event that the book-entry-only system is discontinued, the following provisions will apply. The Bonds may be issued in Authorized Denominations. Bonds may be transferred or exchanged in Authorized Denominations upon surrender of such Bonds at the principal office of the Trustee, accompanied by an assignment satisfactory to the Trustee, duly executed by the Owner or the Owner's duly authorized attorney-in-fact. Neither the Issuer nor the Trustee will be required to make any such transfer or exchange of any Bond during the period beginning at the opening of business 15 days immediately preceding the mailing of a notice of Bonds selected for redemption and ending at the close of business on the day of such mailing, or, with respect to a Bond, after such Bond or any portion thereof has been selected for redemption. The Issuer or the Trustee may make a charge to the Owner for every transfer or exchange of a Bond sufficient to reimburse it for any tax or other governmental charge required to be paid with respect to such transfer or exchange, and may demand that such charge be paid before any new Bond is delivered.

## **THE BOND INSURER**

*The information relating to Ambac Assurance Corporation (the "Bond Insurer") contained herein has been furnished solely by the Bond Insurer. No representation is made by the Underwriter, the Broker-Dealer, the Remarketing Agent, the Issuer, Bond Counsel or the Company as to the accuracy or adequacy of such information or as to the absence of material adverse changes in the condition of the Bond Insurer subsequent to the date hereof. The following discussion does not purport to be complete and is qualified in its entirety by reference to each Bond Insurance Policy, a specimen of the form of which is attached hereto as Appendix E. The Bond Insurer accepts no responsibility for the accuracy or completeness of this Official Statement or any other information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Bond Insurer and its affiliates set forth under this heading. In addition, the Bond Insurer makes no representation regarding the Bonds or the advisability of investing in the Bonds.*

*Each Bond Insurance Policy is separate from and will operate independently of the other Bond Insurance Policy, and payment under one Bond Insurance Policy will not, in and of itself, require payment under the other Bond Insurance Policy. The Bond Insurance Policies contain substantially the same terms and provisions. All references in this summary to the Bonds, the Bond Insurance Policy, the Insurance Agreement and other defined terms should be read as referring separately to each series of the Bonds and to the related Bond Insurance Policy, Insurance Agreement, and other defined terms. Reference is made to each Bond Insurance Policy for the detailed provision thereof.*



## Payment Pursuant to Bond Insurance Policy

Ambac Assurance Corporation ("*Ambac Assurance*") has made a commitment to issue a financial guaranty insurance policy (the "*Bond Insurance Policy*") relating to the Bonds, effective as of the date of issuance of the Bonds. Under the terms of the Bond Insurance Policy, Ambac Assurance will pay to The Bank of New York, in New York, New York, or any successor thereto (the "*Insurance Trustee*"), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor (as such terms are defined in the Bond Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and/or interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Trustee. The insurance will extend for the term of the Bonds and, once issued, cannot be canceled by Ambac Assurance.

The Bond Insurance Policy will insure payment only on the stated maturity date and on mandatory redemption upon a Determination of Taxability (as described under "THE BONDS – Redemption – *Mandatory Redemption Upon a Determination of Taxability*"), in the case of principal, and on stated dates for payment, in the case of interest. If the Bonds become subject to mandatory redemption (other than as a result of a Determination of Taxability (as described under "THE BONDS – Redemption – *Mandatory Redemption Upon a Determination of Taxability*")) and insufficient funds are available for redemption of all outstanding Bonds, Ambac Assurance will remain obligated to pay the principal of and interest on outstanding Bonds on the originally scheduled interest and principal payment dates. In the event of any acceleration of the principal of the Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration, except to the extent that Ambac Assurance elects, in its sole discretion, to pay all or a portion of the accelerated principal and interest accrued thereon to the date of acceleration (to the extent unpaid by the Obligor). Upon payment of all such accelerated principal and interest accrued to the acceleration date, Ambac Assurance's obligations under the Bond Insurance Policy shall be fully discharged.

In the event the Trustee has notice that any payment of principal of or interest on a Bond that has become Due for Payment and that is made to a holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, non-appealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Bond Insurance Policy does **not** insure any risk other than Nonpayment (as set forth in the Bond Insurance Policy). Specifically, the Bond Insurance Policy does **not** cover:

1. payment on acceleration, as a result of a call for redemption (other than mandatory redemption upon a Determination of Taxability as described under "THE BONDS – Redemption – *Mandatory Redemption Upon a Determination of Taxability*") or as a result of any other advancement of maturity;
2. payment of any redemption, prepayment or acceleration premium; and

3. nonpayment of principal or interest caused by the insolvency or negligence of the Trustee, Paying Agent or Bond Registrar, if any.

If it becomes necessary to call upon the Bond Insurance Policy, payment of principal requires surrender of the Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Bonds to be registered in the name of Ambac Assurance to the extent of the payment under the Bond Insurance Policy. Payment of interest pursuant to the Bond Insurance Policy requires proof of holder entitlement to interest payments and an appropriate assignment of the holder's right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the Bonds, appurtenant coupon, if any, or right to payment of the principal or interest on such Bonds and will be fully subrogated to the surrendering holder's rights to payment.

The Bond Insurance Policy does not insure against loss relating to payments made in connection with the sale of the Bonds at auctions or losses suffered as a result of a holder's inability to sell the Bonds.

The Bond Insurance Policy does not insure against loss relating to payments of the purchase price of the Bonds upon tender by a registered owner thereof or any preferential transfer relating to payments of the purchase price of the Bonds upon tender by a registered owner thereof.

#### **Ambac Assurance Corporation**

Ambac Assurance is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin, and is licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately **\$10,608,000,000** (unaudited) and statutory capital of approximately **\$6,893,000,000** (unaudited) as of **September 30, 2007**. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., Moody's Investors Service, Inc. and Fitch Ratings have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in the Bond Insurance Policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Obligor.

Ambac Assurance makes no representation regarding the Bonds or the advisability of investing in the Bonds and makes no representation regarding, nor has it participated in the preparation of, this Official Statement other than the information supplied by Ambac Assurance and presented under the heading "THE BOND INSURER."

### **Available Information**

The parent company of Ambac Assurance, Ambac Financial Group, Inc. ("*Ambac Financial*"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "*Exchange Act*"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "*SEC*"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including Ambac Financial. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices is One State Street Plaza, 19th Floor, New York, New York 10004, and its telephone number is (212) 668-0340.

### **Incorporation of Certain Documents by Reference**

The following documents filed by Ambac Financial with the SEC (File No. 1-10777) are incorporated by reference in this Official Statement:

1. Ambac Financial's Annual Report on Form 10-K for the fiscal year ended December 31, 2006 and filed on March 1, 2007;
2. Ambac Financial's Current Report on Form 8-K dated and filed on April 25, 2007;
3. Ambac Financial's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2007 and filed on May 10, 2007;
4. Ambac Financial's Current Report on Form 8-K dated and filed on July 25, 2007;
5. Ambac Financial's Current Report on Form 8-K dated and filed on August 3, 2007;
6. Ambac Financial's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 2007 and filed on August 9, 2007;
7. Ambac Financial's Current Report on Form 8-K dated October 10, 2007 and filed on October 11, 2007;
8. Ambac Financial's Current Report on Form 8-K dated and filed on October 24, 2007; and
9. Ambac Financial's Quarterly Report on Form 10-Q for the fiscal quarterly period ended September 30, 2007 and filed on November 9, 2007.

All documents subsequently filed by Ambac Financial pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in “Available Information”.

### **Insurance Agreement with Company**

*The following summarizes certain provisions of the Insurance Agreement, to which reference is made for the detailed provisions thereof.*

The Bond Insurer has agreed to issue the Bond Insurance Policy pursuant to the Insurance Agreement. Under the Insurance Agreement, the Company is obligated to reimburse the Bond Insurer, immediately and unconditionally upon demand, for all payments made by the Bond Insurer under the terms of the Bond Insurance Policy. The Company is also obligated to pay premiums in respect of the Bond Insurance Policy at the times and in the amounts set forth in the Insurance Agreement. The Insurance Agreement includes certain covenants on the part of the Company, including an agreement to ensure that the obligations of the Company under and in respect of the Bonds, the Indenture, the Loan Agreement and the Insurance Agreement remain the obligations of a regulated utility company after a reorganization or a transfer of a substantial portion of the assets of the Company and an agreement not to incur or suffer to exist secured debt, subject to certain allowances, unless the Company shall deliver to the Trustee (as assignee of the Issuer) first mortgage bonds or other collateral in form, scope and substance satisfactory to the Bond Insurer, as security for the payment of all amounts under the Indenture and Loan Agreement. The Insurance Agreement includes certain events of default, including the failure of the Company to pay amounts owed thereunder to the Bond Insurer, breaches by the Company of representations and warranties, failure to perform obligations under the Insurance Agreement, bankruptcy, insolvency or like events affecting the Company, and the occurrence and continuation of an event of default under the Indenture. If any such event of default should occur and be continuing, the Bond Insurer may, among other things, notify the Trustee of such an event of default which would result in an “Event of Default” under the Loan Agreement and the Indenture. See “THE LOAN AGREEMENTS – Events of Default and Remedies” and “THE INDENTURES – Events of Default.”

### **THE LOAN AGREEMENTS**

*Each Loan Agreement is separate from and will operate independently of the other Loan Agreement, and the occurrence of an Event of Default under one Loan Agreement will not, in and of itself, constitute an Event of Default under the other Loan Agreement. The Loan Agreements contain substantially identical terms and provisions. All references in this summary to the Bonds, the Issuer, the Indenture, the Loan Agreement and other defined terms should be read as referring separately to each series of the Bonds and the related Indenture, Loan Agreement and other defined terms. Reference is made to each Loan Agreement for the detailed provisions thereof.*

### **Loan of Proceeds**

The Issuer will loan the proceeds of the sale of the Bonds to the Company, in accordance with the Loan Agreement and the Indenture, to assist the Company in financing a portion of the costs of the Projects as defined in the Indenture.

### **Application of Proceeds; Completion**

Net proceeds of the Bonds will be deposited into the Project Fund and disbursed to pay Project Costs in accordance with the Loan Agreement. The Completion Date for the Projects will be established by the Company in accordance with the Loan Agreement. Any moneys in the Project Fund remaining after the Completion Date and payment, or provision for payment, in full of the Project Costs at the direction of the Company promptly will be (a) used to acquire, construct or install such additional real and personal property comprising solid waste disposal facilities and Air Quality Facilities as defined in the Act for use in connection with the Projects as is designated by the Company and the acquisition, construction, equipment, installation and improvement of which will be such as is permitted under the Act, (b) used for the purchase of Bonds in the open market for the purpose of cancellation at prices not exceeding the fair market value thereof plus accrued interest to the date of payment therefor, (c) paid into the Bond Fund to be applied to the payment of Bond Service Charges on the Bonds or the redemption of the Bonds pursuant to the applicable provisions of the Indenture, or (d) used for a combination of the foregoing as is provided in that direction or for any other purposes as are or may be permitted under the Act; provided that, in all such cases, (A) those moneys will be so used or applied only to the extent that such use or application will not, in the Opinion of Bond Counsel or under a ruling of the Internal Revenue Service, adversely affect the exclusion of the interest on the Bonds from the gross income of the holders thereof for federal income tax purposes and (B) any money remaining in the Project Fund following completion of the Projects will be invested in accordance with the Code in such manner as not to adversely affect the exclusion of the interest on the Bonds from the gross income of the holders thereof for federal income tax purposes. If moneys in the Project Fund are not sufficient to pay all Project Costs, the Company, nonetheless, will complete the Projects or cause the Projects to be completed, in order to fulfill the Project Purposes set forth in the Loan Agreement and will pay all such additional Project Costs from its own funds.

### **Loan Payments**

The Company is obligated to make Loan Payments under the Loan Agreement which correspond, as to time, and are equal in amount, to the amount then payable as principal of and premium, if any, and interest on the Bonds. All payments under the Loan Agreement related to the Loan will be assigned to the Trustee, and the Company will make such payments directly to the Trustee for the account of the Issuer and for deposit in the Bond Fund created under the Indenture.

### **Obligation to Purchase Bonds**

The Company will agree to pay or cause to be paid to the Trustee or the Paying Agent, on or before each day on which Bonds may be or are required to be tendered for purchase, amounts equal to the amounts to be paid by the Trustee or the Paying Agent with respect to the Bonds tendered for purchase on such dates pursuant to the Indenture; provided, however, that the

obligation of the Company to make any such payment will be reduced by the amount of (A) moneys paid by the Remarketing Agent as proceeds of the remarketing of such Bonds by the Remarketing Agent, (B) moneys drawn under a Liquidity Facility, if any, for the purpose of paying such purchase price and (C) other moneys made available by the Company.

#### **Term of Loan Agreement**

The Loan Agreement will remain in full force and effect until such time as (i) all of the Bonds are fully paid (or provision has been made for such payment) pursuant to the Indenture and the Indenture has been released pursuant to the terms thereof and (ii) all other sums payable by the Company under the Loan Agreement have been paid.

#### **Maintenance and Modification**

During the term of the Loan Agreement, the Company will use its best efforts to keep and maintain the Project Facilities in good repair and good operating condition so that the Project Facilities will continue to constitute Air Quality Facilities (as defined in the Loan Agreement) for the purposes of the operation thereof.

Subject to certain conditions, the Company has the right, from time to time, to remodel the Project Facilities or make additions, modifications and improvements thereto, the cost of which must be paid by the Company. The Company also has the right, subject to certain conditions, to substitute or remove any portion of the Project Facilities.

#### **Maintenance of Corporate Existence**

Subject to the provisions below relating to an assignment or a Restructuring Transaction, the Company will maintain its existence as a corporation or limited liability company qualified to do business in the State and shall not dissolve or dispose of all or substantially all of its assets, unless (a) the Company shall receive, as consideration for such disposition, services or property equal to the fair market value of such assets or (b) the transferee legal entity shall assume in writing the obligations of the Company under the Loan Agreement, in which event the Issuer and the Trustee shall release the Company in writing, concurrently with and contingent upon such assumption, from all liability under the Loan Agreement.

#### **Tax Covenant**

The Company will covenant and represent in the Loan Agreement that it has taken and caused to be taken and will take and cause to be taken all actions that may be required of it for the interest on the Bonds to be and remain excluded from the gross income of the owners thereof for federal income tax purposes, and that it has not taken or permitted to be taken on its behalf, and it will not take or permit to be taken on its behalf, any action which, if taken, would adversely affect that exclusion under the provisions of the Code.

### **Assignment by Company**

Notwithstanding any other provisions of the Loan Agreement, the Loan Agreement may be assigned in whole or in part by the Company without the necessity of obtaining the consent of either the Issuer or the Trustee, subject, however, to each of the following conditions:

- (a) no assignment (other than as described under "Maintenance of Corporate Existence" above or "Restructuring Transaction" below) will relieve the Company from primary liability for any of its obligations under the Loan Agreement, and in the event of any such assignment the Company will continue to remain primarily liable for the payment of the Loan Payments and Additional Payments (as defined in the Loan Agreement) and for performance and observance of the agreements on its part therein provided to be performed and observed by it;
- (b) any assignment by the Company must retain for the Company such rights and interests as will permit it to perform its obligations under the Loan Agreement, and any assignee from the Company must assume the obligations of the Company thereunder to the extent of the interest assigned;
- (c) the Company must, within 30 days after the execution thereof, furnish or cause to be furnished to the Issuer and the Trustee a true and complete copy of each such assignment together with any instrument of assumption; and
- (d) any assignment from the Company may not materially impair fulfillment of the Project Purposes to be accomplished by operation of the Projects as provided in the Loan Agreement.

### **Restructuring Transaction**

Notwithstanding any other provisions of the Loan Agreement, the Loan Agreement may be assigned as a whole by the Company, subject, however, to each of the following conditions:

- (a) The Company's rights, duties and obligations under the Loan Agreement and all related documents are assigned to, and assumed in full by, the assignee either (i) as of a date the Bonds are subject to mandatory purchase under the Indenture or (ii) as of a date specified by the Company in connection with a Restructuring Transaction (as defined below) but, in such case, only if the assignee is the GenCo (as defined below) and the Company has delivered to the Issuer and the Trustee written evidence of an Investment Grade Rating (as defined below) (taking into account such assignment to, and assumption in full by, the GenCo) with respect to the Bonds from each Rating Agency.
- (b) The assignee and the Company execute an assignment and assumption agreement, in form and substance reasonably acceptable to the Company, and acknowledged and agreed to by the Issuer and the Trustee, and consented to by the Bond Insurer, whereby the assignee confirms and acknowledges that it has assumed all of the rights, duties and obligations of the Company under the Loan Agreement

and all related documentation and agrees to be bound by and to perform and comply with the terms and provisions of the Loan Agreement and all related documentation as if it had originally executed the same; provided further that if there is more than one assignee, such assignment and assumption agreement are on a joint and several basis among all assignees.

(c) The Company furnishes to the Issuer, the Bond Insurer and the Trustee (i) an Opinion of Bond Counsel that such assignment is authorized or permitted by the Act and will not adversely affect the exclusion from gross income of interest on the Bonds, (ii) an opinion of counsel to the assignee to the effect that such assignment and assumption agreement has been duly authorized by the assignee and constitutes the legal, valid and binding obligation of the assignee, enforceable against the assignee in accordance with its terms, subject to laws relating to or affecting generally the enforcement of creditors' rights, including, without limitation, bankruptcy and insolvency laws and to general principles of equity (regardless of whether considered in a proceeding in equity or at law) and (iii) a certificate of an Authorized Company Representative and an opinion of counsel to the Company, each stating that such transaction complies with the Loan Agreement and that all conditions precedent therein relating to such transaction have been complied with.

(d) The Company furnishes or causes to be furnished, within 30 days after execution thereof, to the Issuer and the Trustee a true and complete copy of such assignment and assumption agreement.

(e) Any assignment from the Company does not materially impair fulfillment of the purpose of the Projects as provided in the Loan Agreement.

(f) Upon the effectiveness of such assignment and assumption, the assignee is deemed to be the "Company" under the Loan Agreement and the assignor is relieved of all liability thereunder.

(g) Such assignment must have been approved in writing by the Bond Insurer in its absolute discretion; provided, however, such approval may not be unreasonably denied if the assignment is to a Regulated Utility Company (as defined in the Insurance Agreement) with a credit rating equal to or better than that of the Company.

The following definitions apply for the purposes of the Loan Agreement:

*"Restructuring Transaction"* means the sale or transfer by the Company of some or all of its electric generating facilities and associated assets and liabilities, which sale or transfer includes the Generating Stations, to an entity or entities organized and existing under the laws of one of the states of the United States of America, the District of Columbia or under the laws of the United States of America and qualified to do business in the State (the "GenCo") if such transfer or sale is, in the sole discretion of the Company, necessary or desirable in order to permit the Company or an affiliate of the Company to provide retail electric service in the State or to comply with any law of the State relating to electric utility restructuring.



*"Investment Grade Rating"* means a long-term debt rating by a Rating Agency that is included in one of the four highest debt rating categories of the Rating Agency, provided that such rating categories mean generic categories and without regard to or other qualifications of ratings within each such generic rating category such as "+", "-", "1", "2" or "3."

*"Rating Agency"* means Moody's and S&P.

#### **Events of Default and Remedies**

The Loan Agreement provides that the occurrence of each of the following events will constitute an "event of default":

(a) The occurrence of an event of default described in paragraphs (a), (b) or (c) under "THE INDENTURES – Events of Default";

(b) Failure by the Company to observe and perform any other agreement, term or condition contained in the Loan Agreement, other than a failure as has resulted in an event of default described in (a) above, which failure continues for a period of 90 days after notice by the Issuer or the Trustee, or for such longer period as the Issuer and the Trustee agree to in writing; provided, that such failure will not constitute an event of default so long as the Company institutes curative action within the applicable period and diligently pursues that action to completion within 150 days after the expiration of the initial 90 day cure period or within such longer period as the Issuer and the Trustee may agree to in writing;

(c) The receipt by the Trustee of written notice from the Bond Insurer that an event of default has occurred and is continuing under the Insurance Agreement; and

(d) The occurrence of certain voluntary or involuntary events of bankruptcy, reorganization or receivership with respect to the Company.

A failure by the Company described in paragraph (b) above will not be a default if it occurs by reason of certain events of "force majeure" specified in the Loan Agreement not reasonably within the control of the Company.

Whenever any event of default under the Loan Agreement has happened and is subsisting, either or both of the following remedial steps may be taken by the Issuer or the Trustee:

(a) Have access to, inspect, examine and make copies of the books, records, accounts, and financial data of the Company, only, however, insofar as they pertain to the Projects; or

(b) Pursue all remedies existing at law or in equity to recover all amounts then due and thereafter to become due under the Loan Agreement or to enforce performance and observance of any other obligation or agreement of the Company under the Loan Agreement.

Any amounts collected pursuant to action taken upon the happening of an event of default will be paid into the Bond Fund and applied pursuant to the Indenture.

#### **Amendment to the Loan Agreement**

The Indenture provides that the Loan Agreement may be amended without the consent of or notice to the holders of the Bonds only as may be required (i) by the provisions of the Loan Agreement or the Indenture, (ii) for the purpose of curing any ambiguity, inconsistency or formal defect or omission therein, (iii) in connection with an amendment or to effect any purpose for which there could be an amendment of the Indenture not requiring the consent of holders, or (iv) in connection with any other change therein which, in the judgment of the Trustee, is not to the material prejudice of the Trustee or the holders of the Bonds. The Loan Agreement may be amended, but only with the consent of the holders of all of the outstanding Bonds, to change the amounts or times as of which Loan Payments under the Loan Agreement are required to be made. Any other amendments to the Loan Agreement may be made only with the written approval or consent of the holders of not less than a majority in aggregate principal amount of the Bonds outstanding. No amendment to the Loan Agreement will be effective without the consent of the Bond Insurer (such consent not to be unreasonably denied).

Before the Issuer and the Trustee may consent to any amendment to the Loan Agreement, there must be delivered to the Trustee an Opinion of Bond Counsel stating that such amendment is authorized or permitted by the Act and is authorized under the Indenture, that such amendment will, upon the execution and delivery thereof, be valid and binding in accordance with its terms, and that such amendment will not adversely affect the exclusion from gross income of the interest on the Bonds for federal income tax purposes.

### **THE INDENTURES**

*Each Indenture is separate from and will operate independently of the other Indenture, and the occurrence of an Event of Default under one Indenture will not, in and of itself, constitute an Event of Default under the other Indenture. The Indentures contain substantially identical terms and provisions. All references in this summary to the Bonds, the Indenture, the Loan Agreement, the Bond Insurance Policy and other defined terms should be read as referring separately to each series of the Bonds and the related Indenture, Loan Agreement, Bond Insurance Policy and other defined terms. Reference is made to each Indenture for the detailed provisions thereof.*

#### **Pledge of Revenues**

Pursuant to the Indenture, all right, title and interest of the Issuer in and to the "Revenues" (as defined below) and under the Loan Agreement (except for certain rights of the Issuer), will be pledged or assigned to the Trustee to secure the payment of the principal or redemption price of and interest on the Bonds.

"Revenues" are defined to mean: (a) the Loan Payments, (b) all other moneys received or to be received by the Issuer (excluding any fees paid to the Issuer) or the Trustee in respect of repayment of the Loan including, without limitation, all moneys and investments in the Bond Fund,

(c) any moneys and investments in the Project Fund, and (d) all income and profit from the investment of the foregoing moneys. The term "Revenues" does not include any moneys or investments in the Rebate Fund or the Bond Purchase Fund as those terms are defined in the Indenture.

#### **Project Fund**

The net proceeds of the sale of the Bonds, other than any accrued interest, will be deposited in and credited to the Project Fund created under the Indenture and will be used by the Trustee to pay a portion of the costs of financing the acquisition and construction of the Project Facilities.

#### **Bond Fund**

A Bond Fund will be established with the Issuer and maintained by the Trustee as a trust fund under the Indenture. The amounts with respect to the payment of principal of and premium, if any, and interest on the Bonds derived under the Loan Agreement and certain other amounts specified in the Indenture will be deposited in the Bond Fund. While the Bonds are outstanding, moneys in the Bond Fund will be used solely for the payment of the principal or redemption price of and interest on the Bonds as they become due on any Interest Payment Date or at stated maturity, by redemption or upon acceleration.

#### **Bond Purchase Fund**

A Bond Purchase Fund will be established and maintained by the Paying Agent for the deposit of amounts to be used to pay the purchase price of Bonds. Moneys in the Bond Purchase Fund will be used solely for the payment of the purchase price of Bonds. Moneys in the Bond Purchase Fund will not be pledged to the payment of the principal of or interest or any premium on the Bonds and will not be invested.

#### **Investments**

Any moneys held as a part of the Project Fund, the Bond Fund and the Rebate Fund will be invested and reinvested by the Trustee as provided in the Indenture. Any such investments will be held by or under the control of the Trustee and will be deemed at all times a part of the respective Fund.

#### **Events of Default**

*So long as the Bond Insurance Policy is in full force and effect and the Bond Insurer is not in default under the Bond Insurance Policy, the Bond Insurer will be entitled to control and direct the enforcement of all rights and remedies granted to the Bondholders and the Trustee for the benefit of the Bondholders, including, without limitation: (i) the right to accelerate the principal of the Bonds, (ii) the right to annul any declaration of acceleration, and (iii) any other rights or remedies under the Indenture and the Bond Insurer also will be entitled to approve all waivers of events of default.*

The Indenture provides that each of the following events will constitute an "Event of Default" thereunder:

- (a) Payment of any interest on any Bond is not made when it becomes due and payable;
- (b) Payment of the principal or redemption price of any Bond is not made when it becomes due and payable, whether at stated maturity, by redemption, by acceleration or otherwise;
- (c) Payment of the purchase price of any Bond tendered for purchase pursuant to the provisions of the Indenture is not made when due and payable;
- (d) Failure by the Issuer to observe or perform any other covenant, agreement or obligation on its part to be observed or performed contained in the Bonds or the Indenture (other than a failure described in paragraphs (a), (b) or (c) above), which failure has continued for a period of 90 days after written notice (or for such longer period as the Trustee may agree to in writing), by registered or certified mail, to the Issuer and the Company given by the Trustee, either in its discretion or at the written request of the Bond Insurer or the holders of not less than 35% in aggregate principal amount of Bonds then outstanding; provided, that failure will not constitute an Event of Default so long as the Issuer institutes curative action within the applicable period and diligently pursues that action to completion within 150 days after the expiration of the initial cure period as determined above, or within such longer period as the Trustee may agree to in writing; or
- (e) The occurrence and continuance of an event of default as described in paragraphs (b), (c) or (d) under "THE LOAN AGREEMENTS – Events of Default and Remedies."

#### **Remedies**

Upon the occurrence and continuance of any Event of Default described under "Events of Default" above, (i) at the written direction of the Bond Insurer or (ii) upon the written request of the holders of not less than 35% in aggregate principal amount of Bonds then outstanding and with the written consent of the Bond Insurer, in either event, the Trustee, by written notice to the Issuer and the Company, must declare the principal of all Bonds then outstanding (if not then due and payable), and the accrued and unpaid interest thereon, to be due and payable immediately, whereupon the principal of the Bonds and the interest thereon accrued to the date of payment will, without further action, become and be immediately due and payable, anything in the Indenture or the Bonds to the contrary notwithstanding.

Interest on the Bonds will accrue at the rates per annum borne by the Bonds to the date determined by the Trustee for the tender of payment to the holders pursuant to that declaration; provided, that interest on any unpaid principal of Bonds outstanding will continue to accrue from the date determined by the Trustee for the tender of payment to the holders of those Bonds until that principal amount has been paid or made available to the Trustee for the benefit of the holders. The

Trustee will give immediate written notice of such declaration by mail to the holders of all Bonds then outstanding.

In the event that the maturity of the Bonds is accelerated, the Bond Insurer may elect, in its sole discretion, to pay all or a portion of the accelerated principal and interest accrued on such principal to the date of acceleration (to the extent not paid from moneys received by the Trustee from sources other than the Bond Insurance Policy) with respect to the Bonds, and the Trustee is required to accept such amounts. Upon payment of all of such accelerated principal and interest accrued to the acceleration date as described above, the Bond Insurer's obligations under the Bond Insurance Policy will be fully discharged.

The provisions above are subject to the condition that if at any time after declaration of acceleration and prior to the entry of a judgment in a court for enforcement (after an opportunity for hearing by the Issuer and the Company), all sums payable (except the principal of and interest on Bonds which have not reached their stated maturity dates but which are due and payable solely by reason of that declaration of acceleration), plus interest to the extent permitted by law on any overdue installments of interest at the rate then borne by the Bonds, have been duly paid or provision therefor having been made by deposit with the Trustee or Paying Agent and all existing Events of Default have been cured, then such payment or provision for payment will constitute an automatic waiver of the Event of Default and its consequences and will constitute an automatic rescission and annulment of that declaration.

If an Event of Default occurs and is continuing, the Trustee, before or after the principal of the Bonds becomes immediately due and payable, may pursue any available remedy to enforce the payment of principal of, premium, if any, and interest on the Bonds or the observance and performance of any other covenant, agreement or obligation under the Indenture, the Loan Agreement or any other instrument providing security for the Bonds. If, upon the occurrence and continuance of an Event of Default, the Trustee is directed so to do by the Bond Insurer or requested so to do by the holders of at least 35% in aggregate principal amount of Bonds outstanding and with the written consent of the Bond Insurer, the Trustee will be required to exercise any rights and powers conferred by, and subject to, the Indenture.

The Bond Insurer will have the right or, with the consent of the Bond Insurer, the holders of a majority in aggregate principal amount of Bonds then outstanding will have the right at any time to direct, by an instrument or document or instruments or documents in writing executed and delivered to the Trustee, the time, method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Indenture or any other proceedings thereunder; provided, that (i) any direction may not be other than in accordance with the provisions of law and of the Indenture, (ii) the Trustee must be indemnified as provided in the Indenture, (iii) the Trustee may take any other action which it deems to be proper and which is not inconsistent with the direction and (iv) the Bond Insurer will have no rights in respect of remedies against the Bond Insurer.

All moneys received under the Indenture by the Trustee upon the occurrence of an Event of Default (provided that moneys received under the Bond Insurance Policy will be used only for payment of principal of and interest then due on the Bonds) will be applied first to the payment of the costs and expenses of the proceedings resulting in the collection of such money and of the fees

and expenses incurred by the Trustee, and the balance of such money will be deposited in the Bond Fund and applied to the payment of the principal of and premium, if any, and interest on the Bonds in the manner and in the priorities set forth in the Indenture. The Trustee will have a first lien against the trust estate, payable prior to debt service on the Bonds, provided, however, that moneys received under the Bond Insurance Policy will be used only for payment of the principal of and interest then due on the Bonds.

No holder of any Bond will have any right to institute any suit, action or proceeding for the enforcement of the Indenture or for the exercise of any other remedy under the Indenture, unless (i) an Event of Default has occurred and is continuing and the Trustee has or is deemed to have notice of the same, (ii) the holders of not less than 35% in aggregate principal amount of the then outstanding Bonds have made written request to the Trustee and have afforded the Trustee reasonable opportunity to proceed to exercise the remedies, rights and powers granted by the Indenture or to institute a suit, action or proceeding in its own name and have offered to the Trustee satisfactory indemnity as provided in the Indenture, and (iii) the Trustee thereafter has failed or refused to exercise the remedies, rights and powers granted under the Indenture or to institute such action, suit or proceeding in its own name. Notwithstanding the foregoing, each holder of a Bond will have a right to enforce the payment of the principal of and premium, if any, and interest on any Bond held or owned by that holder at and after the maturity thereof at the place, from the sources and in the manner expressed in said Bond.

#### **Supplemental Indentures**

The Issuer and the Trustee may, with the consent of the Bond Insurer (such consent not to be unreasonably denied) and without the consent of, or notice to, any holder of a Bond, enter into supplemental indentures which will not, in the opinion of the Issuer and the Trustee, be inconsistent with the Indenture for any one or more of the following purposes:

- (a) To cure any ambiguity, inconsistency or formal defect or omission in the Indenture;
- (b) To grant to or confer upon the Trustee for the benefit of the holders of the Bonds any additional rights, remedies, powers or authority that lawfully may be granted to or conferred upon the holders or the Trustee;
- (c) To assign additional revenues under the Indenture;
- (d) To accept additional security and instruments and documents of further assurance with respect to the Projects, including without limitation, first mortgage bonds of the Company;
- (e) To add to the covenants, agreements and obligations of the Issuer under the Indenture, other covenants, agreements and obligations to be observed for the protection of the holders of the Bonds, or to surrender or limit any right, power or authority reserved to or conferred upon the Issuer in the Indenture;

- (f) To evidence any succession to the Issuer and the assumption by its successor of the covenants, agreements and obligations of the Issuer under the Indenture, the Loan Agreement and the Bonds;
- (g) To permit the exchange of Bonds, at the option of the holder or holders thereof, for coupon Bonds payable to bearer, if the Trustee has received an Opinion of Bond Counsel to the effect that the exchange would not adversely affect the exclusion from gross income for federal income tax purposes of the interest on the Bonds outstanding;
- (h) To permit the transfer of Bonds from one Depository to another, and the succession of Depositories, or the withdrawal of Bonds issued to a Depository for use in a book entry system and the issuance of replacement Bonds in fully registered form to others than a Depository;
- (i) To permit the Trustee to comply with any obligations imposed upon it by law;
- (j) To specify further the duties and responsibilities of, and to define further the relationship among, the Trustee, the Registrar, the Bond Insurer, the Auction Agent, the Remarketing Agent and any authenticating agents or Paying Agents;
- (k) To achieve compliance of the Indenture with any applicable federal securities or tax law;
- (l) To make amendments to the provisions of the Indenture relating to arbitrage matters under Section 148(f) of the Code, if, in the opinion of Bond Counsel, those amendments would not adversely affect the exclusion from gross income for federal income tax purposes of the interest on the Bonds outstanding;
- (m) To make any amendments appropriate or necessary to provide for or facilitate the delivery of any Liquidity Facility;
- (n) Prior to, or concurrently with, the conversion of the Bonds from a Daily, Weekly, Commercial Paper, or Term Rate Period to an ARS Rate Period, to make any amendments appropriate or necessary with respect to the Auction Rate Procedures and any definitions or provisions in the Indenture or exhibits thereto in order to provide for or facilitate the marketability of Auction Rate Bonds; and
- (o) To permit any other amendment which, in the judgment of the Trustee, is not to the material prejudice of the Trustee or the holders of the Bonds.

Exclusive of such supplemental indentures, the holders of not less than a majority in aggregate principal amount of the Bonds then outstanding, with the written consent of the Bond Insurer (such consent not to be unreasonably denied) and, if required by the Indenture, of the Company, the Auction Agent and the Broker-Dealer, will have the right to consent to and approve any supplemental indenture, except that no supplemental indenture will permit:

- (a) An extension of the maturity of the principal of or the date for payment of interest on any Bond, a reduction in the principal amount of any Bond or the rate of

interest or premium thereon, a reduction in the purchase price of any Bond or an extension of the date for payment of the purchase price of any Bond without the consent of the holder of each Bond so affected; or

(b) The creation of a privilege or priority of any Bond or Bonds over any other Bond or Bonds, or a reduction in the aggregate principal amount of the Bonds required for consent to a supplemental indenture, without the consent of the holders of all of the Bonds then outstanding.

Any supplemental indenture which affects the rights or obligations of the Company requires the written consent of the Company. Any supplemental indenture which adversely affects any rights, duties, privileges or immunities of the Auction Agent or the Broker-Dealer requires the written consent of the party adversely affected. Before the Issuer and the Trustee may enter into any supplemental indenture, there must be delivered to the Trustee an Opinion of Bond Counsel stating that such supplemental indenture is authorized or permitted by the Act and is authorized under the Indenture, that such supplemental indenture will, upon the execution and delivery thereof, be valid and binding in accordance with its terms, and that such supplemental indenture will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes.

#### **Discharge of Indenture**

The lien created by the Indenture will be discharged when the Issuer pays or causes to be paid, or if there otherwise is paid, to or for the holders of the Bonds the principal, premium, if any, and interest due or to become due thereon and provision is also made for the payment of all other sums payable pursuant to the provisions of the Indenture and the Loan Agreement.

All of the Bonds will be deemed to have been paid and discharged within the meaning of the Indenture if:

(a) The Trustee as paying agent and any Paying Agents have received, in trust for and irrevocably committed thereto, sufficient moneys, or

(b) The Trustee has received, in trust for and irrevocably committed thereto, non-callable and non-prepayable Government Obligations which are certified by an independent public accounting firm of national reputation (with a copy of the certification being delivered to the Rating Agencies) to be of such maturities or redemption dates and interest payment dates, and to bear such interest as will be sufficient together with moneys referred to in (a) above, without further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom, for the payment of all principal of and premium, if any, and interest on such Bonds (interest will be calculated at the Maximum Interest Rate unless the Bonds are in a Term Rate Period and the Bonds will mature or be redeemed on or prior to the last day of such Term Rate Period) at their maturity or redemption dates, as the case may be; provided, that if any of such Bonds are to be redeemed prior to maturity, notice of such redemption must have been duly given or irrevocable provision satisfactory to the Trustee must have been duly made for the giving of such notice.



## **Liquidity Facility**

The Company may deliver a Liquidity Facility to the Trustee on any Interest Payment Date upon which the Bonds are subject to optional redemption or, if the Bonds are in a Term Rate Period, the last Interest Payment Date for that Term Rate Period. Any such Liquidity Facility is required to provide for direct payments to or upon the order of the Trustee of the principal and purchase price of and interest on the Bonds when due. The Bond Insurer must consent in writing to the delivery of any Liquidity Facility or waive in writing any requirement to deliver a Liquidity Facility (such consent or waiver not to be unreasonably denied). Any Liquidity Facility will be subject to the prior written consent of, or must be acceptable to, the Bond Insurer (such consent not to be unreasonably denied). The Bonds will be subject to mandatory tender for purchase on the date of the delivery of a Liquidity Facility. See "THE BONDS – Mandatory Tenders."

## **Rights of Bond Insurer**

The Indenture grants certain rights to the Bond Insurer. In addition to those rights, the Bond Insurer will, to the extent it makes payment of principal of or interest on the Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Bond Insurance Policy. If an Event of Default occurs, the Bond Insurer will have the right to institute any suit, action or proceeding at law or in equity under the same terms as a Bondholder may institute any action under the Indenture.

To the extent that the Indenture confers upon or gives or grants to the Bond Insurer any right, remedy or claim under or by reason of the Indenture, the Bond Insurer is explicitly recognized under the Indenture as being a third-party beneficiary thereof and may enforce any such right, remedy or claim conferred, given or granted thereunder.

As long as the Bond Insurance Policy is in full force and effect with respect to the Bonds and the Bond Insurer is not in default thereunder: (a) any provision of the Indenture expressly recognizing or granting rights in or to the Bond Insurer may not be amended in any manner which affects the rights of the Bond Insurer thereunder without the prior written consent of the Bond Insurer; (b) any action under the Indenture which requires the consent or approval of Bondholders will, in addition to such approval, be subject to the prior written consent of the Bond Insurer; (c) upon occurrence and continuance of an Event of Default, and subject to certain indemnification provisions, the Bond Insurer will be entitled to control and direct the enforcement of all rights and remedies granted to the Bondholders or the Trustee for the benefit of the Bondholders under the Indenture including, without limitation, (i) the right to accelerate the principal of the Bonds, (ii) the right to annul any declaration of acceleration and (iii) any other rights or remedies under the Indenture, and the Bond Insurer will also be entitled to approve all waivers of Events of Default; and (d) the Bond Insurer will be entitled to receive copies of notices, certificates and other documents received by the Trustee pursuant to the Indenture and notification of any failure to provide any such document as required by the Indenture or the Loan Agreement.

Notwithstanding anything in the Indenture to the contrary, in the event that the principal or interest due on the Bonds is paid by the Bond Insurer pursuant to the Bond Insurance Policy, the Bonds will remain outstanding for all purposes, not be defeased or otherwise satisfied and not be

considered paid by the Issuer, and the assignment and pledge of the trust estate and all covenants, agreements and other obligations of the Issuer to the Bondholders will continue to exist and run to the benefit of the Bond Insurer, and the Bond Insurer will be subrogated to the rights of the Bondholders.

#### **No Personal Liability of Issuer's Officials**

No covenant, stipulation, obligation or agreement of the Issuer contained in the Indenture will be or be deemed to be a covenant, stipulation, obligation or agreement of any present or future member, officer, agent or employee of the Issuer in other than his or her official capacity. No official of the Issuer executing the Bonds, the Indenture, the Loan Agreement (or amendments or supplements to either) will be liable personally on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof or the execution of the Indenture or the Loan Agreement (or amendments or supplements to either).

#### **The Trustee**

Except for any period during which an Event of Default, of which the Trustee has been notified or is deemed to have knowledge, has occurred and is continuing, the Trustee (i) will undertake to perform only the duties specifically set forth in the Indenture and (ii) in the absence of bad faith on its part, may rely conclusively upon the truth of the statements and the correctness of the opinions furnished to it pursuant to the Indenture. In case an Event of Default has occurred and is continuing (of which the Trustee has been notified or is deemed to have notice), the Trustee will exercise the rights and powers vested in it by the Indenture and will use the same degree of care and skill as a prudent person would use under the circumstances in the conduct of his or her own affairs. The Trustee will not be required to expend or risk its own funds in performing its duties under the Indenture and will be entitled to compensation and the reimbursement of its expenses.

The Trustee may resign at any time from the trusts created by the Indenture by giving written notice of the resignation to the Issuer, the Company, the Registrar, any Paying Agents, the Remarketing Agent, the Auction Agent, the Bond Insurer and authenticating agents and by mailing written notice thereof to the holders of the Bonds. The resignation will take effect only upon the appointment of a successor Trustee and the successor's acceptance of the appointment.

The Trustee may be removed at any time by the holders of not less than a majority in aggregate principal amount of the Bonds then outstanding. The removal will take effect only upon the appointment of a successor Trustee and such successor's acceptance of the appointment, all pursuant to the provisions of the Indenture. The Trustee also may be removed at any time for any breach of trust or for acting or proceeding in violation of, or for failing to act or proceed in accordance with, any provision of the Indenture with respect to the duties and obligations of the Trustee by any court of competent jurisdiction upon the application of the Issuer, upon its own volition or at the written request of the Company, the Bond Insurer or the holders of not less than 35% in aggregate principal amount of the Bonds then outstanding under the Indenture. The removal will take effect only upon the appointment of a successor Trustee and such successor's acceptance of the appointment, all pursuant to the provisions of the Indenture.

Every successor Trustee appointed pursuant to the Indenture (i) must be a trust company or a bank having the powers of a trust company, (ii) must be willing to accept the trusteeship on the terms and conditions of the Indenture, (iii) must have a reported capital and surplus of not less than \$75,000,000, (iv) so long as the Bonds are rated by Moody's, must be acceptable to Moody's, (v) so long as the Bonds are rated by S&P, must be acceptable to S&P, and (vi) must be reasonably acceptable to the Bond Insurer.

#### **Remarketing Agent**

The Remarketing Agent's principal office is at Banc of America Securities LLC, 600 Peachtree Street N.E., 4th Floor, Atlanta, Georgia 30308 Attention: Municipal Bond Department. The Remarketing Agent will determine the Variable Rates and the Commercial Paper Rate Periods for the Bonds and will remarket Bonds subject to optional or mandatory tender. The Remarketing Agent must have a capitalization of at least \$50,000,000 and be authorized by law to perform all the duties imposed upon it by the Indenture. Any successor Remarketing Agent must be rated at least Baa3/P-3 or otherwise be acceptable to Moody's and must have been approved in writing by the Bond Insurer (such approval not to be unreasonably denied).

If at any time the Remarketing Agent is unable or unwilling to act as a Remarketing Agent, the Remarketing Agent may resign upon the earlier to occur of (i) the twentieth day following receipt by the Company, the Issuer, the Trustee, the Auction Agent and the Paying Agent of written notice of resignation and (ii) the day of appointment by the Company of a successor Remarketing Agent pursuant to the Indenture and acceptance of such appointment by such successor Remarketing Agent. The Remarketing Agent may be removed at any time by the Company upon five days' written notice signed by the Company and delivered to the Remarketing Agent, the Issuer, the Trustee, the Bond Insurer, the Auction Agent and the Paying Agent.

#### **TAX MATTERS**

In the opinion of Squire, Sanders & Dempsey L.L.P., Bond Counsel, under existing law: (i) interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103(a) of the Code, except for interest on any Bond for any period during which it is held by a "substantial user" or a "related person" as those terms are used in Section 147(a) of the Code; (ii) interest on the Bonds is an item of tax preference for purposes of Section 57 of the Code for purposes of the alternative minimum tax imposed on individuals and corporations; and (iii) interest on the Bonds and any profit made on their sale, exchange or other disposition are exempt from the Ohio personal income tax, the Ohio commercial activity tax, the net income base of the Ohio corporate franchise tax and municipal and school district income taxes in Ohio. Bond Counsel will express no opinion as to any other tax consequences regarding the Bonds.

The opinion on tax matters will be based on and will assume the accuracy of certain representations and certifications, and continuing compliance with certain covenants, of the Issuer and the Company contained in the transcript of proceedings and that are intended to evidence and assure the foregoing, including that the Bonds are and will remain obligations the interest on which

is excluded from gross income for federal income tax purposes. Bond Counsel will not independently verify the accuracy of the Issuer's and the Company's certifications and representations or the continuing compliance with the Issuer's and the Company's covenants.

The opinion of Bond Counsel is based on current legal authority and covers certain matters not directly addressed by such authority. It represents Bond Counsel's legal judgment as to exclusion of interest on the Bonds from gross income for federal income tax purposes but is not a guaranty of that conclusion. The opinion is not binding on the Internal Revenue Service ("*IRS*") or any court. Bond Counsel expresses no opinion about (i) the effect of future changes in the Code and the applicable regulations under the Code or (ii) the interpretation and the enforcement of the Code or those regulations by the IRS.

The Code prescribes a number of qualifications and conditions for the interest on state and local government obligations to be and to remain excluded from gross income for federal income tax purposes, some of which require future or continued compliance after issuance of the obligations. Noncompliance with these requirements by the Issuer or the Company may cause loss of such status and result in the interest on the Bonds being included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds. The Company and the Issuer will each covenant to take the actions required of it for the interest on the Bonds to be and to remain excluded from gross income for federal income tax purposes, and not to take any actions that would adversely affect that exclusion. After the date of issuance of the Bonds, Bond Counsel will not undertake to determine (or to so inform any person) whether any actions taken or not taken, or any events occurring or not occurring, or any other matters coming to Bond Counsel's attention, may adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds or the market prices of the Bonds.

Interest on the Bonds may be subject to a federal branch profits tax imposed on certain foreign corporations doing business in the United States and to a federal tax imposed on excess net passive income of certain S corporations.

Under the Code, the exclusion of interest from gross income for federal income tax purposes may have certain adverse federal income tax consequences on items of income, deduction or credit for certain taxpayers, including financial institutions, certain insurance companies, recipients of Social Security and Railroad Retirement benefits, those that are deemed to incur or continue indebtedness to acquire or carry tax-exempt obligations, and individuals otherwise eligible for the earned income tax credit. Payments of interest on tax-exempt obligations, including the Bonds, are generally subject to IRS Form 1099-INT information reporting requirements. If a Bondowner is subject to backup withholding under those requirements, then payments of interest will also be subject to backup withholding. Those requirements do not affect the excludability of such interest from gross income for federal income tax purposes. The applicability and extent of these and other tax consequences will depend upon the particular tax status or other tax items of the owner of the Bonds. Bond Counsel will express no opinion regarding those consequences.

Legislation affecting tax-exempt obligations is regularly considered by the United States Congress, and legislation affecting the exemption of interest or other income thereon for purposes of taxation by Ohio may be considered by the Ohio legislature. Court proceedings may also be filed the outcome of which could modify the tax treatment of obligations such as the Bonds. There can

be no assurance that legislation enacted or proposed, or actions by a court, after the date of issuance of the Bonds will not have an adverse effect on the tax status of interest or other income on the Bonds or the market value of the Bonds.

On November 5, 2007, the United States Supreme Court heard oral arguments in *Dep't of Revenue of Kentucky v. Davis*. In the *Davis* case, the Kentucky Court of Appeals held that Kentucky's exemption from taxation of interest on bonds issued by Kentucky or its political subdivisions and its taxation of interest on bonds issued by other states or their political subdivisions violates the Commerce Clause of the United States Constitution. Ohio exempts from taxation interest on bonds issued by Ohio or its political subdivisions and taxes interest on bonds issued by other states or their political subdivisions. It is not possible to predict how the United States Supreme Court will decide the *Davis* case or to predict any change in Ohio law that would be occasioned by the United States Supreme Court's affirmance of the *Davis* decision, nor is it possible to predict the effect, if any, of that affirmance or any change in Ohio law on the tax status of interest or other income on the Bonds for Ohio tax purposes or on the market value of the Bonds.

Prospective purchasers of the Bonds should consult their own tax advisers regarding pending or proposed federal and Ohio tax legislation, the *Davis* case and other court proceedings, and prospective purchasers of the Bonds at other than their original issuance at the price indicated on the cover of this Official Statement should also consult their own tax advisers regarding other tax considerations such as the consequences of market discount, as to all of which Bond Counsel expresses no opinion.

Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Issuer, the Company or the beneficial owners regarding the tax status of interest on the Bonds in the event of an audit examination by the IRS. The IRS has a program to audit tax-exempt obligations to determine whether the interest thereon is includible in gross income for federal income tax purposes. If the IRS does audit the Bonds, under current IRS procedures, the IRS will treat the Issuer as the taxpayer and the beneficial owners of the Bonds will have only limited rights, if any, to obtain and participate in judicial review of such audit. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of other obligations presenting similar tax issues, may affect the market prices for the Bonds.

## CONTINUING DISCLOSURE AGREEMENTS

*The Company will enter into a separate, but substantially identical, Continuing Disclosure Agreement with respect to each series of the Bonds. Certain provisions of the Continuing Disclosure Agreements are described below. All references in this summary to the Bonds, the Indenture, the Loan Agreement, the Continuing Disclosure Agreement and other defined terms should be read as referring separately to each series of the Bonds and the related Indenture, Loan Agreement, Continuing Disclosure Agreement and other defined terms. Reference is made to each Continuing Disclosure Agreement for the detailed provisions thereof.*

The Company will agree, in a Continuing Disclosure Agreement (the "*Continuing Disclosure Agreement*") for the benefit of the holders and beneficial owners from time to time of the

Bonds, in accordance with, and as the only obligated person with respect to the Bonds under, Rule 15c2-12 (the “Rule”) of the SEC, to provide or cause to be provided such financial information and operating data of the Company (collectively, “Annual Information”), audited financial statements and notices, in such manner, as may be required for purposes of paragraph (b)(5)(i) of the Rule, including specifically the following:

- (a) To each nationally recognized municipal securities information repository designated from time to time by the SEC (“NRMSIR”), to any state information depository (“SID”) and to the Trustee: Annual Information for each fiscal year of the Company, ending on or after December 31, 2007, consisting of (i) so long as the Company files reports with the SEC on Form 10-K or a successor form, such reports, (ii) in the event that the Company no longer is required to file such reports on Form 10-K or a successor form, the Company’s audited financial statements prepared in accordance with accounting principles applied from time to time in the preparation of the Company’s annual financial statements, initially generally accepted accounting principles and such related financial and operating data disclosure as is made available to the Company’s public shareholders generally, or (iii) in the event that the Company no longer is required to file such reports on Form 10-K or a successor form and no longer has any public shareholders, information concerning the Company’s business and properties, selected financial data and management’s discussion and analysis, together with the Company’s audited financial statements prepared in accordance with the aforementioned accounting principles, comparable to the information contained in such report on Form 10-K. Such reports are required to be filed by the 30<sup>th</sup> day (or the next Business Day if that day is not a Business Day) following the date by which the Company is required to file annual reports with the SEC or, in the event that the Company is no longer required to file annual reports with the SEC, by the 120<sup>th</sup> day (or the next Business Day if that day is not a Business Day) following the end of each fiscal year.
- (b) To each NRMSIR or to the Municipal Securities Rulemaking Board (“MSRB”), and to any SID, in a timely manner, notice of:
  - (1) The occurrence of any of the following events, within the meaning of the Rule, with respect to the Bonds, if material:
    - (i) principal and interest payment delinquencies;
    - (ii) nonpayment related defaults;
    - (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
    - (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
    - (v) substitution of credit or liquidity providers, or their failure to perform;

- (vi) adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- (vii) modifications to rights of holders or beneficial owners;
- (viii) Bond calls for the Bonds;
- (ix) defeasances;
- (x) release, substitution, or sale of property securing repayment of the Bonds; and
- (xi) rating changes for the Bonds.

Although enumerated in the Rule, the events described in subparagraphs (iii) and (x) above currently are inapplicable with respect to the Bonds.

- (2) The Company's failure to provide the Annual Information within the time specified above.
- (3) The termination of the Continuing Disclosure Agreement.

The Continuing Disclosure Agreement may be amended, and any of its provisions may be waived, if such amendment or waiver is supported by a legal opinion of independent counsel who is expert in federal securities laws to the effect that such amendment or waiver would not, in and of itself, violate the Rule. If the amendment or waiver will materially impair the interests of Bondholders or beneficial owners, then the Trustee must also obtain the approval of the holders.

The Continuing Disclosure Agreement is solely for the benefit of the holders and beneficial owners from time to time of the Bonds. The exclusive remedy for any breach of the Continuing Disclosure Agreement is limited to a right of holders and beneficial owners to cause to be instituted and maintained, proceedings in equity to obtain the specific performance by the Company of its obligations under the Continuing Disclosure Agreement. Any individual holder or beneficial owner may institute and maintain, or cause to be instituted and maintained, such proceedings to require the Company to provide a pertinent filing if such a filing is due and has not been made. Any such proceedings to require the Company to perform any other obligation under the Continuing Disclosure Agreement (including any proceedings that contest the sufficiency of any pertinent filing) may be instituted and maintained only by the holders and beneficial owners of not less than 35% in principal amount of the Bonds then outstanding or their agent.

Any failure by the Company to comply with any provision of the Continuing Disclosure Agreement will not constitute a failure or a default, or an event of default, under the Loan Agreement or the Indenture.

The Continuing Disclosure Agreement will remain in effect only for such period that any of the Bonds are outstanding in accordance with their terms and the Company remains an obligated person with respect to the Bonds within the meaning of the Rule.

There have not been, and the Company will covenant that as of the closing date for the sale of the Bonds, there will not have been, any instances in which the Company failed to comply, in all material respects, with any previous continuing disclosure agreement made by the Company for purposes of the Rule.

The following NRMSIRs exist at this time: Bloomberg Municipal Repository, Skillman, New Jersey; DPC Data Inc., Fort Lee, New Jersey; and Interactive Data Pricing and Reference Data, Inc. and Standard & Poor's Securities Evaluations, Inc., each of New York, New York. The following SID exists at this time: Ohio Municipal Advisory Council, Twinsburg, Ohio.

## RATINGS

Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P"), are expected to assign their insured ratings to each series of the Bonds of "Aaa" and "AAA," respectively, with the understanding that upon delivery of the Bonds, the Bond Insurer will deliver the Bond Insurance Policies insuring the payment when due of the principal of and interest on the Bonds.

There is no assurance that the ratings will remain in effect for any given period of time or that they will not be revised downward or withdrawn entirely if, in the judgment of the respective rating agency, circumstances so warrant. The Underwriter has not undertaken any responsibility either to bring to the attention of owners of the Bonds any proposed revision or withdrawal of the ratings or to oppose any such proposed revision or withdrawal. Any downward revision or withdrawal of the rating may have an adverse effect on the market prices of the Bonds.

In November 2007, Fitch Ratings ("Fitch") and Moody's issued press releases concerning their analyses of the effect on financial guarantors of the ongoing deterioration in the performance of residential mortgage-backed securities ("RMBS") and collateralized debt obligations with exposure to RMBS ("ABS CDOs"). Fitch and Moody's indicated that they are re-assessing their required capital adequacy ratios for insurers in light of recent rating actions with respect to ABS CDOs, and also revising the stress tests they apply in their ratings analyses of insurers to reflect higher potential losses for those exposures. A possible conclusion of these analyses may be that one or more financial guarantors may no longer meet the "AAA" capital adequacy guidelines of Fitch and/or Moody's, in which case, absent raising additional capital or executing a risk mitigation strategy, one or more financial guarantors' ratings from Fitch and/or Moody's could be downgraded. Fitch stated in its announcement that based upon its preliminary review and analysis, there is a moderate probability that Ambac Assurance would experience erosion of its capital cushion under Fitch's updated stress analysis. Moody's stated in its announcement that based on its initial analysis Ambac Assurance faces a moderate risk of falling below Moody's Aaa capital adequacy benchmark under Moody's revised stress scenarios.

Further information concerning this matter may be obtained from Fitch and/or Moody's.



## **LEGAL MATTERS**

Legal matters incident to the authorization and issuance of the Bonds are subject to the approving opinion of Squire, Sanders & Dempsey L.L.P., Bond Counsel. The form of such opinion is included as Appendix D hereto. Certain legal matters in connection with the issuance of the Bonds will be passed upon for the Issuer by Forbes, Fields & Associates Co., L.P.A. Certain legal matters will be passed upon for the Company by Robert T. Lucas III, Esq., Associate General Counsel of Duke Energy Corporation, and Richard G. Beach, Esq., Assistant General Counsel of Duke Energy Corporation, as counsel to the Company. Certain legal matters will be passed upon for the Bond Insurer by an Assistant General Counsel. Certain legal matters will be passed upon for the Underwriter by Squire, Sanders & Dempsey L.L.P. From time to time, Squire, Sanders & Dempsey L.L.P. has represented affiliates of the Company or its predecessors in various matters.

## **UNDERWRITING**

Under the terms of a Bond Purchase Agreement, the Underwriter will agree, subject to the approval of certain legal matters by counsel and to certain other conditions, to purchase the Bonds from the Issuer at a price of \$139,510,000 (representing 100% of the aggregate principal amount of the Bonds less an underwriting discount of \$490,000). The Company also will agree to reimburse the Underwriter for certain expenses. The Underwriter will agree to purchase all of the Bonds, if any of the Bonds are purchased. After the Bonds are released for sale to the public, the offering price and other selling terms may from time to time be varied by the Underwriter, and such Bonds may be offered and sold to certain dealers (including dealers depositing such Bonds into investment accounts) and others at prices lower than the public offering price set forth on the cover page hereof.

The Company will agree to indemnify the Underwriter and the Issuer against certain liabilities, including certain liabilities under federal securities laws.

The Underwriter also will act as a Broker-Dealer during the ARS Rate Period. The Broker-Dealer will be compensated for its services as Broker-Dealer. The Underwriter has been appointed to serve as Remarketing Agent and will be separately compensated by the Company.

In the ordinary course of its business, the Underwriter and certain of its affiliates have engaged, and may in the future engage, in investment banking or other transactions with the Company and its affiliates.

This Official Statement has been duly authorized, executed and delivered by the Company and the Issuer.

OHIO AIR QUALITY  
DEVELOPMENT AUTHORITY

By: /s/Mark R. Shanahan  
Executive Director

DUKE ENERGY OHIO, INC.

By: /s/Stephen De May  
Vice President and Treasurer

**DUKE ENERGY OHIO, INC.**

*The information contained herein as Appendix A to the Official Statement relates to and has been supplied by the Company. The delivery of this Official Statement shall not create any implication that there has been no change in the affairs of the Company since the date hereof, or that the information contained, referred to or incorporated by reference in this Appendix A is correct as of any time subsequent to its date. The Issuer makes no representation or warranty as to the accuracy or completeness of the information contained or incorporated by reference in this Appendix A. Unless indicated otherwise, or the context otherwise requires, references in this Appendix A to "we," "us" and "our" or similar terms are to the Company.*

**THE COMPANY**

*The following information is furnished solely to provide limited introductory information about the Company and does not purport to be comprehensive. Such information is qualified in their entirety by reference to detailed information and financial statements appearing in the documents referred to or incorporated herein by reference or elsewhere in this Appendix A and, therefore, such information should be read together with this Official Statement. See "Available Information" and "Incorporation of Certain Documents by Reference" below.*

The Company, formerly The Cincinnati Gas & Electric Company, an Ohio corporation, is a wholly-owned subsidiary of Cinergy Corp., which in turn is an indirect, wholly-owned subsidiary of Duke Energy Corporation. The Company is a combination electric and gas public utility company and is engaged in the generation, transmission and distribution of electricity, the sale of and/or transportation of natural gas and energy marketing. The Company provides service in the southwestern portion of Ohio and through one of its subsidiaries in nearby areas of Kentucky. The Company's principal subsidiary, Duke Energy Kentucky, Inc., is a Kentucky corporation that provides electric and gas service in northern Kentucky. The Company's other subsidiaries are insignificant to its results of operations.

Our principal executive offices are located at 139 East Fourth Street, Cincinnati, Ohio 45202. Our telephone number is (513) 421-9500.

**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

This Official Statement includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are based on management's beliefs and assumptions. These forward-looking statements are identified by terms and phrases such as "anticipate," "believe," "intend," "estimate," "expect," "continue," "should," "could," "may," "plan," "project," "predict," "will," "potential," "forecast," and similar expressions. Forward-looking statements involve risks and uncertainties that may cause actual results to be materially different from the

results predicted. Factors that could cause actual results to differ materially from those indicated in any forward-looking statement include, but are not limited to:

- State and federal legislative and regulatory initiatives, including costs of compliance with existing and future environmental requirements;
- State and federal legislative and regulatory initiatives that affect cost and investment recovery, have an impact on rate structures;
- Costs and effects of legal and administrative proceedings, settlements, investigations and claims;
- Industrial, commercial and residential growth in the Company's service territories;
- Additional competition in electric markets and continued industry consolidation;
- The influence of weather and other natural phenomena on the Company's operations, including the economic, operational and other effects of tornados, droughts and other natural phenomena;
- The timing and extent of changes in commodity prices and interest rates;
- Unscheduled generation outages, unusual maintenance or repairs and electric transmission system constraints;
- The results of financing efforts, including the Company's ability to obtain financing on favorable terms, which can be affected by various factors, including the Company's credit ratings and general economic conditions;
- Declines in the market prices of equity securities and resultant cash funding requirements of the Company for Cinergy Corp.'s defined benefit pension plans;
- The level of creditworthiness of counterparties to the Company's transactions;
- Employee workforce factors, including the potential inability to attract and retain key personnel;
- Growth in opportunities for the Company's business units, including the timing and success of efforts to develop domestic power and other projects; and
- The effect of accounting pronouncements issued periodically by accounting standard-setting bodies.

In light of these risks, uncertainties and assumptions, the events described in the forward-looking statements might not occur or might occur to a different extent or at a different time than the Company has described. The Company undertakes no obligation to publicly update or revise

any forward-looking statements, whether as a result of new information, future events or otherwise.

#### **INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The financial statements and financial statement schedule as of December 31, 2006 and 2005, and for each of the three years in the period ended December 31, 2006, incorporated in this Official Statement by reference from the Company's Annual Report on Form 10-K for the year ended December 31, 2006, have been audited by Deloitte and Touche LLP, an independent registered public accounting firm, as stated in their report dated March 30, 2007 relating to the financial statements and financial statement schedule of the Company (which report expresses an unqualified opinion and includes an explanatory paragraph referring to the Company's application of "push-down accounting" effective April 1, 2006) which is incorporated herein by reference.

#### **AVAILABLE INFORMATION**

The Company files reports and other information with the Securities and Exchange Commission (the "*Commission*") pursuant to the Securities Exchange Act of 1934, as amended (the "*Exchange Act*"). Certain information concerning directors and officers, their remuneration, and any material interest of such persons in transactions with the Company, as of particular dates, was disclosed in the Company's Annual Report on Form 10-K filed on April 2, 2007, with the Commission for the period ending December 31, 2006. Such reports and other information can be inspected and copied at the public reference facilities maintained by the Commission. The Commission maintains a Web site that contains reports, proxy and information statements and other information regarding issuers, such as the Company, that file electronically with the Commission and the address of such Web site is <http://www.sec.gov>. Copies of such material can also be obtained at prescribed rates from the Public Reference Section of the Commission at its principal office at 100 F Street, NE, Washington, D.C. 20549. Such material can also be inspected at the offices of the New York Stock Exchange.

#### **INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE**

The following documents filed by the Company with the Commission pursuant to the Exchange Act are hereby incorporated in this Official Statement by reference:

- (a) Annual Report on Form 10-K for the year ended December 31, 2006;
- (b) Quarterly Reports on Form 10-Q for the quarters ended March 31, 2007, June 30, 2007 and September 30, 2007; and
- (c) Current Reports on Form 8-K dated June 25, 2007 and July 5, 2007.

All documents filed by the Company pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this Official Statement and prior to the termination of this offering

shall be deemed to be incorporated in this Official Statement by reference and to be a part hereof from the date of filing of such documents.

Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company hereby undertakes to provide without charge to each person to whom a copy of this Official Statement has been delivered, upon the written or oral request of any such person, a copy of any or all of the documents referred to above which have been or may be incorporated in this Official Statement by reference, other than exhibits to such documents. Requests for such copies should be directed to the Investor Relations Department, 526 S. Church Street, Charlotte, North Carolina 28202-1803 (telephone: 800-488-3853).

**CERTAIN DEFINITIONS**

*Unless the context otherwise requires, as used herein, the following terms will have the following meanings. Defined terms below should be read as separately referring to each series of Bonds. See also APPENDIX C for definitions of certain terms relating to the Auction Procedures.*

*"Auction Rate Bonds"* means any Bonds which are in an Auction Mode.

*"Authorized Denominations"* means (i) with Term Bonds, denominations of \$5,000 and integral multiples thereof, (ii) with Bonds at a Commercial Paper, a Daily or Weekly Rate, denominations of \$100,000 with integral multiples of \$5,000 in excess thereof, and (iii) with Auction Rate Bonds, denominations of \$25,000 and integral multiples thereof.

*"Book-Entry System"* means the system maintained by the Depository and described herein under "THE BONDS – Auction Rate Bonds–Depository" and "THE BONDS – Book-Entry-Only System."

*"Business Day"* means any day other than (i) a Saturday or Sunday, (ii) a day on which commercial banks in New York, New York, or the city or cities in which are located the corporate trust office or payment office of the Trustee, the Company, any Liquidity Facility Issuer, the Auction Agent, the Remarketing Agent, the Registrar or the Paying Agent are authorized by law to close or (iii) a day on which the New York Stock Exchange is closed.

*"Code"* means the Internal Revenue Code of 1986, as amended from time to time. References to the Code and Sections of the Code include relevant applicable regulations and proposed regulations thereunder and under the Internal Revenue Code of 1954, as amended, and any successor provisions to those Sections, regulations or proposed regulations and, in addition, all revenue rulings, announcements, notices, procedures and judicial determinations under the foregoing applicable to the Bonds.

*"Commercial Paper Rate"* means, when used with respect to any particular Bond, the interest rate determined for each Commercial Paper Rate Period applicable thereto pursuant to the Indenture.

*"Commercial Paper Rate Period"* means a period during which a Bond bears interest at a Commercial Paper Rate.

*"Conversion Date"* means a day on which the Bonds are converted to bear interest (i) from one Variable Rate Period to another Variable Rate Period in accordance with the terms of the Indenture, including any change from a Term Rate Period to a Term Rate Period of a different duration, or (ii) from an ARS Rate Period to a Variable Rate Period or (iii) from a Variable Rate Period to an ARS Rate Period.

*"Daily Rate"* means the interest rate to be determined for the Bonds on each Business Day pursuant to the Indenture and described under the caption "THE BONDS—Interest Rate Determination Methods—*Daily Rate and Daily Rate Period.*"

*"Daily Rate Period"* means a period during which the Bonds bear interest at a Daily Rate is in effect.

*"Depository"* means The Depository Trust Company (a limited purpose trust company), New York, New York, until a successor Depository will have become such pursuant to the applicable provisions of the Indenture and thereafter, "Depository" will mean the successor Depository. Any Depository will be a securities depository that is a clearing agency under federal law operating and maintaining, with its participants or otherwise, a Book Entry System to record ownership of beneficial interests in Bonds or bond service charges thereon, and to effect transfers of beneficial interests in the Bonds, in a Book Entry Form.

*"Government Obligations"* means obligations of, or obligations guaranteed as to principal and interest by, the U.S. or any agency or instrumentality thereof, when such obligations are backed by the full faith and credit of the U.S. including:

- U.S. treasury obligations
- All direct or fully guaranteed obligations
- Farmers Home Administration
- General Services Administration
- Guaranteed Title XI financing
- Government National Mortgage Association (GNMA)
- State and Local Government Series

*"Interest Payment Date"* means (a) when used with respect to Bonds bearing interest at the Daily or Weekly Rate, the first Business Day of each calendar month to which interest at such rate has accrued; (b) when used with respect to Bonds bearing interest at a Term Rate, the first day of the sixth calendar month following the month in which the Term Rate Period begins and the first day of each sixth calendar month thereafter to which interest at such rate has accrued, except that the last Interest Payment Date for any Term Rate Period which is followed by a conversion to a Daily, Weekly or Commercial Paper Rate Period (but not a conversion to a Term Rate Period of a different duration) will be the first Business Day of the sixth calendar month following the month in which the immediately preceding Interest Payment Date occurs; (c) when used with respect to any particular Bond bearing interest at a Commercial Paper Rate, the first Business Day following the last day of each Commercial Paper Rate Period applicable thereto; and (d) when used with respect to any particular Auction Rate Bond, will have the meaning set forth in APPENDIX C and Schedule I thereto. In any case, the final Interest Payment Date will be the Maturity Date.

*"Interest Period"* means, for Auction Rate Bonds, the Initial Period for the Auction Rate Bonds and each successive Auction Period thereafter. *"Interest Period"* for Bonds bearing interest at a Variable Rate means the period from and including any Interest Payment Date to and including the day immediately preceding the next following Interest Payment Date, as applicable, provided, however, that the first Interest Period for any Bond will begin on (and



include) the date of original issuance of the Bonds and the final Interest Period will end on (and include) the day immediately preceding the Maturity Date.

*"Liquidity Facility"* means an irrevocable direct-pay letter of credit or other credit enhancement or liquidity support facility, or any combination thereof, delivered to and in favor of the Trustee for the benefit of the owners of the Bonds, and includes any Liquidity Facility delivered to the Trustee pursuant to the Indenture.

*"Liquidity Facility Issuer"* means the issuer of any Liquidity Facility then in effect.

*"Maturity Date"* means December 1, 2041.

*"Maximum Interest Rate"* means the least of (a) 13% per annum, (b) the maximum rate of interest permitted under State law, or (c) in the case of Bonds bearing interest at a Variable Rate, the maximum rate of interest permitted by any Liquidity Facility then in effect.

*"Moody's"* means Moody's Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, and, if such corporation is dissolved or liquidated or no longer performs the functions of a securities rating agency, "Moody's" will be deemed to refer to any other nationally recognized securities rating agency designated by the Issuer, with the approval of the Company, by notice to the Trustee and the Company.

*"Opinion of Bond Counsel"* means a written opinion of nationally-recognized bond counsel selected by the Company and acceptable to the Trustee and who is experienced in matters relating to the exclusion from gross income for federal income tax purposes of interest on obligations issued by states and their political subdivisions. Bond Counsel may be counsel to the Trustee or the Company.

*"Outstanding Bonds," "Bonds outstanding" or "outstanding"* as applied to Bonds, means, as of the applicable date, all Bonds which have been authenticated and delivered, or which are being delivered by the Trustee under the Indenture, except:

(a) Bonds cancelled upon surrender, exchange or transfer, or cancelled because of payment or redemption on or prior to that date;

(b) On or after any purchase date for Bonds pursuant to the Indenture, all Bonds (or portions of Bonds) which are tendered or deemed to have been tendered for purchase on such date, but which have not been delivered to the Paying Agent, provided that funds sufficient for such purchase are on deposit with the Paying Agent in the appropriate accounts in accordance with the provisions hereof;

(c) Bonds, or the portion thereof, for the payment, redemption or purchase for cancellation of which sufficient moneys have been deposited and credited with the Trustee or Paying Agent to the appropriate accounts on or prior to that date for the purpose (whether upon or prior to the maturity or redemption date of those Bonds); provided, that if any of those Bonds

are to be redeemed prior to their maturity, notice of that redemption has been given or arrangements satisfactory to the Trustee have been made for giving notice of that redemption, or waiver by the affected Holders of that notice satisfactory in form to the Trustee has been filed with the Trustee;

(d) Bonds, or the portion thereof, which are deemed to have been paid and discharged or caused to have been paid and discharged pursuant to the provisions of the Indenture; and

(e) Bonds in lieu of which others have been authenticated under the Indenture.

*"Paying Agent"* means (i) Deutsche Bank National Trust Company, with a corporate trust office in Chicago Illinois, or (ii) any bank or trust company designated as Paying Agent by or in accordance with the Indenture.

*"Rate Period"* means a period during which a particular rate of interest determined for the Bonds is to remain in effect until a subsequently determined rate of interest becomes effective pursuant to the Indenture. In any case, the final Rate Period will end on (and include) the day immediately preceding the Maturity Date.

*"Registrar"* means Deutsche Bank National Trust Company until a successor Registrar has become such pursuant to the Indenture.

*"Regular Record Date"* means the close of business on (a) the fifteenth day of the month preceding each Interest Payment Date in the case of Bonds bearing interest at a Term Rate; (b) the last Business Day of the Interest Period in the case of Bonds bearing interest at Daily or Weekly Rates; (c) the last day of the Commercial Paper Rate Period applicable to such Bond; and (d) the Business Day immediately preceding each Interest Payment Date for Auction Rate Bonds.

*"S&P"* means Standard & Poor's Ratings Services, and its successors and assigns, except that if such Division is dissolved or liquidated or no longer performs the functions of a securities rating agency, "S&P" will be deemed to refer to any other nationally recognized securities rating organization designated by the Issuer, with the approval of the Company, by notice to the Trustee and the Company.

*"State"* means the State of Ohio.

*"Term Rate"* means the interest rate to be determined pursuant to the Indenture for the Bonds for a term of one or more whole years or for a term to the Maturity Date.

*"Term Rate Period"* means a period during which the Bonds bear interest at a particular Term Rate.

*"Variable Rate"* means, as the context requires, the Commercial Paper, Daily, Weekly or Term Rate applicable from time to time to the Bonds.

*"Weekly Rate"* means the interest to be determined for the Bonds on a weekly basis pursuant to the Indenture and described under the caption "THE BONDS—Interest Rate Determination Methods—*Weekly Rate and Weekly Rate Period.*"

*"Weekly Rate Period"* means a period during which the Bonds bear interest at a Weekly Rate.

**[This page left intentionally blank]**

**SIFMA**

**AUCTION PROCEDURES**

## TABLE OF CONTENTS

	<b>Page</b>
ARTICLE I     Definitions.....	C-1
ARTICLE II    Auction Procedures.....	C-7
Section 2.01. Orders by Existing Owners and Potential Owners.....	C-7
Section 2.02. Submission of Orders by Broker-Dealers to Auction Agent .....	C-8
Section 2.03. Treatment of Orders by the Auction Agent.....	C-10
Section 2.04. Determination of Auction Period Rate.....	C-12
Section 2.05. Allocation of Bonds .....	C-13
Section 2.06. Notice of Auction Period Rate .....	C-15
Section 2.07. Index.....	C-16
Section 2.08. Miscellaneous Provisions Regarding Auctions.....	C-16
Section 2.09. Changes in Auction Period or Auction Date.....	C-17
Schedule I to Auction Procedures.....	C-18

Both the Definitions in Article I and the Auction Procedures in Article II are subject to modification or amendment pursuant to Schedule I. In the event of any conflict between Article I or Article II and Schedule I, Schedule I shall prevail. Any reference herein to "Series" such as "a Series of Bonds" or "Bonds of a Series" shall not apply if there is only one Series of Bonds. Capitalized terms used in this Appendix C or in Schedule I and not otherwise defined in either this Appendix C or in Schedule I have the meanings specified therefor in the Authorizing Document.

## ARTICLE I

### Definitions

The following words and terms as used in this Appendix C (hereinafter "this Appendix") and elsewhere in the Authorizing Document have the following meanings with respect to Bonds in an ARS Rate Period unless the context or use indicates another or different meaning or intent or the definition has been changed, modified or expanded in Schedule I:

**"Agent Member"** means a member of, or participant in, the Securities Depository who shall act on behalf of a Bidder.

**"All Hold Rate"** has the meaning set forth in Schedule I.

**"ARS Conversion Date"** means with respect to Bonds, the date on which the Bonds of such Series convert from an interest rate period other than an ARS Rate Period and begin to bear interest at the Auction Period Rate.

**"ARS Rate Period"** means, for each Series of Bonds, any period of time commencing on the day following the Initial Period and ending on the earlier of the Conversion Date or the day preceding the final maturity date of such Bonds.

**"Auction"** means each periodic implementation of the Auction Procedures.

**"Auction Agent"** means the Person appointed as Auction Agent in accordance with the Auction Agreement. The Auction Agent shall initially be the party named in Schedule I.

**"Auction Agreement"** means an agreement between the Auction Agent and the Trustee pursuant to which the Auction Agent agrees to follow the procedures specified in this Appendix with respect to the Bonds while such Bonds bear interest at the Auction Period Rate, as such agreement may from time to time be amended or supplemented.

**"Auction Date"** means with respect to any Series of Bonds:

(a) *Daily Auction Period.* If the Bonds are in a daily Auction Period, each Business Day unless such day is the Business Day prior to the conversion from a daily Auction Period to another Auction Period,

(b) *Flexible Auction Period.* If the Bonds are in a Flexible Auction Period, the last Business Day of the Flexible Auction Period, and

(c) *Other Auction Periods.* If the Bonds are in any other Auction Period, the Business Day next preceding each Interest Payment Date for such Bonds (whether or not an Auction shall be conducted on such date);

provided, however, that the last Auction Date with respect to the Bonds in an Auction Period other than a daily Auction Period or Flexible Auction Period shall be the earlier of (i) the Business Day next preceding the Interest Payment Date next preceding the Conversion Date for the Bonds and (ii) the Business Day next preceding the Interest Payment Date next preceding the final maturity date for the Bonds; and

provided, further, that if the Bonds are in a daily Auction Period, the last Auction Date shall be the earlier of (x) the second Business Day next preceding the Conversion Date for the Bonds and (y) the Business Day next preceding the final maturity date for the Bonds. The last Business Day of a Flexible Auction Period shall be the Auction Date for the Auction Period which begins on the next succeeding Business Day, if any. On the second Business Day preceding the conversion from a daily Auction Period to another Auction Period, there shall be an Auction for the last daily Auction Period. On the Business Day preceding the conversion from a daily Auction Period to another Auction Period, there shall be one Auction for the first Auction Period following the conversion.

The first Auction Date for each Series of Bonds is set forth in Schedule I.

**"Auction Desk"** means the business unit of a Broker-Dealer that fulfills the responsibilities of the Broker-Dealer under a Broker-Dealer Agreement, including soliciting Bids for the Bonds, and units of the Broker-Dealer which are not separated from such business unit by information controls appropriate to control, limit and monitor the inappropriate dissemination and use of information about Bids.

**"Auction Period"** means with respect to each Series of Bonds:

(a) *Flexible Auction Period.* A Flexible Auction Period;

(b) *Daily Auction Period.* With respect to a Series of Bonds in a daily Auction Period, a period beginning on each Business Day and extending to but not including the next succeeding Business Day unless such Business Day is the second Business Day preceding the conversion from a daily Auction Period to another Auction Period, in which case the daily Auction Period shall extend to, but not include, the next Interest Payment Date;

(c) *Seven day Auction Period.* With respect to a Series of Bonds in a seven-day Auction Period, if Auctions generally are conducted on the day of the week specified in column A of the table below, a period of generally seven days beginning on the day of the week specified in column B of the table below (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on the day of the week specified in column C of the table below) and ending on the day of the week specified in column C of the table below in the next succeeding week (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day):

(A)	(B)	(C)
When Auctions Occur on this day	Auction Period Generally Begins this day	Auction Period Generally Ends this day
Friday	Monday	Sunday
Monday	Tuesday	Monday
Tuesday	Wednesday	Tuesday
Wednesday	Thursday	Wednesday
Thursday	Friday	Thursday

(d) *28-day Auction Period.* With respect to a Series of Bonds in a 28-day Auction Period, if Auctions generally are conducted on the day of the week specified in column A of the table above, a period of generally 28 days beginning on the day of the week specified in column B of the table above (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on the day of the week specified in column C of the table above) and ending on the same day of the week specified in column C of the table above four weeks later (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day).

(e) *35-day Auction Period.* With respect to a Series of Bonds in a 35-day Auction Period, if Auctions generally are conducted on the day of the week specified in column A of the table above, a period of generally 35 days beginning on the day of the week specified in column B of the table above (or the day following the last



day of the prior Auction Period if the prior Auction Period does not end on the day of the week specified in column C of the table above) and ending on the day of the week specified in column C of the table above five weeks later (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day).

(f) *Three-month Auction Period.* With respect to a Series of Bonds in a three-month Auction Period, a period of generally three months (or shorter period upon a conversion from another Auction Period or following an ARS Conversion Date) beginning on the day following the last day of the prior Auction Period and ending on the calendar day immediately preceding the first Business Day of the month that is the third calendar month following the beginning date of such Auction Period; and

(g) *Six-month Auction Period.* With respect to a Series of Bonds in a six-month Auction Period, a period of generally six months (or shorter period upon a conversion from another Auction Period or following an ARS Conversion Date) beginning on the day following the last day of the prior Auction Period and ending on the next succeeding date set forth in Schedule I;

Provided, however, that if there is a conversion of a Series of Bonds with Auctions generally conducted on the day of the week specified in column A of the table above, (i) from a daily Auction Period to a seven-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on the next succeeding day of the week specified in column C of the table above (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 28-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e., the Interest Payment Date for the prior Auction Period) and shall end on the day of the week specified in column C of the table above (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and (iii) from a daily Auction Period to a 35-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on the day of the week specified in column C of the table above (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion.

Notwithstanding the foregoing, if an Auction is for an Auction Period of more than seven days and the Auction Rate on such Auction Date is the Maximum Rate as the result of a lack of Sufficient Clearing Bids, the Auction Period shall automatically convert to a seven-day Auction Period. On the following Auction Date, the Auction shall be conducted for an Auction Period of the same length as the Auction Period prior to such automatic conversion. If such Auction is successful, the Auction Period shall revert to the length prior to the automatic conversion, and, if such Auction is not successful, the Auction Period shall be another seven-day period.

**"Auction Period Rate"** means the Auction Rate or any other rate of interest to be borne by the Bonds during each Auction Period determined in accordance with Section 2.04 of this Appendix; provided, however, in no event may the Auction Period Rate exceed the Maximum Rate.

**"Auction Procedures"** means the procedures for conducting Auctions for Bonds during an ARS Rate Period set forth in this Appendix.

**"Auction Rate"** means for each Series of Bonds for each Auction Period, (i) if Sufficient Clearing Bids exist, the Winning Bid Rate, provided, however, if all of the Bonds are the subject of Submitted Hold Orders, the All Hold Rate for such Series of Bonds and (ii) if Sufficient Clearing Bids do not exist, the Maximum Rate for such Series of Bonds.

**"Authorized Denomination"** means \$25,000, or such other amount specified in Schedule I, and integral multiples thereof so long as the Bonds bear interest at the Auction Period Rate, notwithstanding anything else in the Authorizing Document to the contrary.

**"Authorizing Document"** has the meaning set forth in Schedule I.

**"Available Bonds"** means, for each Series of Bonds on each Auction Date, the number of Units of Bonds that are not the subject of Submitted Hold Orders.

**"Bid"** has the meaning specified in subsection (a) of Section 2.01 of this Appendix.

**"Bidder"** means each Existing Owner and Potential Owner who places an Order.

**"Bonds"** has the meaning set forth in Schedule I.

**"Broker-Dealer"** means any entity that is permitted by law to perform the function required of a Broker-Dealer described in this Appendix, that is a member of, or a direct participant in, the Securities Depository, that has been selected by the Corporation and that is a party to a Broker-Dealer Agreement with the Auction Agent and the Corporation. The "Broker-Dealer of record" with respect to any Bond is the Broker-Dealer which placed the Order for such Bond or whom the Existing Owner of such Bond has designated as its Broker-Dealer with respect to such Bond, in each case as reflected in the records of the Auction Agent. The Broker-Dealer(s) shall initially be the party(ies) named in Schedule I.

**"Broker-Dealer Agreement"** means an agreement among the Auction Agent, the Corporation and a Broker-Dealer pursuant to which such Broker-Dealer agrees to follow the procedures described in this Appendix, as such agreement may from time to time be amended or supplemented.

**"Broker-Dealer Deadline"** means, with respect to an Order, the internal deadline established by the Broker-Dealer through which the Order was placed after which it will not accept Orders or any change in any Order previously placed with such Broker-Dealer; provided, however, that nothing shall prevent the Broker-Dealer from correcting Clerical Errors by the Broker-Dealer with respect to Orders from Bidders after the Broker-Dealer Deadline pursuant to the provisions herein. Any Broker-Dealer may change the time or times of its Broker-Dealer Deadline as it relates to such Broker-Dealer by giving notice not less than two Business Days prior to the date such change is to take effect to Bidders who place Orders through such Broker-Dealer.

**"Business Day"** in addition to any other definition of "Business Day" included in the Authorizing Document, while Bonds bear interest at the Auction Period Rate, the term Business Day shall not include Saturdays, Sundays, days on which the New York Stock Exchange or its successor is not open for business, days on which the Federal Reserve Bank of New York is not open for business, days on which banking institutions or trust companies located in the state in which the operations of the Auction Agent are conducted are authorized or required to be closed by law, regulation or executive order of the state in which the Auction Agent conducts operations with respect to the Bonds.

**"Clerical Error"** means a clerical error in the processing of an Order, and includes, but is not limited to, the following: (i) a transmission error, including but not limited to, an Order sent to the wrong address or number, failure to transmit certain pages or illegible transmission, (ii) failure to transmit an Order received from one or more Existing Owners or Potential Owners (including Orders from the Broker-Dealer which were not originated by the Auction Desk) prior to the Broker-Dealer Deadline or generated by the Broker-Dealer's Auction Desk for its own account prior to the Submission Deadline or (iii) a typographical error. Determining whether an error is a "Clerical Error" is within the reasonable judgment of the Broker-Dealer, provided that the Broker-Dealer has a record of the correct Order that shows it was so received or so generated prior to the Broker-Dealer Deadline or the Submission Deadline, as applicable.

**"Conversion Date"** means the date on which any Series of the Bonds begin to bear interest at a rate which is determined other than by means of the Auction Procedures.

**"Corporation"** has the meaning set forth in Schedule I.

**"Electronic Means"** means, facsimile transmission, email transmission or other similar electronic means of communication providing evidence of transmission, including a telephone communication confirmed by any other method set forth in this definition.

**"Error Correction Deadline"** means one hour after the Auction Agent completes the dissemination of the results of the Auction to Broker-Dealers without regard to the time of receipt of such results by any Broker-Dealer; provided, however, in no event shall the Error Correction Deadline extend past 4:00 p.m., New York City time, unless the Auction Agent experiences technological failure or force majeure in disseminating the Auction results which causes a delay in dissemination past 3:00 p.m., New York City time.

**"Existing Owner"** means a Person who is the beneficial owner of Bonds; provided, however, that for purposes of conducting an Auction, the Auction Agent may consider a Broker-Dealer acting on behalf of its customer as an Existing Owner.

**"Flexible Auction Period"** means with respect to a Series of Bonds,

(a) any period of 182 days or less which is divisible by seven and which begins on an Interest Payment Date and ends (i) in the case of a Series of Bonds with Auctions generally conducted on Fridays, on a Sunday unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (ii) in the case of a Series of Bonds with Auctions generally conducted on Mondays, on a Monday unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (iii) in the case of a Series of Bonds with Auctions generally conducted on Tuesdays, on a Tuesday unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (iv) in the case of a Series of Bonds with Auctions generally conducted on Wednesdays, on a Wednesday unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, and (v) in the case of a Series of Bonds with Auctions generally conducted on Thursdays, on a Thursday unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day or

(b) any period which is longer than 182 days which begins on an Interest Payment Date and ends not later than the final scheduled maturity date of such Series of Bonds.

**"Hold Order"** means an Order to hold the Bonds as provided in Section 2.01(a) of this Appendix or such an Order deemed to have been submitted as provided in Section 2.01(c) of this Appendix.

**"Index"** has the meaning set forth in Schedule I.

**"Initial Period"** has the meaning set forth in Schedule I.

**"Initial Period Rate"** has the meaning set forth in Schedule I.

**"Interest Payment Date"** with respect to Bonds of a Series bearing interest at Auction Period Rates, means, notwithstanding anything else in the Authorizing Document to the contrary, the first Interest Payment Date for such Series of Bonds as set forth in Schedule I and thereafter (unless changed by Schedule I) (a) when used with respect to any Auction Period other than a daily Auction Period or a Flexible Auction Period, the Business Day immediately following such Auction Period, (b) when used with respect to a daily Auction Period, the first Business Day of the month immediately succeeding the first day of such Auction Period, (c) when used with respect to a Flexible Auction Period of (i) seven or more but fewer than 183 days, the Business Day immediately following such Flexible Auction Period, or (ii) 183 or more days, each semiannual date on which interest on the Bonds would be payable if such Bonds bore interest at a fixed rate of interest and on the Business Day immediately following such Flexible Auction Period, and (d) the date when the final payment of principal of the Bonds of such Series becomes due and payable (whether at stated maturity, upon redemption or acceleration, or otherwise).

**"Issuer"** has the meaning set forth in Schedule I.

**"Maximum Rate"** has the meaning set forth in Schedule I.

**"Order"** means a Hold Order, Bid or Sell Order.

**"Person"** has the meaning set forth in Schedule I.

**"Potential Owner"** means any Person, including any Existing Owner, who may be interested in acquiring a beneficial interest in the Bonds in addition to the Bonds currently owned by such Person, if any; provided, however, that for purposes of conducting an Auction, the Auction Agent may consider a Broker-Dealer acting on behalf of its customer as a Potential Owner.

**"Record Date"** means, notwithstanding anything else in the Authorizing Document, while the Bonds bear interest at the Auction Period Rate, the Business Day immediately preceding an Interest Payment Date.

**"Schedule I"** means Schedule I to this Appendix.

**"Securities Depository"** means, notwithstanding anything else in the Authorizing Document to the contrary, The Depository Trust Company and its successors and assigns or any other securities depository selected by the Corporation.

**"Sell Order"** has the meaning specified in subsection (a) of Section 2.01 of this Appendix.

**"Submission Deadline"** means, unless changed by Schedule I, 1:00 p.m., New York City time, on each Auction Date not in a daily Auction Period and 11:00 a.m., New York City time, on each Auction Date in a daily Auction Period, or such other time on such date as shall be specified from time to time by the Auction Agent if directed in writing by the Trustee or the Corporation pursuant to the Auction Agreement as the time by which Broker-Dealers are required to submit Orders to the Auction Agent. Notwithstanding the foregoing, the Auction Agent will follow the Securities Industry and Financial Markets Association's Early Market Close Recommendations for shortened trading days for the bond markets (the "SIFMA Recommendation") unless the Auction Agent is instructed otherwise in writing by the Trustee or the Corporation. In the event of a SIFMA Recommendation with respect to an Auction Date, the Submission Deadline will be 11:30 a.m., instead of 1:00 p.m., New York City time.

**"Submitted Bid"** has the meaning specified in subsection (b) of Section 2.04 of this Appendix.

**"Submitted Hold Order"** has the meaning specified in subsection (b) of Section 2.04 of this Appendix.

**"Submitted Order"** has the meaning specified in subsection (b) of Section 2.04 of this Appendix.

**"Submitted Sell Order"** has the meaning specified in subsection (b) of Section 2.04 of this Appendix.

**"Sufficient Clearing Bids"** means for each Series of Bonds, an Auction for which the number of Units of such Bonds that are the subject of Submitted Bids by Potential Owners specifying one or more rates not higher than the Maximum Rate is not less than the number of Units of such Bonds that are the subject of Submitted Sell Orders and of Submitted Bids by Existing Owners specifying rates higher than the Maximum Rate.

**"Units"** has the meaning set forth in Section 2.02(a)(iii) of this Appendix.

**"Winning Bid Rate"** means for each Series of Bonds, the lowest rate specified in any Submitted Bid of such Series which if calculated by the Auction Agent as the Auction Rate would cause the number of Units of such Bonds that are the subject of Submitted Bids specifying a rate not greater than such rate to be not less than the number of Units of Available Bonds of such Series.

## ARTICLE II

### Auction Procedures

*Section 2.01. Orders by Existing Owners and Potential Owners.* (a) Prior to the Broker-Dealer Deadline for each Series of Bonds on each Auction Date:

(i) each Existing Owner may submit to a Broker-Dealer, in writing or by such other method as shall be reasonably acceptable to such Broker-Dealer, one or more Orders as to:

(A) the principal amount of Bonds, if any, held by such Existing Owner which such Existing Owner commits to continue to hold for the next succeeding Auction Period without regard to the Auction Rate for such Auction Period,

(B) the principal amount of Bonds, if any, held by such Existing Owner which such Existing Owner commits to continue to hold for the next succeeding Auction Period if the Auction Rate for the next succeeding Auction Period is not less than the rate per annum specified in such Order (and if the Auction Rate is less than such specified rate, the effect of the Order shall be as set forth in paragraph (b)(i)(A) of this Section), and/or

(C) the principal amount of Bonds, if any, held by such Existing Owner which such Existing Owner offers to sell on the first Business Day of the next succeeding Auction Period (or on the same day in the case of a daily Auction Period) without regard to the Auction Rate for the next succeeding Auction Period; and

(ii) each Potential Owner may submit to a Broker-Dealer, in writing or by such other method as shall be reasonably acceptable to such Broker-Dealer, an Order as to the principal amount of Bonds, which each such Potential Owner offers to purchase if the Auction Rate for the next succeeding Auction Period is not less than the rate per annum then specified by such Potential Owner.

For the purposes of the Auction Procedures an Order containing the information referred to in clause (i)(A) above is referred to as a "Hold Order," an Order containing the information referred to in clause (i)(B) or (ii) above is referred to as a "Bid," and an Order containing the information referred to in clause (i)(C) above is referred to as a "Sell Order."

No Auction Desk of a Broker-Dealer shall accept as an Order a submission (whether received from an Existing Owner or a Potential Owner or generated by the Broker-Dealer for its own account) which does not conform to the requirements of the Auction Procedures, including, but not limited to, submissions which are not in Authorized Denominations, specify a rate which contains more than three figures to the right of the decimal point or specify an amount greater than the amount of Outstanding Bonds. No Auction Desk of a Broker-Dealer shall accept a Bid or Sell Order which is conditioned on being filled in whole or a Bid which does not specify a specific interest rate.

(b) (i) A Bid by an Existing Owner shall constitute an offer to sell on the first Business Day of the next succeeding Auction Period (or the same day in the case of a daily Auction Period):

(A) the principal amount of Bonds specified in such Bid if the Auction Rate for the next succeeding Auction Period shall be less than the rate specified in such Bid; or

(B) such principal amount or a lesser principal amount of Bonds to be determined as described in subsection (a)(v) of Section 2.05 hereof if the Auction Rate for the next succeeding Auction Period shall be equal to such specified rate; or

(C) a lesser principal amount of Bonds to be determined as described in subsection (b)(iv) of Section 2.05 hereof if such specified rate shall be higher than the Maximum Rate and Sufficient Clearing Bids do not exist.

(ii) A Sell Order by an Existing Owner shall constitute an offer to sell:

(A) the principal amount of Bonds specified in such Sell Order; or

(B) such principal amount or a lesser principal amount of Bonds as described in subsection (b)(iv) of Section 2.05 hereof if Sufficient Clearing Bids do not exist.

(iii) A Bid by a Potential Owner shall constitute an offer to purchase:

(A) the principal amount of Bonds specified in such Bid if the Auction Rate for the next succeeding Auction Period shall be higher than the rate specified therein; or

(B) such principal amount or a lesser principal amount of Bonds as described in subsection (a)(vi) of Section 2.05 hereof if the Auction Rate for the next succeeding Auction Period shall be equal to such specified rate.

(c) *Anything herein to the contrary notwithstanding:*

(i) If an Order or Orders covering all of the Bonds of a particular Series held by an Existing Owner is not submitted to the Broker-Dealer of record for such Existing Owner prior to the Broker-Dealer Deadline, such Broker-Dealer shall deem a Hold Order to have been submitted on behalf of such Existing Owner covering the principal amount of Bonds held by such Existing Owner and not subject to Orders submitted to such Broker-Dealer; provided, however, that if there is a conversion from one Auction Period to a longer Auction Period and Orders have not been submitted to such Broker-Dealer prior to the Broker-Dealer Deadline covering the aggregate principal amount of Bonds of a particular Series to be converted held by such Existing Owner, such Broker-Dealer shall deem a Sell Order to have been submitted on behalf of such Existing Owner covering the principal amount of Bonds to be converted held by such Existing Owner not subject to Orders submitted to such Broker-Dealer.

(ii) for purposes of any Auction, any Order by any Existing Owner or Potential Owner shall be revocable until the Broker-Dealer Deadline, and after the Broker-Dealer Deadline, all such Orders shall be irrevocable, except as provided in Sections 2.02(e)(ii) and 2.02(f); and

(iii) for purposes of any Auction other than during a daily Auction Period, any Bonds sold or purchased pursuant to subsection (b)(i), (ii) or (iii) above shall be sold or purchased at a price equal to 100% of the principal amount thereof; provided that, for purposes of any Auction during a daily Auction Period, such sale or purchase price shall be 100% of the principal amount thereof plus accrued interest to the date of sale or purchase.

*Section 2.02. Submission of Orders by Broker-Dealers to Auction Agent.*

(a) Each Broker-Dealer shall submit to the Auction Agent in writing, or by such Electronic Means as shall be reasonably acceptable to the Auction Agent, prior to the Submission Deadline on each Auction Date for Bonds of a Series, all Orders with respect to Bonds of such Series accepted by such Broker-Dealer in accordance with Section 2.01 above and specifying with respect to each Order or aggregation of Orders pursuant to Section 2.02(b) below:

(i) the name of the Broker-Dealer;

(ii) the number of Bidders placing Orders, if requested by the Auction Agent;

(iii) the aggregate number of Units of Bonds of such Series, if any, that are the subject of such Order, where each Unit is equal to the principal amount of the minimum Authorized Denomination of the Bonds;

(iv) to the extent that such Bidder is an Existing Owner:

(A) the number of Units of Bonds of such Series, if any, subject to any Hold Order placed by such Existing Owner;

(B) the number of Units of Bonds of such Series, if any, subject to any Bid placed by such Existing Owner and the rate specified in such Bid; and

(C) the number of Units of Bonds of such Series, if any, subject to any Sell Order placed by such Existing Owner; and

(v) to the extent such Bidder is a Potential Owner, the rate specified in such Bid.

(b) If more than one Bid is submitted to a Broker-Dealer on behalf of any single Potential Owner, the Broker-Dealer shall aggregate each Bid on behalf of such Potential Owner submitted with the same rate and consider such Bids as a single Bid and shall consider each Bid submitted with a different rate a separate Bid with the rate and the number of Units of Bonds specified therein.

A Broker-Dealer may aggregate the Orders of different Potential Owners with those of other Potential Owners on whose behalf the Broker-Dealer is submitting Orders and may aggregate the Orders of different Existing Owners with other Existing Owners on whose behalf the Broker-Dealer is submitting Orders; provided, however, Bids may only be aggregated if the interest rates on the Bids are the same.

(c) None of the Issuer, the Corporation, the Trustee or the Auction Agent shall be responsible for the failure of any Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Owner or Potential Owner.

(d) Nothing contained herein shall preclude a Broker-Dealer from placing an Order for some or all of the Bonds for its own account.

(e) Until the Submission Deadline, a Broker-Dealer may withdraw or modify any Order previously submitted to the Auction Agent (i) for any reason if the Order was generated by the Auction Desk of the Broker-Dealer for the account of the Broker-Dealer or (ii) to correct a Clerical Error on the part of the Broker-Dealer in the case of any other Order, including Orders from the Broker-Dealer which were not originated by the Auction Desk.

(f) After the Submission Deadline and prior to the Error Correction Deadline, a Broker-Dealer may:

(i) submit to the Auction Agent an Order received from an Existing Owner, Potential Owner or a Broker-Dealer which is not an Order originated by the Auction Desk, in each case prior to the Broker-Dealer Deadline, or an Order generated by the Broker-Dealer's Auction Desk for its own account prior to the Submission Deadline (provided that in each case the Broker-Dealer has a record of such Order and the time when such Order was received or generated) and not submitted to the Auction Agent prior to the Submission Deadline as a result of (A) an event of force majeure or a technological failure which made delivery prior to the Submission Deadline impossible or, under the conditions then prevailing, impracticable or (B) a Clerical Error on the part of the Broker-Dealer; or

(ii) modify or withdraw an Order received from an Existing Owner or Potential Owner or generated by the Broker-Dealer (whether generated by the Broker-Dealer's Auction Desk or elsewhere within the Broker-Dealer) for its own account and submitted to the Auction Agent prior to the

Submission Deadline or pursuant to clause (i) above, if the Broker-Dealer determines that such Order contained a Clerical Error on the part of the Broker-Dealer.

In the event a Broker-Dealer makes a submission, modification or withdrawal pursuant to this Section 2.02(f) and the Auction Agent has already run the Auction, the Auction Agent shall rerun the Auction, taking into account such submission, modification or withdrawal. Each submission, modification or withdrawal of an Order submitted pursuant to this Section 2.02(f) by a Broker-Dealer after the Submission Deadline and prior to the Error Correction Deadline shall constitute a representation by the Broker-Dealer that (A) in the case of a newly submitted Order or portion thereof or revised Order, the failure to submit such Order prior to the Submission Deadline resulted from an event described in clause (i) above and such Order was received from an Existing Owner or Potential Owner or is an Order received from the Broker-Dealer that was not originated by the Auction Desk, in each case, prior to the Broker-Dealer Deadline, or generated internally by such Broker-Dealer's Auction Desk for its own account prior to the Submission Deadline or (B) in the case of a modified or withdrawn Order, such Order was received from an Existing Owner, a Potential Owner or the Broker-Dealer which was not originated by the Auction Desk prior to the Broker-Dealer Deadline, or generated internally by such Broker-Dealer's Auction Desk for its own account prior to the Submission Deadline and such Order as submitted to the Auction Agent contained a Clerical Error on the part of the Broker-Dealer and that such Order has been modified or withdrawn solely to effect a correction of such Clerical Error, and in the case of either (A) or (B), as applicable, the Broker-Dealer has a record of such Order and the time when such Order was received or generated. The Auction Agent shall be entitled to rely conclusively (and shall have no liability for relying) on such representation for any and all purposes of the Auction Procedures.

(g) If after the Auction Agent announces the results of an Auction, a Broker-Dealer becomes aware that an error was made by the Auction Agent, the Broker-Dealer shall communicate such awareness to the Auction Agent prior to 5:00 p.m. New York City time on the Auction Date (or 2:00 pm. New York City time in the case of Bonds in a daily Auction Period). If the Auction Agent determines there has been such an error (as a result of either a communication from a Broker-Dealer or its own discovery) prior to 3:00 p.m. New York City time on the first day of the Auction Period with respect to which such Auction was conducted, the Auction Agent shall correct the error and notify each Broker-Dealer that submitted Bids or held a position in Bonds in such Auction of the corrected results.

(h) Nothing contained herein shall preclude the Auction Agent from:

(i) advising a Broker-Dealer prior to the Submission Deadline that it has not received Sufficient Clearing Bids for the Bonds; provided, however, that if the Auction Agent so advises any Broker-Dealer, it shall so advise all Broker-Dealers; or

(ii) verifying the Orders of a Broker-Dealer prior to or after the Submission Deadline; provided, however, that if the Auction Agent verifies the Orders of any Broker-Dealer, it shall verify the Orders of all Broker-Dealers requesting such verification.

*Section 2.03. Treatment of Orders by the Auction Agent.* Anything herein to the contrary notwithstanding:

(a) If the Auction Agent receives an Order which does not conform to the requirements of the Auction Procedures, the Auction Agent may contact the Broker-Dealer submitting such Order until one hour after the Submission Deadline and inform such Broker-Dealer that it may resubmit such Order so that it conforms to the requirements of the Auction Procedures. Upon being so informed, such Broker-Dealer may correct and resubmit to the Auction Agent any such Order that, solely as a result of a Clerical Error on the part of such Broker-Dealer, did not conform to the requirements of the Auction Procedures when previously submitted to the Auction Agent. Any such resubmission by a Broker-Dealer shall constitute a representation by such Broker-Dealer that the failure of such Order to have so conformed was solely as a result of a Clerical Error on the part of such Broker-Dealer. If the Auction Agent has not received a corrected conforming Order within one hour and fifteen minutes of the Submission Deadline, the Auction Agent shall, if and to the extent applicable, adjust or apply such Order, as the case may be, in conformity with the provisions of subsections (b), (c) or (d) of



this Section 2.03 and, if the Auction Agent is unable to so adjust or apply such Order, the Auction Agent shall reject such Order.

(b) If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent shall round such rate up to the next highest one thousandth of one percent (0.001%).

(c) If one or more Orders covering in the aggregate more than the number of Units of Outstanding Bonds of a particular Series are submitted by a Broker-Dealer to the Auction Agent, such Orders shall be considered valid in the following order of priority:

(i) all Hold Orders shall be considered Hold Orders, but only up to and including in the aggregate the number of Units of Bonds of such Series for which such Broker-Dealer is the Broker-Dealer of record;

(ii) (A) any Bid of a Broker-Dealer shall be considered valid as a Bid of an Existing Owner up to and including the excess of the number of Units of Bonds of such Series for which such Broker-Dealer is the Broker-Dealer of record over the number of Units of the Bonds of such Series subject to Hold Orders referred to in clause (i) above;

(B) subject to clause (A) above, all Bids of a Broker-Dealer with the same rate shall be aggregated and considered a single Bid of an Existing Owner up to and including the excess of the number of Units of Bonds of such Series for which such Broker-Dealer is the Broker-Dealer of record over the number of Units of Bonds of such Series for which such Broker-Dealer is the Broker-Dealer of record subject to Hold Orders referred to in clause (i) above;

(C) subject to clause (A) above, if more than one Bid with different rates is submitted by a Broker-Dealer, such Bids shall be considered Bids of an Existing Owner in the ascending order of their respective rates up to the amount of the excess of the number of Units of Bonds of such Series for which such Broker-Dealer is the Broker-Dealer of record over the number of Units of Bonds of such Series for which such Broker-Dealer is the Broker-Dealer of record subject to Hold Orders referred to in clause (i) above; and

(D) the number of Units, if any, of such Bonds of such Series subject to Bids not considered to be Bids for which such Broker-Dealer is the Broker-Dealer of record under this clause (ii) shall be treated as the subject of a Bid by a Potential Owner;

(iii) all Sell Orders shall be considered Sell Orders, but only up to and including the number of Units of Bonds of such Series equal to the excess of the number of Units of Bonds of such Series for which such Broker-Dealer is the Broker-Dealer of record over the sum of the number of Units of the Bonds of such Series considered to be subject to Hold Orders pursuant to clause (i) above and the number of Units of Bonds of such Series considered to be subject to Bids for which such Broker-Dealer is the Broker-Dealer of record pursuant to clause (ii) above.

(d) If any Order is for other than an integral number of Units, then the Auction Agent shall round the amount down to the nearest number of whole Units, and the Auction Agent shall conduct the Auction Procedures as if such Order had been submitted in such number of Units.

(e) For purposes of any Auction other than during a daily Auction Period, if an Auction Agent has been notified by the Trustee, Issuer or Corporation that any portion of an Order by a Broker-Dealer relates to a Bond which has been called for redemption on or prior to the Interest Payment Date next succeeding such Auction, the Order shall be invalid with respect to such portion and the Auction Agent shall conduct the Auction Procedures as if such portion of such Order had not been submitted.

(f) For purposes of any Auction other than during a daily Auction Period, no portion of a Bond which the Auction Agent has been notified by the Trustee, Issuer or Corporation has been called for

redemption on or prior to the Interest Payment Date next succeeding such Auction shall be included in the calculation of Available Bonds for such Auction.

(g) If an Order or Orders covering all of the Bonds of a particular Series is not submitted by a Broker-Dealer of record prior to the Submission Deadline, the Auction Agent shall deem a Hold Order to have been submitted on behalf of such Broker-Dealer covering the number of Units of Bonds for which such Broker-Dealer is the Broker-Dealer of record and not subject to Orders submitted to the Auction Agent; provided, however, that if there is a conversion from one Auction Period to a longer Auction Period and Orders have not been submitted by such Broker-Dealer prior to the Submission Deadline covering the number of Units of Bonds of a particular Series to be converted for which such Broker-Dealer is the Broker-Dealer of record, the Auction Agent shall deem a Sell Order to have been submitted on behalf of such Broker-Dealer covering the number of Units of Bonds to be converted for which such Broker-Dealer is the Broker-Dealer of record not subject to Orders submitted by such Broker-Dealer.

(h) Any Bid specifying a rate higher than the Maximum Rate will (i) be treated as a Sell Order if submitted by an Existing Owner and (ii) not be accepted if submitted by a Potential Owner.

*Section 2.04. Determination of Auction Period Rate.* (a) If requested by the Trustee or a Broker-Dealer, not later than 10:30 a.m., New York City time (or such other time as may be agreed to by the Auction Agent and all Broker-Dealers), on each Auction Date for each Series of Bonds, the Auction Agent shall advise such Broker-Dealer (and thereafter confirm to the Trustee, if requested) of the All Hold Rate, the Index and, if the Maximum Rate is not a fixed interest rate, the Maximum Rate. Such advice, and confirmation, shall be made by telephone or other Electronic Means acceptable to the Auction Agent.

(b) Promptly after the Submission Deadline for each Series of Bonds on each Auction Date, the Auction Agent shall assemble all Orders submitted or deemed submitted to it by the Broker-Dealers (each such Order as submitted or deemed submitted by a Broker-Dealer being hereinafter referred to as a "Submitted Hold Order," a "Submitted Bid" or a "Submitted Sell Order," as the case may be, and collectively as a "Submitted Order") and shall determine (i) the Available Bonds, (ii) whether there are Sufficient Clearing Bids, and (iii) the Auction Rate.

(c) In the event the Auction Agent shall fail to calculate or, for any reason, fails to provide the Auction Rate on the Auction Date, for any Auction Period (i) if the preceding Auction Period was a period of 35 days or less, (A) a new Auction Period shall be established for the same length of time as the preceding Auction Period, if the failure to make such calculation was because there was not at the time a duly appointed and acting Auction Agent or Broker-Dealer, and the Auction Period Rate for the new Auction Period shall be the percentage of the Index set forth in Schedule I under "Determination of Auction Period Rate" if the Index is ascertainable on such date (by the Auction Agent, if there is at the time an Auction Agent, or the Trustee, if at the time there is no Auction Agent) or, (B) if the failure to make such calculation was for any other reason or if the Index is not ascertainable on such date, the prior Auction Period shall be extended to the seventh day following the day that would have been the last day of the preceding Auction Period (or if such seventh day is not followed by a Business Day then to the next succeeding day that is followed by a Business Day) and the Auction Period Rate for the period as so extended shall be the same as the Auction Period Rate for the Auction Period prior to the extension, and (ii) if the preceding Auction Period was a period of greater than 35 days, (A) a new Auction Period shall be established for a period that ends on the seventh day following the day that was the last day of the preceding Auction Period, (or if such seventh day is not followed by a Business Day then to the next succeeding day which is followed by a Business Day) if the failure to make such calculation was because there was not at the time a duly appointed and acting Auction Agent or Broker-Dealer, and the Auction Period Rate for the new Auction Period shall be the percentage of the Index set forth in Schedule I under "Determination of Auction Period Rate" if the Index is ascertainable on such date (by the Auction Agent, if there is at the time an Auction Agent, or the Trustee, if at the time there is no Auction Agent) or, (B) if the failure to make such calculation was for any other reason or if the Index is not ascertainable on such date, the prior Auction Period shall be extended to the seventh day following the day that would have been the last day of the preceding Auction Period (or if such seventh day is not followed by a Business Day then to the next succeeding day that is followed by a Business Day) and the Auction Period Rate for the period as so extended shall be the same as the Auction Period Rate for the Auction Period prior to the extension. In the event a new

Auction Period is established as set forth in clause (ii) (A) above, an Auction shall be held on the last Business Day of the new Auction Period to determine an Auction Rate for an Auction Period beginning on the Business Day immediately following the last day of the new Auction Period and ending on the date on which the Auction Period otherwise would have ended had there been no new Auction Period or Auction Periods subsequent to the last Auction Period for which a Winning Bid Rate or an All Hold Rate had been determined. In the event an Auction Period is extended as set forth in clause (i) (B) or (ii) (B) above, an Auction shall be held on the last Business Day of the Auction Period as so extended to determine an Auction Rate for an Auction Period beginning on the Business Day immediately following the last day of the extended Auction Period and ending on the date on which the Auction Period otherwise would have ended had there been no extension of the prior Auction Period.

Notwithstanding the foregoing, neither new nor extended Auction Periods shall total more than 35 days in the aggregate. If at the end of the 35 days the Auction Agent fails to calculate or provide the Auction Rate, or there is not at the time a duly appointed and acting Auction Agent or Broker-Dealer, the Auction Period Rate shall be the Maximum Rate.

(d) In the event of a failed conversion from an Auction Period to any other period or in the event of a failure to change the length of the current Auction Period due to the lack of Sufficient Clearing Bids at the Auction on the Auction Date for the first new Auction Period, the Auction Period Rate for the next Auction Period shall be the Maximum Rate and the Auction Period shall be a seven-day Auction Period.

(e) If the Bonds are no longer maintained in book-entry-only form by the Securities Depository, then the Auctions shall cease and the Auction Period Rate shall be the Maximum Rate.

*Section 2.05. Allocation of Bonds.*

(a) In the event of Sufficient Clearing Bids for a Series of Bonds, subject to the further provisions of subsections (c) and (d) below, Submitted Orders for each Series of Bonds shall be accepted or rejected as follows in the following order of priority:

(i) the Submitted Hold Order of each Existing Owner shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Hold Order;

(ii) the Submitted Sell Order of each Existing Owner shall be accepted and the Submitted Bid of each Existing Owner specifying any rate that is higher than the Winning Bid Rate shall be rejected, thus requiring each such Existing Owner to sell the Bonds that are the subject of such Submitted Sell Order or Submitted Bid;

(iii) the Submitted Bid of each Existing Owner specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Bid;

(iv) the Submitted Bid of each Potential Owner specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Potential Owner to purchase the Bonds that are the subject of such Submitted Bid;

(v) the Submitted Bid of each Existing Owner specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Bid, but only up to and including the number of Units of Bonds obtained by multiplying (A) the aggregate number of Units of Outstanding Bonds which are not the subject of Submitted Hold Orders described in clause (i) above or of Submitted Bids described in clauses (iii) or (iv) above by (B) a fraction the numerator of which shall be the number of Units of Outstanding Bonds held by such Existing Owner subject to such Submitted Bid and the denominator of which shall be the aggregate number of Units of Outstanding Bonds subject to such Submitted Bids

made by all such Existing Owners that specified a rate equal to the Winning Bid Rate, and the remainder, if any, of such Submitted Bid shall be rejected, thus requiring each such Existing Owner to sell any excess amount of Bonds;

(vi) the Submitted Bid of each Potential Owner specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus requiring each such Potential Owner to purchase the Bonds that are the subject of such Submitted Bid, but only in an amount equal to the number of Units of Bonds obtained by multiplying (A) the aggregate number of Units of Outstanding Bonds which are not the subject of Submitted Hold Orders described in clause (i) above or of Submitted Bids described in clauses (iii), (iv) or (v) above by (B) a fraction the numerator of which shall be the number of Units of Outstanding Bonds subject to such Submitted Bid and the denominator of which shall be the sum of the aggregate number of Units of Outstanding Bonds subject to such Submitted Bids made by all such Potential Owners that specified a rate equal to the Winning Bid Rate, and the remainder of such Submitted Bid shall be rejected; and

(vii) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Winning Bid Rate shall be rejected.

(b) In the event there are not Sufficient Clearing Bids for a Series of Bonds, Submitted Orders for each Series of Bonds shall be accepted or rejected as follows in the following order of priority:

(i) the Submitted Hold Order of each Existing Owner shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Hold Order;

(ii) the Submitted Bid of each Existing Owner specifying any rate that is not higher than the Maximum Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Bid;

(iii) the Submitted Bid of each Potential Owner specifying any rate that is not higher than the Maximum Rate shall be accepted, thus requiring each such Potential Owner to purchase the Bonds that are the subject of such Submitted Bid;

(iv) the Submitted Sell Orders of each Existing Owner shall be accepted as Submitted Sell Orders and the Submitted Bids of each Existing Owner specifying any rate that is higher than the Maximum Rate shall be deemed to be and shall be accepted as Submitted Sell Orders, in both cases only up to and including the number of Units of Bonds obtained by multiplying (A) the aggregate number of Units of Bonds subject to Submitted Bids described in clause (iii) of this subsection (b) by (B) a fraction the numerator of which shall be the number of Units of Outstanding Bonds held by such Existing Owner subject to such Submitted Sell Order or such Submitted Bid deemed to be a Submitted Sell Order and the denominator of which shall be the number of Units of Outstanding Bonds subject to all such Submitted Sell Orders and such Submitted Bids deemed to be Submitted Sell Orders, and the remainder of each such Submitted Sell Order or Submitted Bid shall be deemed to be and shall be accepted as a Hold Order and each such Existing Owner shall be required to continue to hold such excess amount of Bonds; and

(v) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Maximum Rate shall be rejected.

(c) If, as a result of the undertakings described in Section 2.05(a) or (b) above, any Existing Owner or Potential Owner would be required to purchase or sell an aggregate principal amount of the Bonds that is not an integral multiple of an Authorized Denomination on any Auction Date, the Auction Agent shall by lot, in such manner as it shall determine in its sole discretion, round up or down the principal amount of the Bonds to be purchased or sold by any Existing Owner or Potential Owner on such Auction Date so that the aggregate principal amount of the Bonds purchased or sold by each Existing Owner or Potential Owner on such Auction

Date shall be an integral multiple of such Authorized Denomination, even if such allocation results in one or more of such Existing Owners or Potential Owners not purchasing or selling any Bonds on such Auction Date.

(d) If, as a result of the undertakings described in Section 2.05(a) above, any Potential Owner would be required to purchase less than an Authorized Denomination in principal amount of the Bonds on any Auction Date, the Auction Agent shall by lot, in such manner as it shall determine in its sole discretion, allocate the Bonds for purchase among Potential Owners so that the principal amount of the Bonds purchased on such Auction Date by any Potential Owner shall be an integral multiple of such Authorized Denomination, even if such allocation results in one or more of such Potential Owners not purchasing the Bonds on such Auction Date.

*Section 2.06. Notice of Auction Period Rate.* (a) On each Auction Date, the Auction Agent shall notify each Broker-Dealer that participated in the Auction held on such Auction Date by Electronic Means acceptable to the Auction Agent and the applicable Broker-Dealer of the following, with respect to each Series of Bonds for which an Auction was held on such Auction Date:

- (i) the Auction Period Rate determined on such Auction Date for the succeeding Auction Period;
- (ii) whether Sufficient Clearing Bids existed for the determination of the Winning Bid Rate;
- (iii) if such Broker-Dealer submitted a Bid or a Sell Order on behalf of an Existing Owner, whether such Bid or Sell Order was accepted or rejected and the number of Units of Bonds, if any, to be sold by such Existing Owner;
- (iv) if such Broker-Dealer submitted a Bid on behalf of a Potential Owner, whether such Bid was accepted or rejected and the number of Units of Bonds, if any, to be purchased by such Potential Owner;
- (v) if the aggregate number of Units of the Bonds to be sold by all Existing Owners on whose behalf such Broker-Dealer submitted Bids or Sell Orders is different from the aggregate number of Units of Bonds to be purchased by all Potential Owners on whose behalf such Broker-Dealer submitted a Bid, the name or names of one or more Broker-Dealers (and the Agent Member, if any, of each such other Broker-Dealer) and the number of Units of Bonds to be (A) purchased from one or more Existing Owners on whose behalf such other Broker-Dealers submitted Bids or Sell Orders or (B) sold to one or more Potential Owners on whose behalf such Broker-Dealer submitted Bids; and
- (vi) the amount of dividend or interest payable per Unit on each Interest Payment Date with respect to such Auction Period; and
- (vii) the immediately succeeding Auction Date.

(b) On each Auction Date, with respect to each Series of Bonds for which an Auction was held on such Auction Date, each Broker-Dealer that submitted an Order on behalf of any Existing Owner or Potential Owner shall: (i) if requested by an Existing Owner or a Potential Owner, advise such Existing Owner or Potential Owner on whose behalf such Broker-Dealer submitted an Order as to (A) the Auction Period Rate determined on such Auction Date, (B) whether any Bid or Sell Order submitted on behalf of such Owner was accepted or rejected and (C) the immediately succeeding Auction Date; (ii) instruct each Potential Owner on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, to instruct such Potential Owner's Agent Member to pay to such Broker-Dealer (or its Agent Member) through the Securities Depository the amount necessary to purchase the number of Units of Bonds to be purchased pursuant to such Bid (including, with respect to the Bonds in a daily Auction Period, accrued interest if the purchase date is not an Interest Payment Date for such Bond) against receipt of such Bonds; and (iii) instruct each Existing Owner on whose behalf such Broker-Dealer submitted a Sell Order that was accepted or a Bid that was rejected in whole or in part, to instruct such Existing Owner's Agent Member to deliver to such Broker-Dealer (or its Agent Member)

through the Securities Depository the number of Units of Bonds to be sold pursuant to such Bid or Sell Order against payment therefor.

(c) The Auction Agent shall give notice of the Auction Rate to the Corporation, Issuer and Trustee by mutually acceptable Electronic Means and the Trustee shall promptly give notice of such Auction Rate to the Securities Depository.

*Section 2.07. Index.*

(a) If for any reason on any Auction Date the Index shall not be determined as provided in Schedule I, the Index shall be the Index for the prior Business Day.

(b) The determination of the Index as provided in Schedule I and herein shall be conclusive and binding upon the Issuer, the Corporation, the Trustee, the Broker-Dealers, the Auction Agent and the Owners of the Bonds.

*Section 2.08. Miscellaneous Provisions Regarding Auctions.*

(a) In this Appendix, each reference to the purchase, sale or holding of Bonds shall refer to beneficial interests in Bonds, unless the context clearly requires otherwise.

(b) During an ARS Rate Period with respect to each Series of Bonds, the provisions of the Authorizing Document and the definitions contained therein and described in this Appendix, including without limitation the definitions of All Hold Rate, Index, Interest Payment Date, Maximum Rate, Auction Period Rate and Auction Rate, may be amended pursuant to the Authorizing Document by obtaining the consent of the owners of all affected Outstanding Bonds bearing interest at the Auction Period Rate as follows. If on the first Auction Date occurring at least 20 days after the date on which the Trustee mailed notice of such proposed amendment to the registered owners of the affected Outstanding Bonds as required by the Authorizing Document, (i) the Auction Period Rate which is determined on such date is the Winning Bid Rate or the All Hold Rate and (ii) there is delivered to the Corporation and the Trustee an opinion of Bond Counsel to the effect that such amendment shall not adversely affect the validity of the Bonds or any exemption from federal income taxation to which the interest on the Bonds would otherwise be entitled, the proposed amendment shall be deemed to have been consented to by the registered owners of all affected Outstanding Bonds bearing interest at an Auction Period Rate.

(c) If the Securities Depository notifies the Issuer that it is unwilling or unable to continue as registered owner of the Bonds or if at any time the Securities Depository shall no longer be registered or in good standing under the Securities Exchange Act of 1934, as amended, or other applicable statute or regulation and a successor to the Securities Depository is not appointed by the Issuer within 90 days after the Issuer receives notice or becomes aware of such condition, as the case may be, the Auctions shall cease and the Issuer shall execute and the Trustee shall authenticate and deliver certificates representing the Bonds. Such Bonds shall be registered in such names and Authorized Denominations as the Securities Depository, pursuant to instructions from the Agent Members or otherwise, shall instruct the Issuer and the Trustee.

During an ARS Rate Period, so long as the ownership of the Bonds is maintained in book-entry form by the Securities Depository, an Existing Owner or a beneficial owner may sell, transfer or otherwise dispose of a Bond only pursuant to a Bid or Sell Order in accordance with the Auction Procedures or to or through a Broker-Dealer, provided that (i) in the case of all transfers other than pursuant to Auctions, such Existing Owner or its Broker-Dealer or its Agent Member advises the Auction Agent of such transfer and (ii) a sale, transfer or other disposition of Bonds from a customer of a Broker-Dealer who is listed on the records of that Broker-Dealer as the holder of such Bonds to that Broker-Dealer or another customer of that Broker-Dealer shall not be deemed to be a sale, transfer or other disposition for purposes of this paragraph if such Broker-Dealer remains the Existing Owner of the Bonds so sold, transferred or disposed of immediately after such sale, transfer or disposition.

(d) Unless specifically provided otherwise in Schedule I, the Auction Agent shall continue to implement the Auction Procedures notwithstanding the occurrence of an Event of Default under the Authorizing Document.

*Section 2.09. Changes in Auction Period or Auction Date.*

(a) Changes in Auction Period.

(i) During any ARS Rate Period, the Corporation, may, from time to time on the Interest Payment Date immediately following the end of any Auction Period, change the length of the Auction Period with respect to all of the Bonds of a Series among daily, seven-days, 28-days, 35-days, three months, six months or a Flexible Auction Period in order to accommodate economic and financial factors that may affect or be relevant to the length of the Auction Period and the interest rate borne by such Bonds. The Corporation shall initiate the change in the length of the Auction Period by giving written notice to the Issuer, the Trustee, the Auction Agent, the Broker-Dealers and the Securities Depository that the Auction Period shall change if the conditions described herein are satisfied and the proposed effective date of the change, at least 10 Business Days prior to the Auction Date for such Auction Period.

(ii) Any such changed Auction Period shall be for a period of one day, seven-days, 28-days, 35-days, three months, six months or a Flexible Auction Period and shall be for all of the Bonds of such Series.

(iii) The change in length of the Auction Period shall take effect only if Sufficient Clearing Bids exist at the Auction on the Auction Date for such new Auction Period. For purposes of the Auction for such new Auction Period only, except to the extent any Existing Owner submits an Order with respect to such Bonds of any Series, each Existing Owner shall be deemed to have submitted Sell Orders with respect to all of its Bonds of such Series if the change is to a longer Auction Period and a Hold Order if the change is to a shorter Auction Period. If there are not Sufficient Clearing Bids for the first Auction Period, the Auction Rate for the new Auction Period shall be the Maximum Rate, and the Auction Period shall be a seven-day Auction Period.

(b) Changes in Auction Date. During any ARS Rate Period, the Auction Agent, at the direction of the Corporation, may specify an earlier or later Auction Date (but in no event more than five Business Days earlier or later) than the Auction Date that would otherwise be determined in accordance with the definition of "Auction Date" in order to conform with then current market practice with respect to similar securities or to accommodate economic and financial factors that may affect or be relevant to the day of the week constituting an Auction Date and the interest rate borne by the Bonds. The Auction Agent shall provide notice of the Corporation's direction to specify an earlier Auction Date for an Auction Period by means of a written notice delivered at least 45 days prior to the proposed changed Auction Date to the Trustee, the Issuer, the Corporation and the Broker-Dealers with a copy to the Securities Depository. In the event the Auction Agent is instructed to specify an earlier or later Auction Date, the days of the week on which an Auction Period begins and ends, the day of the week on which an Auction Period ends and the Interest Payment Dates relating to a such Auction Period shall be adjusted accordingly.

(c) Changes Resulting from Unscheduled Holidays. If, in the opinion of the Auction Agent and the Broker-Dealers, there is insufficient notice of an unscheduled holiday to allow the efficient implementation of the Auction Procedures set forth herein, the Auction Agent and the Broker-Dealers may, as they deem appropriate, set a different Auction Date and adjust any Interest Payment Dates and Auction Periods affected by such unscheduled holiday. In the event there is not agreement among the Broker-Dealers, the Auction Agent shall set the different Auction Date and make such adjustments as directed by the Broker-Dealer for a majority of the outstanding Units (based on the number of Units for which a Broker-Dealer is listed as the Broker-Dealer in the Existing Owner Registry maintained by the Auction Agent pursuant to Section 2.2(a) of the Auction Agreement), and, if there is not a majority so directing, the Auction Date shall be moved to the next succeeding Business Day following the scheduled Auction Date, and the Interest Payment Date and the Auction Period shall be adjusted accordingly.

**SCHEDULE I**

**to**

**AUCTION PROCEDURES**

In the event of any conflict between this Schedule I and Appendix C, this Schedule I shall prevail.



## Definitions

**"A-1' Composite Commercial Paper Rate"** means on any Auction Date (i) the interest equivalent of the 30-day rate on commercial paper placed on behalf of issuers whose corporate bonds are rated "A-1" by S&P, or the equivalent of such rating by S&P, as made available on a discount basis or otherwise by the Federal Reserve Bank of New York for the Business Day immediately preceding such date of determination; or (ii) if the Federal Reserve Bank of New York does not make available any such rate, then the arithmetic average of such rates, as quoted on a discount basis or otherwise, by the Commercial Paper Dealers, to the Auction Agent as of the close of business on the Business Day immediately preceding such date of determination; *provided* that if any Commercial Paper Dealer does not quote a commercial paper rate required to determine the "A-1" Composite Commercial Paper Rate, the "A-1" Composite Commercial Paper Rate shall be determined on the basis of such quotation or quotations furnished by the remaining Commercial Paper Dealer or Commercial Paper Dealers. For purposes of this definition, the "interest equivalent" of a rate stated on a discount basis (a "discount rate") for commercial paper of a given day's maturity shall be equal to the product of (a) 100 times (b) the quotient (rounded upwards to the next higher one-thousandth (.001) of 1%) of (x) the discount rate (expressed in decimals) divided by (y) the difference between (1) 1.00 and (2) a fraction, the numerator of which shall be the product of the discount rate (expressed in decimals) times the number of days in which such commercial paper matures and the denominator of which shall be 360.

**"All Hold Rate"** means, as of any Auction Date, 55% of the Index in effect on such Auction Date.

**"Applicable Percentage"** means on any Auction Date the percentage determined (as such percentage may be adjusted as provided below in this Schedule I) based on the lower of the prevailing credit rating on the Bonds in effect at the close of business on the Business Day immediately preceding such date, as set forth below:

### CREDIT RATINGS

MOODY'S INVESTORS SERVICE	STANDARD & POOR'S RATINGS SERVICES	APPLICABLE PERCENTAGE
"Aaa"	"AAA"	175%
"Aa3" to "Aa1"	"AA-" to "AA+"	175%
"A3" to "A1"	"A-" to "A+"	175%
"Baa3" to "Baa1"	"BBB-" to "BBB+"	200%
Below "Baa3"	Below "BBB-"	265%

*provided*, that, in the event that the Bonds are not rated by any nationally recognized rating agency, the Applicable Percentage shall be 265% and, *provided further*, that if a Payment Default shall have occurred and be continuing, the Applicable Percentage shall be 300%. For purposes of this definition, S&P's rating categories of "AAA", "AA", "A" and "BBB", and Moody's rating categories of "Aaa", "Aa", "A" and "Baa," refer to and include the respective rating categories correlative thereto if either or both of such rating agencies have changed or modified their generic rating categories or if Moody's or S&P no longer rates the Bonds and has been replaced.

**"Auction Agent"** shall initially be Deutsche Bank Trust Company Americas.

**"Auction Date"** shall include as part of the definition the first Auction Date which shall be January 4, 2008 for the Series 2007A Bonds and January 11, 2008 for the Series 2007B Bonds.

**"Auction Period"** shall include in the Six-month Auction Period either May 31 or November 30.

**"Authorized Denomination"** means \$25,000 unless another amount is specified here.

**"Authorizing Document"** means each Trust Indenture related to the Bonds and dated as of December 1, 2007, between the Issuer and the Trustee, as amended or supplemented from time to time.

**"Bonds"** means (a) the \$70,000,000 Air Quality Development Revenue Bonds, Series 2007A (Duke Energy Ohio, Inc. Project) of the State of Ohio issued by the Issuer under the related Authorizing Document (the "Series 2007A Bonds") and (b) the \$70,000,000 Air Quality Development Revenue Bonds, Series 2007B (Duke Energy Ohio, Inc. Project) of the State of Ohio issued by the Issuer under the related Authorizing Document (the "Series 2007B Bonds").

**"Broker-Dealer"** shall initially be Banc of America Securities LLC.

**"Commercial Paper Dealer"** means the Remarketing Agent or in lieu thereof, its affiliates or successors provided that any such entity is a commercial paper dealer, or any substitute commercial paper dealer selected by the Company to provide the applicable quotation or quotations.

**"Corporation"** means Duke Energy Ohio, Inc., a public utility and corporation duly organized and validly existing under the laws of the State, and its lawful successors and assigns, to the extent permitted by the Agreement.

**"Index"** means on any Auction Date with respect to Bonds in any Auction Period of 35 days or less LIBOR. The Index with respect to Bonds in any Auction Period of more than 35 days shall be the rate on United States Treasury Securities having a maturity which most closely approximates the length of the Auction Period as last published in The Wall Street Journal or such other source as may be mutually agreed upon by the Trustee and the Broker-Dealers. If either rate is unavailable, the Index shall be an index or rate agreed to by all Broker-Dealers and consented to by the Corporation. For the purpose of this definition an Auction Period of 35 days or less means a 35-day Auction Period or shorter Auction Period, i.e. a 35-day Auction Period which is extended because of a holiday would still be considered an Auction Period of 35 days or less.

**"Initial Period"** means the period from and including the date of initial delivery of the Bonds to but not including (i) January 7, 2008 for the Series 2007A Bonds and (ii) January 14, 2008 for the Series 2007B Bonds. Following an ARS Conversion Date the Initial Period shall mean the period specified as the "Initial Period" in the notice of conversion to an ARS Rate Period.

**"Initial Period Rate"** means (a) for an Initial Period commencing on the date of initial delivery of the Bonds, the rate set by the managing underwriter prior to delivery of the Bonds and (b) for an Initial Period commencing on an ARS Conversion Date the lowest rate which, in the judgment of the Broker-Dealer, is necessary to enable the Bonds to be remarketed at a price equal to the principal amount thereof, plus accrued interest, if any, on the ARS Conversion Date. Such determination shall be conclusive and binding upon the Corporation, the Issuer, the Trustee, the Auction Agent, the Bond Insurer and the Bondholders. Not later than 5:00 p.m., New York City time, on the date of determination of the Initial Period Rate, the managing underwriter or the Broker-Dealer, as the case may be, shall notify the Trustee, the Corporation and the Auction Agent of the Initial Period Rate by Electronic Means.

**"Interest Payment Date"** includes the first Interest Payment Date which shall be (i) January 7, 2008 for the Series 2007A Bonds and (ii) January 14, 2008 for the Series 2007B Bonds, and the semiannual dates referenced with respect to a Flexible Auction Period of 183 or more days shall be June 1 and December 1.

**"Issuer"** means the Ohio Air Quality Development Authority, a body politic and corporate duly organized and validly existing under the laws of the State of Ohio.

**"LIBOR"** means on any Auction Date, the offered rate (rounded up to the next highest one one-thousandth of one percent (0.001%)) for deposits in U.S. dollars for a one-month period which appears on the Telerate page 3750 at approximately 11:00 A.M., London time, on such date, or if such date is not a date on which dealings in U.S. dollars are transacted in the London interbank market then on the next preceding day on which such dealings were transacted in such market. In the event that LIBOR as defined in the preceding

sentence may not be determined on any such Auction Date, then LIBOR on any such Auction Date shall instead mean the "A-1" Composite Commercial Paper Rate.

**"Maximum Rate"** means on any Auction Date the interest rate per annum equal to the lesser of:

- (i) the Applicable Percentage of the Index on such date; and
- (ii) the Maximum Interest Rate (as defined in the Indenture);

rounded to the nearest one thousandth (.001) of 1%.

**"Person"** has the meaning given to such term in the Authorizing Document.

**"Trustee"** means Deutsche Bank National Trust Company, with a corporate trust office located in Chicago, Illinois, a national banking association duly organized and validly existing under the laws of the United States of America and duly authorized to exercise corporate trust powers until a successor Trustee shall have become such pursuant to the applicable provisions of the Indenture, and thereafter "Trustee" shall mean the successor Trustee.

#### **Adjustments in All Hold Rate and Applicable Percentage**

The Broker-Dealer shall adjust the All Hold Rate and the Applicable Percentage used in determining the Maximum Rate, if any such adjustment is necessary, in the good faith judgment of the Broker-Dealer with the written consent of the Company. In making any such adjustment, the Broker-Dealer shall take the following factors into account:

- (i) short-term taxable and tax-exempt market rates and indices of such short-term rates;
- (ii) the market supply and demand for short-term tax-exempt securities;
- (iii) yield curves for short-term and long-term tax-exempt securities or obligations having a credit rating that is comparable to the Auction Rate Bonds;
- (iv) general economic conditions; and
- (v) economic and financial factors present in the securities industry that may affect or that may be relevant to the Auction Rate Bonds.

The Broker-Dealer shall effectuate an adjustment in the All Hold Rate and the Applicable Percentage used to determine the Maximum Rate by delivering to the Company, the Trustee, the Paying Agent and the Auction Agent at least 5 days prior to the Auction Date on which the Broker-Dealer desires to effect such change a certificate authorizing the adjustment of the All Hold Rate and the Applicable Percentage used to determine the Maximum Rate, which shall be specified in such certificate.

In the event that there is more than one Broker-Dealer, the Company shall specify in writing to the Trustee, the Paying Agent and the Auction Agent which Broker-Dealer is to perform the functions specified above.

#### **Auction Procedures**

*Determination of Auction Period Rate.* The percentage of the Index in Section 2.04(c) is 75%.

**[This page left intentionally blank]**

PROPOSED FORM OF BOND COUNSEL OPINION

December \_\_, 2007

To: Banc of America Securities LLC  
New York, New York

Ohio Air Quality Development Authority  
Columbus, Ohio

Duke Energy Ohio, Inc.  
Charlotte, North Carolina

Deutsche Bank National Trust Company, as Trustee  
Chicago, Illinois

We have examined the transcript of proceedings (the "Transcript") relating to the issuance by the Ohio Air Quality Development Authority (the "Issuer") of \$70,000,000 principal amount of State of Ohio Air Quality Development Revenue Bonds, Series 2007[A/B] (Duke Energy Ohio, Inc. Project) (the "Bonds"). The Bonds are being issued for the purpose of making a loan to Duke Energy Ohio, Inc. (the "Company") to assist the Company in financing its portion of the costs of the acquisition, construction and installation of certain solid waste disposal facilities which constitute "air quality facilities" as defined in Section 3706.01 of the Ohio Revised Code. The Bonds are more particularly described in the Trust Indenture related thereto and dated as of December 1, 2007 (the "Indenture") between the Issuer and Deutsche Bank National Trust Company, as trustee (the "Trustee"). The transcript documents include an executed counterpart of the Indenture and the Loan Agreement related thereto and dated as of December 1, 2007 (the "Agreement") between the Issuer and the Company. We have also examined a copy of an executed Bond.

Based on such examination, we are of the opinion that, under the law existing on the date of this opinion:

1. The Bonds, the Indenture and the Agreement are legal, valid, binding and enforceable in accordance with their respective terms, except that the binding effect and enforceability thereof are subject to bankruptcy laws and other laws affecting creditors' rights and to the exercise of judicial discretion.

2. The Bonds constitute special obligations of the State of Ohio, and the principal of and interest and any premium (collectively, "debt service") on the Bonds are payable solely from the revenues and other moneys assigned by the Indenture to secure that payment. Those revenues and other moneys include the payments required to be made by the Company under the Agreement. The Bonds do not constitute a debt or pledge of the faith and credit of the Issuer or the State of Ohio or any political subdivision thereof, and the holders or owners thereof have no

right to have taxes levied by the General Assembly of the State of Ohio or any political subdivision of the State of Ohio for the payment of debt service.

3. The interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103(a) of the Internal Revenue Code of 1986, as amended (the "Code"), except interest on any Bond for any period during which it is held by a "substantial user" or a "related person" as those terms are used in Section 147(a) of the Code. Interest on the Bonds is an item of tax preference under Section 57 of the Code for purposes of the alternative minimum tax imposed on individuals and corporations. The interest on the Bonds, and any profit made on their sale, exchange or other disposition, are exempt from the Ohio personal income tax, the Ohio commercial activity tax, the net income base of the Ohio corporate franchise tax, and municipal and school district income taxes in Ohio. We express no opinion as to any other tax consequences regarding the Bonds.

Under the Code, interest on the Bonds may be subject to a branch profits tax imposed on certain foreign corporations doing business in the United States and to a tax imposed on excess net passive income of certain S corporations.

In giving the foregoing opinion, we have assumed and relied upon compliance with the covenants of the Issuer and the Company and the accuracy, which we have not independently verified, of the representations and certifications of the Issuer and of the Company contained in the Transcript. The accuracy of certain of those representations and certifications, and compliance by the Issuer and the Company with certain of those covenants, may be necessary for the interest on the Bonds to be and to remain excluded from gross income for federal income tax purposes. Failure to comply with certain requirements with respect to the Bonds (or with similar requirements with respect to certain bonds issued by the Issuer concurrently with the issuance of the Bonds) subsequent to the issuance of the Bonds could cause the interest on the Bonds to be included in gross income for federal income tax purposes retroactively to their date of issuance. We have also assumed for purposes of this opinion (i) the due authorization, execution and delivery by, and the binding effect upon and enforceability against, the Trustee of the Indenture and (ii) the due authorization, execution and delivery by, and the binding effect upon and enforceability against, the Company of the Agreement.

We express no opinion as to the Statement of Insurance printed on the Bonds referring to the Bond Insurance Policy (as defined in the Indenture) issued by Ambac Assurance Corporation or as to that Bond Insurance Policy referred to in that Statement.

Respectfully submitted,

**APPENDIX E**

**SPECIMEN BOND INSURANCE POLICY**

**[This page left intentionally blank]**



# Ambac

## Financial Guaranty Insurance Policy

Ambac Assurance Corporation  
One State Street Plaza, 15th Floor  
New York, New York 10004  
Telephone: (212) 668-0340

Obligor:

Policy Number:

Obligations:

Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

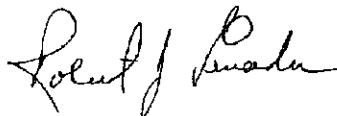
In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payments of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

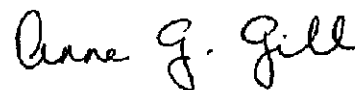
As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.



President



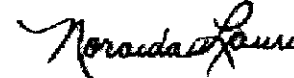
Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Form No.: 2B-0012 (1/01)



Authorized Officer of Insurance Trustee

# Ambac

Ambac Assurance Corporation  
One State Street Plaza, 15th Floor  
New York, New York 10004  
Telephone: (212) 668-0340

## Endorsement

Policy for:

Attached to and forming part of Policy No.:

Effective Date of Endorsement:

Notwithstanding the terms and provisions contained in this Policy, it is further understood that the term "Due for Payment" shall also mean, when referring to the principal of and interest on an Obligation, any date on which the Obligations shall have been duly called for mandatory redemption pursuant to Section 4.01(b) of the Trust Indenture dated as of December 1, 2007 between the Obligor and Deutsche Bank National Trust Company, as trustee, securing the Obligations (the "Indenture") upon the occurrence of a Determination of Taxability (as defined in the Indenture).

Nothing herein contained shall be held to vary, alter, waive or extend any of the terms, conditions, provisions, agreements or limitations of the above mentioned Policy other than as above stated.

In Witness Whereof, Ambac has caused this Endorsement to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

Ambac Assurance Corporation

*Robert J. Pridemore*

President



*Anne G. Gill*

Secretary

Authorized Representative

<DOCUMENT>  
 <TYPE>424B5  
 <SEQUENCE>1  
 <FILENAME>y64111e424b5.txt  
 <DESCRIPTION>DUKE ENERGY CORPORATION  
 <TEXT>  
 <PAGE>

Filed Pursuant to Rule 424(b)(5)  
 Registration No. 333-85486

PROSPECTUS SUPPLEMENT

(To Prospectus dated August 27, 2002)

54,500,000 SHARES

[DUKE ENERGY LOGO]

COMMON STOCK

Duke Energy Corporation is offering 54,500,000 shares of its common stock.

Our common stock is listed on the New York Stock Exchange under the trading symbol "DUK." On September 25, 2002, the reported last sale price of our common stock on the New York Stock Exchange was \$18.35 per share.

INVESTING IN OUR COMMON STOCK INVOLVES RISKS. SEE "RISK FACTORS" BEGINNING ON PAGE S-7 OF THIS PROSPECTUS SUPPLEMENT.

PRICE \$18.35 A SHARE

<Table>  
 <Caption>

UNDERWRITING

AND PROCEEDS TO		DISCOUNTS	
COMMISSIONS	DUKE ENERGY	PRICE TO PUBLIC	
<S>		<C>	<C>
Per Share.....		\$18.35	\$0.45875
Total.....		\$1,000,075,000	\$25,001,875
	\$975,073,125		

We have granted the underwriters the right to purchase up to an additional 8,175,000 shares to cover over-allotments.

The Securities and Exchange Commission and state securities regulators have not approved or disapproved these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the shares to purchasers on or about October 1, 2002.

BANC OF AMERICA SECURITIES LLC  
DEUTSCHE BANK SECURITIES  
GOLDMAN, SACHS & CO.  
JPMORGAN  
SALOMON SMITH BARNEY  
WACHOVIA SECURITIES

ABN AMRO ROTHSCCHILD LLC  
CIBC WORLD MARKETS  
CREDIT SUISSE FIRST BOSTON  
SCOTIA CAPITAL  
TD SECURITIES  
UBS WARBURG

September 25, 2002

<PAGE>

You should rely only on the information contained in or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not authorized anyone to provide you with information that is different. We are not making an offer to sell these securities in any jurisdiction where the offer is not permitted. You should not assume that the information provided by or incorporated by reference in this prospectus supplement or the accompanying prospectus is accurate as of any date other than the date of the document containing the information.

#### TABLE OF CONTENTS

<Table>

<Caption>

PROSPECTUS SUPPLEMENT	PAGE
<S>	<C>
About this Prospectus Supplement.....	i
Forward-Looking Statements.....	S-1
Prospectus Supplement Summary.....	S-2
Risk Factors.....	S-7
Use of Proceeds.....	S-20
Price Range of Common Stock.....	S-21
Dividends.....	S-21
Capitalization.....	S-22
Certain United States Tax Consequences to Non-United States Holders.....	S-23
Underwriting.....	S-25
Experts.....	S-27
Legal Matters.....	S-27

</Table>

<Table>

<Caption>

PROSPECTUS	PAGE
<S>	<C>
About this Prospectus.....	2
Duke Energy Corporation.....	3
Use of Proceeds.....	5
Recent Developments.....	5
The Trusts.....	6
Description of the Senior Notes.....	7
Description of the Junior Subordinated	

Notes.....	14
Description of the First and Refunding Mortgage Bonds.....	22
Description of the Common Stock.....	25
Description of the Stock Purchase Contracts and the Stock Purchase Units.....	28
Description of the Preferred Securities.....	29
Description of the Guarantees.....	29
Plan of Distribution.....	32
Experts.....	33
Validity of the Securities.....	33
Where You Can Find More Information...	34

</Table>

#### ABOUT THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first part is this prospectus supplement, which describes the specific terms of this common stock offering. The second part, the accompanying prospectus, gives more general information, some of which may not apply to this offering.

If the description of the offering varies between this prospectus supplement and the accompanying prospectus, you should rely on the information contained in or incorporated by reference into this prospectus supplement.

Unless we have indicated otherwise, or the context otherwise requires, references in this prospectus supplement and the accompanying prospectus to "Duke Energy," "we," "us" and "our" or similar terms are to Duke Energy Corporation and its subsidiaries.

i

<PAGE>

#### FORWARD-LOOKING STATEMENTS

This prospectus supplement and the accompanying prospectus contain or incorporate by reference statements that do not directly or exclusively relate to historical facts. Such statements are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. You can typically identify forward-looking statements by the use of forward-looking words, such as "may," "will," "could," "project," "believe," "anticipate," "expect," "estimate," "continue," "potential," "plan," "forecast" and the like. Those statements represent our intentions, plans, expectations, assumptions and beliefs about future events and are subject to risks, uncertainties and other factors. Many of those factors are outside our control and could cause actual results to differ materially from the results expressed or implied by those forward-looking statements. Those factors include:

- state, federal and foreign legislative and regulatory initiatives that affect cost and investment recovery, have an impact on rate structures, and affect the speed at and degree to which competition enters the electric and natural gas industries;
- the outcomes of litigation and regulatory proceedings or inquiries;
- industrial, commercial and residential growth in our service territories;
- the weather and other natural phenomena;
- the timing and extent of changes in commodity prices, interest rates and foreign currency exchange rates;

- general economic conditions;
- changes in environmental and other laws and regulations to which we and our subsidiaries are subject or other external factors over which we have no control;
- the results of financing efforts, including our ability to obtain financing on favorable terms, which can be affected by various factors, including our credit ratings and general economic conditions;
- the level of creditworthiness of counterparties to our transactions;
- the amount of collateral required to be posted from time to time in our transactions;
- growth opportunities for our business units, including the timing and success of efforts to develop domestic and international power, pipeline, gathering, processing and other infrastructure projects;
- the performance of our electric generation, pipeline and gas processing facilities;
- the extent of our success in connecting natural gas supplies to gathering and processing systems and in connecting and expanding our gas and electric markets; and
- the effect on our results of accounting principles issued periodically by accounting standard-setting bodies.

In light of these risks, uncertainties and assumptions, the forward-looking events referred to in this prospectus supplement and the accompanying prospectus might not occur or might occur to a different extent or at a different time than we have described. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

S-1

<PAGE>

#### PROSPECTUS SUPPLEMENT SUMMARY

The following is qualified in its entirety by, and should be read together with, the more detailed information, including "Risk Factors," and financial statements included or incorporated by reference in this prospectus supplement and the accompanying prospectus. Unless otherwise indicated, all of the following information assumes that the underwriters have not exercised their over-allotment option.

#### DUKE ENERGY CORPORATION

##### OVERVIEW

We are a leading integrated energy and energy services provider with the ability to offer physical delivery and management of both electricity and natural gas throughout the United States and in certain countries abroad. We own and operate one of the world's largest portfolios of generating plants, one of the nation's largest natural gas pipeline systems and an active energy trading and marketing operation. We are also the largest producer of natural gas liquids, or NGLs, in the United States. The services and products we provide are offered through the following seven business segments:

FRANCHISED ELECTRIC generates, transmits, distributes and sells electricity

in central and western North Carolina and western South Carolina. We currently operate 20,500 megawatts (MW) of generation capacity and serve over two million customers in the Carolinas. Franchised Electric conducts operations primarily through Duke Power and Nantahala Power and Light.

NATURAL GAS TRANSMISSION provides transportation, storage and distribution of natural gas for customers throughout the east coast and southern portion of the United States and Canada. Natural Gas Transmission also provides gas gathering, processing and transportation services to customers located in British Columbia, Canada and in the Pacific northwest region of the United States. Following our acquisition of Westcoast Energy, Inc. on March 14, 2002, we currently have approximately 19,000 miles of natural gas pipelines. Natural Gas Transmission does business primarily through Duke Energy Gas Transmission Corporation.

FIELD SERVICES gathers, processes, transports, markets and stores natural gas and produces, transports, markets and stores NGLs. We currently produce approximately 400 million barrels per day of natural gas liquids. Field Services conducts operations primarily through Duke Energy Field Services, LLC, which is approximately 30% owned by ConocoPhillips. Field Services operates gathering systems in western Canada and 11 contiguous states in the United States. Those systems serve major natural gas-producing regions in the Rocky Mountains, Permian Basin, Mid-Continent, East Texas-Austin Chalk-North Louisiana, and onshore and offshore Gulf Coast areas.

DUKE ENERGY NORTH AMERICA, or DENA, develops, operates and manages merchant generation facilities and engages in commodity sales and services related to natural gas and electric power. Our current merchant generation portfolio totals approximately 15,300 MW. Duke Energy North America conducts business throughout the United States and Canada through Duke Energy North America, LLC and Duke Energy Trading and Marketing, LLC. Duke Energy Trading and Marketing is approximately 40% owned by Exxon Mobil Corporation. Prior to April 1, 2002, the Duke Energy North America business segment was combined with Duke Energy Merchants Holdings, LLC to form a segment called North American Wholesale Energy. As of June 30, 2002, management combined Duke Energy Merchants Holdings with the Other Energy Services segment. Management separated Duke Energy North America for increased reporting transparency. Previous periods have been reclassified to conform to the current presentation. As of August 1, 2002, Duke Energy's North American trading and marketing functions that were in DENA and Duke Energy Merchants Holdings, including Duke Energy Trading and Marketing and the Canadian trading operations, were consolidated into one group.

INTERNATIONAL ENERGY develops, operates and manages natural gas transportation and power generation facilities and engages in energy trading and marketing of natural gas and electric power. Our current operating portfolio includes approximately 5,300 MW of power generation facilities and approximately

S-2

<PAGE>

2,200 miles of natural gas pipelines. International Energy conducts operations primarily through Duke Energy International, LLC and its activities target the Latin American, Asia-Pacific and European regions.

OTHER ENERGY SERVICES is composed of diverse energy businesses, operating primarily through Duke Energy Merchants Holdings, Duke/Fluor Daniel and Energy Delivery Services. Duke Energy Merchants Holdings engages in commodity buying and selling, and risk management and financial services in the energy commodity markets other than natural gas and power (such as refined products, liquefied petroleum gas, residual fuels, crude oil and coal). Duke/Fluor Daniel provides comprehensive engineering, procurement, construction, commissioning and operating plant services for fossil-fueled electric power generating facilities worldwide. It is a 50/50 partnership between Duke Energy and Fluor Enterprises, Inc., a wholly owned subsidiary of Fluor Corporation. Energy Delivery Services

DUK Equity 9\_2002.txt

is an engineering, construction, maintenance and technical services firm specializing in electric transmission and distribution lines and substation projects. It was formed in the second quarter of 2002 from the power delivery services component of Duke Engineering & Services, Inc. This unit was excluded from the sale of Duke Engineering & Services on April 30, 2002. Other Energy Services also retained the portion of DukeSolutions, Inc. that was not sold on May 1, 2002. Duke Engineering & Services and DukeSolutions were included in Other Energy Services through the date of their sale.

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

#### BUSINESS STRATEGY

Our strategy is to develop, operate and actively manage integrated energy businesses in targeted regions where our extensive capabilities in developing energy assets, operating electric power, natural gas and NGL facilities, optimizing commercial operations and managing risk can provide comprehensive energy solutions for our customers and create value for our shareholders. The key elements of our strategy include:

**DELIVER ENERGY AND ENERGY-RELATED PRODUCTS AND SERVICES TO CUSTOMERS WORLDWIDE.** In North America, we own and operate natural gas pipeline infrastructure, regulated and merchant power generation facilities, and natural gas gathering and processing facilities. We also market and trade a variety of energy commodities, including natural gas, power, NGLs and refined products. We provide structured origination and risk management expertise to customers across the energy spectrum. Internationally, we own and operate integrated electric and natural gas businesses in markets such as Latin America, Asia Pacific and Europe, where deregulation, privatization and liberalization are opening energy markets to competition.

**ACTIVELY MANAGE OUR ASSET PORTFOLIO.** We utilize a portfolio management strategy, rather than focusing on stand-alone projects or assets, that strives to capture the greatest value by seeking opportunities to invest in energy assets in markets that have capacity needs and to divest other assets when significant value can be realized. This strategy enables us to monetize certain assets and maintain financial flexibility to pursue other attractive opportunities. Additionally, this strategy prevents the institutionalized ownership of any asset by encouraging us to continually optimize our asset portfolio.

**MITIGATE EXPOSURE THROUGH DISCIPLINED RISK MANAGEMENT POLICIES.** Through our enterprise risk management group, we actively manage the risks that our business segments face. We believe managing risk at the corporate level is consistent with the portfolio approach we use with our assets. Our risk management policies are designed to help determine lines of business offering attractive risk returns, assess current and future risk/return characteristics of the enterprise and recommend appropriate strategic modifications. We actively manage our commodity, interest rate, foreign currency and credit risks through

S-3

<PAGE>

established policies that limit our exposure and require daily reporting to management of potential financial exposure. Our risk management policies are



designed to mitigate our downside exposures while complementing the operations of each of our business segments.

#### RECENT DEVELOPMENTS

On September 20, 2002, Duke Energy announced a reduction in earnings estimates for 2002. We currently estimate earnings for 2002 to be \$1.95 to \$2.05 per share, before the effect of the one-time charges discussed below. This reduction in estimated earnings was driven primarily by the severely weakened merchant energy markets served by DENA. We estimate that ongoing earnings for the second half of 2002 will most likely be split approximately 60% for the third quarter and approximately 40% for the fourth quarter.

We also announced that we have reduced our capital expenditure plans in response to prevailing market conditions in order to maintain financial flexibility. While capital spending of between \$6 billion and \$8 billion was initially expected for 2002, we have determined that our capital expenditure plans for the year will be \$6.2 billion, excluding the acquisition of Westcoast Energy. Capital spending for the year 2003 has also been reduced to a planned \$3.5 billion, all of which the Company intends to fund through internal cash flow, after dividend payments, and including limited asset sales.

We also announced our decision to defer construction of three DENA natural gas-fueled generating facilities slated for commercial operation in 2003 in response to the current conditions in the wholesale energy market in the Western United States. The deferrals will remain in place until market conditions and demand for additional generation in the region improves. The facilities include the Grays Harbor Facility in Grays Harbor County, Washington, the Deming Energy Facility in Luna County, New Mexico and the Moapa Energy Facility in Clark County, Nevada. However, we will continue construction activities of the Fayette Energy Facility in Fayette County, Pennsylvania and the Hanging Rock Energy Facility in Lawrence County, Ohio.

In addition, we will be negotiating new terms for the purchase of turbines and associated equipment from General Electric. This renegotiation, along with the construction deferrals and the write-off of associated demobilization costs and certain site development costs, could result in a one-time charge in the range of \$250 to \$300 million to be taken against Duke Energy's earnings for the third quarter 2002.

S-4

<PAGE>

#### THE OFFERING

Common stock offered.....	54,500,000 shares
Common stock to be outstanding after this offering.....	888,884,877 shares
Use of proceeds.....	Repayment of indebtedness incurred in connection with our acquisition of Westcoast.
New York Stock Exchange symbol.....	"DUK"

The number of shares of common stock offered and to be outstanding after this offering does not include 8,175,000 shares of common stock that the underwriters have an option to purchase from us within 30 days of the date of this prospectus supplement to cover over-allotments.

The number of shares of common stock to be outstanding after this offering is based on 834,384,877 shares outstanding as of August 31, 2002.

<PAGE>

SUMMARY CONSOLIDATED FINANCIAL INFORMATION

The summary consolidated financial information set forth below should be read in conjunction with our consolidated financial statements and the related notes and other financial and operating data incorporated by reference in this prospectus supplement and the accompanying prospectus.

<Table>

<Caption>

	SIX MONTHS ENDED JUNE 30,		YEARS ENDED DECEMBER 31,	
	2002	2001	2001	2000(1)
1999(2)				
	(IN MILLIONS, EXCEPT PER SHARE			
DATA)				
<S>	<C>	<C>	<C>	<C>
<C>				
CONSOLIDATED STATEMENTS OF INCOME DATA:				
Operating revenues.....	\$28,218	\$32,071	\$59,503	\$49,318
\$21,766				
Earnings before interest and taxes.....	1,808	2,156	4,256	4,014
2,043				
Earnings available for common				
stockholders.....	849	869	1,884(3)	1,757
1,487(4)				
weighted-average common shares				
outstanding(5).....	809	759	767	736
729				
Earnings per common share (before				
extraordinary item and cumulative				
effect of change in accounting				
principle)(5)				
Basic.....	\$ 1.05	\$ 1.27	\$ 2.58	\$ 2.39
\$ 1.13				
Diluted.....	1.04	1.26	2.56	2.38
1.13				
Earnings per common share(5)				
Basic.....	\$ 1.05	\$ 1.14	\$ 2.45(3)	\$ 2.39
\$ 2.04(4)				
Diluted.....	1.04	1.13	2.44(3)	2.38
2.03(4)				
Dividends per common share(5).....	0.825	0.825	1.10	1.10
1.10				

</Table>

<Table>

<Caption>

	AS OF JUNE 30,	AS OF DECEMBER
	2002	2001
31,		
	(IN MILLIONS)	
<S>	<C>	<C>

# DUK Equity 9\_2002.txt

## CONSOLIDATED BALANCE SHEET DATA:

Total assets.....	\$65,192	\$48,375
Short-term debt, including commercial paper.....	2,673	1,603
Long-term debt, including current maturities.....	19,337	12,582
Guaranteed preferred beneficial interests in subordinated notes of Duke Energy or subsidiaries.....	1,407	1,407
Minority interests.....	2,996	2,246
Preferred and preference stock, including current sinking fund obligations.....	247	247
Common stockholders' equity.....	14,887	12,689

- </Table>
- 
- (1) Reflects a pre-tax \$407 million gain on the sale of our investment in BellSouth PCS. The effect per basic share of common stock of this gain was \$0.34.
  - (2) Reflects a pre-tax \$800 million charge for estimated injury and damages claims. The effect per basic share of common stock of this charge was \$0.67.
  - (3) Reflects a net-of-tax cumulative effect adjustment of \$96 million, or \$0.13 per basic share of common stock, as a reduction in earnings in accordance with our adoption of Statement of Financial Accounting Standards No. 133.
  - (4) Reflects a one-time after-tax extraordinary gain of approximately \$660 million, or \$0.91 per basic share of common stock, attributable to the sale of certain pipeline operations on March 29, 1999.
  - (5) Years ended December 31, 1999 and 2000 have been restated to reflect the two-for-one common stock split effective January 26, 2001.

S-6

<PAGE>

## RISK FACTORS

Before purchasing our common stock, you should carefully consider the following risk factors as well as the other information contained in this prospectus supplement, the accompanying prospectus and the information incorporated by reference in order to evaluate an investment in our common stock.

### RISKS RELATED TO THE MARKET CYCLE OF OUR INDUSTRY

OUR SALES AND RESULTS OF OPERATIONS MAY BE NEGATIVELY AFFECTED BY SUSTAINED LOW LEVELS IN THE MARKET PRICES OF COMMODITIES THAT ARE BEYOND OUR CONTROL.

We sell power from our generation facilities into the spot market or other competitive power markets on a contractual basis. We also enter into contracts to purchase and sell electricity, natural gas and NGLs as part of our power marketing and energy trading operations. With respect to such transactions, we are not guaranteed any rate of return on our capital investments through mandated rates, and our revenues and results of operations are likely to depend, in large part, upon prevailing market prices for power in our regional markets and other competitive markets. These market prices may fluctuate substantially over relatively short periods of time. It is reasonable to expect that trading margins will erode as new entrants enter the market, thus leading to an oversupply in the market, and that there may be diminished opportunities for gain should low prices decline further. These factors could reduce our revenues and margins and therefore diminish our results of operations.

Low market prices for electricity, natural gas and NGLs result from

multiple factors, including:

- weather conditions;
- seasonality;
- supply of and demand for energy commodities;
- illiquid markets;
- general economic conditions, including downturns in the U.S. or other economies which impacts consumption;
- transmission or transportation constraints or inefficiencies;
- availability of competitively priced alternative energy sources;
- natural gas, crude oil, refined products and coal production levels;
- electric generation capacity;
- capacity and transmission service into, or out of, our markets;
- natural disasters, wars, embargoes and other catastrophic events; and
- federal, state and foreign energy and environmental regulation and legislation.

RECENT DEVELOPMENTS AFFECTING THE WHOLESALE POWER AND ENERGY TRADING MARKETS HAVE REDUCED MARKET ACTIVITY AND LIQUIDITY AND MAY CONTINUE TO ADVERSELY AFFECT OUR RESULTS OF OPERATIONS.

As a result of the energy crisis in California during the summer of 2001, the recent decline of natural gas prices in North America, the filing of bankruptcy by Enron Corporation, and investigations by governmental authorities into energy trading activities and increased litigation related to such inquiries, companies generally in the regulated and unregulated utility businesses have been impacted negatively. In addition, certain participants have been forced to exit from the energy trading markets, leading to a reduction in the number of trading partners and lower trading revenues. Recent short term, depressed spot and forward wholesale power prices during the past summer months have resulted in substantially reduced revenues in our merchant energy business and may continue to affect our earnings.

S-7

<PAGE>

WE MAY NOT BE ABLE TO SUCCESSFULLY MANAGE THE RISKS ASSOCIATED WITH SELLING AND MARKETING PRODUCTS IN THE WHOLESALE POWER MARKETS.

We purchase and sell power at the wholesale level under the Federal Energy Regulatory Commission's, or FERC's, market-based tariffs throughout the United States and also enter into short-term agreements to market available energy and capacity from our generation assets with the expectation of profiting from market price fluctuations. If we are unable to deliver firm capacity and energy under these agreements, then we could be required to pay damages. These damages would be based on the difference between the market price to acquire replacement capacity or energy and the contract price of the undelivered capacity or energy. Depending on price volatility in the wholesale energy markets, such damages could be significant.

In the absence or upon expiration of power sales agreements, we must sell all or a portion of the energy, capacity and other products from our facilities

DUK Equity 9\_2002.txt

into the competitive wholesale power markets. Unlike most other commodities, electricity cannot be stored and must be produced concurrently with its use. As a result, the wholesale power markets are subject to significant price fluctuations over relatively short periods of time and can be unpredictable. In addition, the price we can obtain for power sales may not change at the same rate as changes in fuel costs. Given the volatility and potential for material differences between actual power prices and fuel costs, if we are unable to secure long-term purchase agreements for our power generation facilities, our revenues would be subject to increased volatility and our financial results may be materially adversely affected.

#### OUR RISK MANAGEMENT PROCEDURES MAY NOT PREVENT LOSSES.

We actively manage the commodity price risk inherent in our energy, debt and foreign currency positions. Although we have sophisticated risk management systems in place that use advanced methodologies to quantify risk, these systems may not always be followed or may not always work as planned. If prices significantly deviate from historic prices, our risk management systems may not protect us from significant losses. Adverse changes in energy prices, interest rates and foreign currency exchange rates may result in economic losses in our earnings and cash flows and our balance sheet under applicable accounting rules. Although we devote a considerable amount of management effort to our trading, marketing and risk management systems, their effectiveness remains uncertain.

#### OUR HEDGING PROCEDURES MAY NOT PROTECT OUR SALES AND NET INCOME FROM VOLATILITY.

To lower our financial exposure related to commodity price fluctuations, our marketing, trading and risk management operations routinely enter into contracts to hedge the value of our assets and operations. As part of this strategy, we routinely utilize fixed-price, forward, physical purchase and sales contracts, futures, financial swaps and option contracts traded in the over-the-counter markets or on exchanges. However, we do not always cover the entire exposure of our assets or our positions to market price volatility and the coverage will vary over time. To the extent we have unhedged positions or our hedging procedures do not work as planned, fluctuating commodity prices could cause our sales and net income to be volatile.

#### WE ARE EXPOSED TO MARKET RISK AND MAY INCUR LOSSES FROM OUR MARKETING AND TRADING OPERATIONS.

Our trading portfolios consist of contracts to buy and sell commodities, including contracts for electricity, natural gas, NGLs and other commodities that are settled by the delivery of the commodity or cash. If the values of these contracts change in a direction or manner that we do not anticipate, we could realize material losses from our trading activities.

In the past, certain marketing and trading companies have experienced severe financial problems due to price volatility in the energy commodity markets. In certain instances this volatility has caused companies to be unable to deliver power that they had guaranteed under contract. These defaults severely and adversely impacted the financial condition of these companies and, in some cases, have resulted in losses to their trading partners.

S-8

<PAGE>

We have marketing and trading operations which target the U.S., Canada and Latin American, Asia-Pacific and European regions. We incur similar trading risks and market exposures in these foreign markets. If our trading volumes in these regions increase, we will be exposed to increased market risks.

#### OUR PROFITABILITY MAY DECLINE IF THE COUNTERPARTIES TO OUR TRANSACTIONS

FAIL TO PERFORM IN ACCORDANCE WITH OUR AGREEMENTS WITH THEM.

Our marketing, trading and risk management operations are exposed to the risk that counterparties to our transactions will not perform their obligations. Should the counterparties to these arrangements fail to perform, we might be forced to acquire alternative hedging arrangements, honor the underlying commitment at then-current market prices or return a significant portion of the consideration received for unused electricity or gas under a long-term contract. In such event, we might incur additional losses to the extent of amounts, if any, already paid to, or received from, counterparties. In addition, in our marketing and trading activities, we often extend credit to our trading counterparties. Despite performing credit analysis prior to extending credit, we are exposed to the risk that we may not be able to collect amounts owed to us. If the counterparty to such a financing transaction fails to perform and any collateral we have secured is inadequate, we will lose money.

In 2000 and 2001, tight supply and increased demand resulted in higher wholesale power prices to utilities, particularly in California. At the same time, two of the three major utilities in California operated under a retail rate freeze. As a result, there has been significant under-recovery of costs by these utilities, resulting in the filing by one utility under Chapter 11 of the U.S. Bankruptcy Code. Some utilities have suspended payments to their creditors. If any industry participants are adversely affected by the situation in California or other similar situations that may develop in the future in other markets, such participants may default on obligations to us, which would affect the profitability of our marketing and trading business.

COMPETITION IN THE WHOLESALE POWER AND ENERGY TRADING MARKETS MAY ADVERSELY AFFECT THE GROWTH AND PROFITABILITY OF OUR BUSINESS.

While companies in the regulated and unregulated utility business have been universally negatively affected by recent events in the energy markets, it is possible that in the future we may be vulnerable to competition from new competitors that have greater financial resources than we do, seeking attractive opportunities to acquire or develop energy assets or energy trading operations both in the United States and abroad. These new competitors may include sophisticated financial institutions, some of which are already entering the energy trading and marketing sector, and international energy players. This competition may adversely affect our ability to make investments or acquisitions.

We may not be able to respond in a timely or effective manner to the many changes intended to increase competition in the electricity industry. To the extent competitive pressures increase and the pricing and sale of electricity assumes more characteristics of a commodity business, the economics of our business may come under long-term pressure.

In addition, regulatory changes have also been proposed to increase access to electricity transmission grids by utility and non-utility purchasers and sellers of electricity. We believe that these changes could continue the disaggregation of many vertically-integrated utilities into separate generation, transmission, distribution and retail businesses. As a result, a significant number of additional competitors could become active in the wholesale power generation segment of our industry.

Although demand for electricity is generally increasing throughout the United States, the rate of construction and development of new, more efficient electric generation facilities may exceed increases in demand in some regional electric markets and have an adverse impact on our results of operations. Also, industry restructuring in regions in which we have substantial operations could affect our operations in a manner that is difficult to predict.

<PAGE>

OUR OPERATING RESULTS MAY FLUCTUATE ON A SEASONAL AND QUARTERLY BASIS.

Electric power generation and gas transmission are generally seasonal businesses. In many parts of the country, demand for power peaks during the hot summer months, with market prices also peaking at that time. In other areas, demand for power peaks during the winter. In addition, demand for gas and other fuels peaks during the winter, especially for our westcoast business in Canada. As a result, our overall operating results in the future may fluctuate substantially on a seasonal basis. The pattern of this fluctuation may change depending on the nature and location of our facilities and pipeline systems and the terms of power sale contracts and gas transmission arrangements we enter into.

RISKS RELATED TO LEGAL PROCEEDINGS AND REGULATORY INVESTIGATIONS

WE MAY BE ADVERSELY AFFECTED BY LEGAL PROCEEDINGS ARISING OUT OF THE ELECTRICITY SUPPLY SITUATION IN CALIFORNIA AND OTHER WESTERN STATES.

Litigation arising out of the California electricity supply situation has been filed with the FERC and in California courts against sellers of energy to the California Independent System Operator. The plaintiffs and intervenors in these proceedings allege abuse of market power, manipulation of market prices, unfair trade practices and violations of state antitrust laws, among other things, and seek price caps on wholesale sales in California and other western power markets, refunds of excess profits allegedly earned on these sales, and other relief, including treble damages and attorneys' fees. Duke Energy and some of its subsidiaries have been named as defendants, among other corporate and individual defendants, in one or more of a total of 14 lawsuits brought by or on behalf of electricity purchasers in California, with one suit filed on behalf of a Washington State electricity purchaser. In addition to lawsuits, several investigations and regulatory proceedings at the state and federal levels are looking into the causes of high wholesale electricity prices in the western U.S. An investigation by the California Public Utilities Commission recently alleged that we were among five energy companies that withheld electricity from their California plants, resulting in sharp increases in California electricity prices. We cannot predict the outcome of any such proceedings or whether the ultimate impact on us of the electricity supply situation in California and other western states will be material.

WE MAY BE ADVERSELY AFFECTED BY REGULATORY INVESTIGATIONS AND ANY RELATED LEGAL PROCEEDINGS RELATED TO THE CONDUCTING OF ANY "ROUNDRIP" TRADES BY OUR ENERGY TRADING BUSINESS.

Public and regulatory scrutiny of the energy industry and of the capital markets has resulted in increased regulation being either proposed or implemented. In particular, the activities of Enron Corporation and other energy traders in allegedly using "roundtrip" trades which involve the prearrangement of simultaneously executed and offsetting buy and sell trades for the purpose of increasing reported revenues or trading volumes, or influencing prices and which lack a legitimate business purpose, has resulted in increased public and regulatory scrutiny. To date, we have responded to requests for information from the FERC, related to an investigation of natural gas transactions in the western U.S. and Texas markets during the years 2000 and 2001, and the Securities and Exchange Commission, or SEC, related to an investigation of "roundtrip" energy transactions from January 1999 to the present. We also have received and are responding to subpoenas and supplemental requests for information regarding gas and power trading activities from the Houston office of the U.S. Attorney relating to a Houston grand jury inquiry, which involve the same issues and time period covered by the SEC requests, and from the Commodity Futures Trading Commission.

Such inquiries are ongoing and continue to adversely affect the energy trading business as a whole. We may see these adverse effects continue as a result of the uncertainty of these ongoing inquiries or additional inquiries by other federal or state regulatory agencies. In addition, we cannot predict the outcome of any of these inquiries, including the grand jury inquiry, or whether these inquiries will lead to additional legal proceedings against us, civil or criminal fines or penalties, or other regulatory action, including legislation, which may be materially adverse to the operation of our trading business and our trading revenues and net income or increase our operating costs in other ways.

S-10

<PAGE>

Also, several class action lawsuits have been filed against us, and others may be filed, claiming that investors suffered damages as a result of the alleged roundtrip trades inflating our revenue and earnings. Such lawsuits could lead to settlements, civil damages or other litigation costs that could be adverse to our business.

#### RISKS RELATED TO THE REGULATION OF OUR BUSINESSES

##### ELECTRIC

OUR BUSINESSES IN NORTH AMERICA ARE SUBJECT TO COMPLEX GOVERNMENT REGULATIONS. THE ECONOMICS, INCLUDING THE COSTS, OF OPERATING OUR GENERATING FACILITIES MAY BE ADVERSELY AFFECTED BY CHANGES IN THESE REGULATIONS OR IN THEIR INTERPRETATION OR IMPLEMENTATION.

The regulatory environment applicable to the electric power industry has recently undergone substantial changes, both on a federal and a state level, which have had a significant impact on the nature of the industry and the manner in which its participants conduct their businesses. These changes are ongoing and we cannot predict the future course of changes in this regulatory environment or the ultimate effect that this changing regulatory environment will have on our business.

We are subject to regulation by the SEC under the Public Utility Holding Company Act, or PUHCA, and the Federal Power Act, or FPA, which regulate public utility holding companies and their subsidiaries and place certain constraints on the conduct of their business. The rates charged by our domestic utility subsidiaries are approved by the FERC, the North Carolina Utilities Commission, or the NCUC, and the South Carolina Public Service Commission, or the SCPSC. The NCUC and the SCPSC regulate many aspects of our utility operations including siting and construction of facilities, customer service and the rates that we can charge customers. The FERC regulates wholesale electricity operations and transmission rates and the state commissions regulate retail generation and distribution rates. The Public Utility Regulatory Policies Act of 1978, or PURPA, provides qualifying facilities with exemptions from some federal and state laws and regulations, including PUHCA and most provisions of the FPA. The Energy Policy Act of 1992, or the Energy Act, also provides relief from regulation under PUHCA to "exempt wholesale generators." Maintaining the status of our facilities as qualifying facilities or exempt wholesale generators is conditioned on those facilities continuing to meet statutory criteria. Under current law, we are not and will not be subject to regulation as a registered holding company under PUHCA as long as the domestic power plants we own are qualifying facilities under PURPA or are exempt wholesale generators. If we were subject to these regulations, the economics and operations of our generating facilities could be negatively affected by the increased costs associated with upgrading our facilities and taking other actions to comply with these regulations. While we are currently exempt from registration under PUHCA, we may lose that exemption if we fail to comply with our exemptive order from the SEC. If we were to lose our exemption, we would have the alternatives of registering as a holding company which would subject us to more extensive regulation, or