Large Filing Separator Sheet

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Other Comprehensive Income Accounting Procedures

Applicability: Applies to Enterprise
Originator: Director, Benefits & Allocations
Approval: General Manager, Corporate Accounting

Effective Date: 12/31/2003
Revision Date: 03/01/2007
Reissue Date: 03/01/2007

Statement of Purpose and Philosophy:

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

Expectations:

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

Proper application of this procedure will reduce the dependence on off-system data collection.

Accountability: Roles and Responsibilities

Corporate Accounting Department

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

Business Unit Accounting; Business/Corporate Management

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

Attachment A

Account #	Description	Book Taxes Here?	Notes
0216101	Foreign Currency Translation	No	

0216111	For Curr Trans-Tax Effect	Yes	In case future guidance requires foreign currency to be tax-effected
0216112	FX-Net Investment Hedge	No	All current year and prior period activity
0216113	FX- Tax Effect - Net Inv Hedge	Yes	All tax-effects for Net Investment Hedges
0219001	Other Comprehensive Income (OCI)	No	To be used by BU's that need to record miscellaneous OCI such as Grantor / Rabbi trust activity
0211017	Tax effect - Other Comprehensive Income (OCI)	Yes	Tax-effects for miscellaneous OCI activities
0219002	OCI- Commodity Hedges	No	All current year and prior period activity
0219003	OCI-Interest Rate Hedges	No	All current year and prior period activity
0219004	OCI-Tax Effect-Commodity	Yes	Tax-effects for commodity hedges, including cash hedges
0219005	OCI-Tax Effect-Interest Rate	Yes	Tax-effects for interest rate hedges, including cash hedges
0219008	OCI-Minimum Pension Liability	No	
0219009	OCI-Available for Sale Securities	No	
0219010	OCI-Tax Effect-Pension	Yes	All tax-effects for Pension Liability
0219011	OCI-Tax Effect-Available Securities	Yes	All tax-effects for Avail. for Sale Securities
0219012	OCI-Cash Commodity Hedges	No	Settled commodity hedge transactions remaining in OCI
0219013	OCI-Cash Interest Rate Hedges	No	Settled interest rate transactions remaining in OCI
0219100	OCI-FAS 87 Prior Svc Cost	No	Pension - FAS158 transition
0219014	OCI-FAS 87 Prior Svc Cost Tax effect	Yes	Pension - FAS158 transition – taxes
0219101	OCI-FAS 87 Actuarial gain/loss	No	Pension - FAS158 transition
0219015	OCI-Tax effect - FAS 87 Actuarial gain/loss	Yes	Pension - FAS158 transition – taxes

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

NOTES:

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

Preparing and Reviewing Financial Schedules, Statements, or Reports

Applicability:	Applies to Enterprise
Originator:	Corporate Controller
Approval:	Corporate Controller
Effective Date:	03/31/2004
Revision Date:	02/01/2008
Reissue Date:	02/01/2008

Purpose

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

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

Terms

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

Expectations

All Business Units/Corporate Areas must comply with this Policy, including areas outside the Finance Function.

Information Prepared Outside the Finance Function

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

Information Prepared Within Finance Function

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

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

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

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

- **Preparer** - This individual accurately prepares the document and has the appropriate understanding of why the document is required. Documents and workpapers are to be appropriately referenced (see *Attachment A – Recommended Guidelines for Preparation of Schedules, Statements, and Reports* for workpaper referencing guidelines). The Preparer signs/initials and dates the document or separate page.
- **Reviewer** - This individual is expected to have the appropriate technical or functional expertise to perform the review responsibilities. The Reviewer is responsible for understanding and verifying the document/workpapers, including checking calculations. The Reviewer also ensures that source material is adequate. The Reviewer provides an overall verification for accuracy, consistency and support for the document/workpapers. The Reviewer determines if another level of review or approval is needed, based on the nature/complexity of the document being reviewed. Once the review is complete, the Reviewer signs/initials and dates to confirm the document/workpapers were reviewed. (See *Attachment B – Tips for Checking Numeric Data or Calculations, Attachment C – Tips for Proofing Text*, and *Attachment D – Proofreaders' Marks* for review guidelines.)

Reporting Overrides

An override represents any failure to comply with the requirements of this Policy. Overrides must be reported to Internal Controls, Corporate Controller's Department on the first business day of the month following the occurrence of the override. See *Attachment E – Prepare/Review Override Report for Schedules, Statements, or Reports* for the form to use to report overrides.

Requesting an Exception to this Policy

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

Accountability: Roles and Responsibilities

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

- Comply with the requirements of this Policy

Business Unit/Corporate Area Management:

- Ensure the appropriate individuals in their respective Business Unit/Corporate Area are aware of and comply with the requirements of this Policy.
- Report Policy overrides to Internal Controls, Corporate Controller's Department.
- Send requests for exceptions to this Policy to Internal Controls, Corporate Controller's Department.

Corporate Controller's Department:

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

Property/Business Interruption Reserve Eliminations in Consolidation

Applicability:	Applies to Enterprise
Originator:	Corp. Controller's Dept. - Corporate Accounting
Approval:	Corporate Controller
Effective Date:	12/31/2004
Revision Date:	03/31/2008
Reissue Date:	03/31/2008

Statement of Purpose and Philosophy

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

Policy Expectations and Scope

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

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

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

Materiality

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

Accountability: Roles and Responsibilities

Corporate Controller's Department

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

Business/Corporate Unit Management

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

Background

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

Bison Insurance Company Limited (Bison)

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

NorthSouth Insurance Company Limited (NorthSouth)

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

As these Captives primarily provide insurance coverage to Duke Affiliates, it is necessary to eliminate all intercompany transactions and balances between the Captive and the Duke Business Units. In addition, there are some transactions recorded by the Captive that will not be recorded by the Business Unit that also have to be removed in consolidation to the extent they do not represent valid reserves to the consolidated financial statements. There are two types of reserves recorded by the Captives, both of which meet the definition of Statement of Financial Accounting Standards

("SFAS") No. 5; "Accounting for Contingencies" (see related Policy, Accounting for Loss Contingencies) however, for insurance management purposes there is a distinction.

Incurred But Not Reported Reserve (IBNR)

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

Outstanding Loss Reserves (OSLR)

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

Procedural Details

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

The following procedures will be performed on a monthly basis:
Step #1

Increase in the Captives IBNR for losses incurred during the month

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

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

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

Step #2

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

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

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

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

Step #3

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

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

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

The source of the amount to reclass will be a Business Object Query Report run by the intercompany receivable accounts (0146960 - A/R Non Prop/Non-BI Interco and 0146990 - A/R Prop/BI Interco) as well as a detail of payments made provided by the Captives. The change in the intercompany receivable account will be analyzed to identify any cash payments received by the

Business Unit from the Captive. While analyzing the change in the receivable account, if a non-cash adjustment of the receivable is noted, the Captive will adjust its intercompany payable and loss expense accordingly. Receipts of cash will be identified by a label of "c" noted in the claim description field (see related Policy titled, "Accounting for Claims between Captive Insurer and Affiliates").

Step #4

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

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

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

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

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

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

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

a. Business Unit Involuntary Conversion Gain

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

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

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

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

(a) Business Unit Involuntary Conversion Gain

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

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

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

Step #5

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

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

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

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

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

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

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

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

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

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

Equals: Adjustment to Losses Payable (OSLR)

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

Equals: Adjustment to Operating Expense

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

A/C #		Dr	Cr
0253935	Loss Reserve (OSLR)	xxx	
0426510	Loss Expense	xxx	
0186984	Reinsurance Receivable		xxx

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

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

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

Entry Required in Consolidation:

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

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

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

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

Statement of Purpose and Philosophy

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

Policy Expectations

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

Accountability: Roles and Responsibilities

Overall

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

Corporate Controller department

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

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

Business Unit Controller

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

Duke Energy

Duke Energy Policy Statement

Revenue and Accounts Receivable Policy

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

Approval Date: 08/31/00
Revision Date:

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

Roles and Responsibilities-

Business/Corporate Unit-

Sales and Accounts Receivable

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

Guidelines-

- Persons responsible for billing transactions should not have access to cash receipts or collection records. When these duties cannot be separated, additional management review of transactions should be implemented.
- An accounts receivable aging schedule should be prepared and reviewed.
- Collection efforts for overdue accounts receivable should be undertaken by persons independent of the department originating the sale.

Cash Receipts

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

Guidelines-

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

Refunds and account balance transfers should ha have management authorization.

Revenue Recognition

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

Effective Date: 12/01/2004
Revision Date: 12/17/2007
Reissue Date: 12/17/2007

Statement of Purpose and Philosophy

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

Policy Expectations and Scope

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

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

Materiality

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

Accountability: Roles and Responsibilities

Corporate Controller's Department -

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

Business/Corporate Unit -

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

Standards/Requirements

This section contains discussion of the following topics:

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

Background

Generally, the determination of when to recognize revenue involves a considerable amount of professional judgment based upon certain guiding principles, and in certain instances, specific authoritative literature. In Staff Accounting Bulletin ("SAB") Topic 13, "Revenue Recognition," the Securities and Exchange Commission ("SEC") Staff explained that the accounting literature on revenue recognition includes both broad conceptual discussions as well as certain industry-specific guidance. As with SAB Topic 13, the policy contained herein focuses on the general guiding principles in existing authoritative literature as well as the broad revenue recognition criteria specified in the FASB's conceptual framework. This policy also discusses revenue recognition for certain specific transactions that are common to Duke Energy, as well as the general reporting and disclosure requirements related to revenue recognition.

Supporting Guidance

[NOTE – Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements" ("SFAS No. 157"), has an effective date of January 1, 2008. SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurement. SFAS No. 157 could impact the area of revenue recognition any time fair value is required to be used (e.g., for trading and marketing revenues when the mark-to-market method of accounting is applied, as discussed under the "Trading and marketing revenues" section below). This policy does not address the specific mechanics that are required when calculating fair value, and therefore this policy is not intended to address any specific implications that SFAS No. 157 might have on the recognition of revenues.]

The SEC Staff issued SAB No. 101, "Revenue Recognition in Financial Statements" ("SAB No. 101"), in 1999. In SAB No. 101, the SEC Staff provided the basic guiding principles of revenue recognition based upon their interpretation of Statement of Financial Accounting Concepts ("SFAC") No. 5, "Recognition and Measurement in Financial Statements of Business Enterprises" ("SFAC No. 5"), paragraphs 83 and 84. In December 2003, the SEC Staff amended SAB No. 101 with the issuance of SAB No. 104, "Revenue Recognition", which added the consensus guidance contained in the FASB's Emerging Issues Task Force ("EITF") Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables" ("EITF Issue 00-21"), regarding revenue recognition for multiple-element revenue arrangements (a "multiple-element" arrangement represents an arrangement that involves multiple revenue-generating activities or multiple deliverables – Exhibit B to EITF Issue 00-21 contains a number of examples of how and when to recognize revenue for multiple-element arrangements). In this policy, the SEC Staff also issued a Frequently Asked Questions ("FAQ") document along with SAB No. 101 to give registrants additional interpretive guidance. It is now, as a result of the issuance of SAB No. 104, incorporated within SAB Topic 13 (codification of SAB No. 101).

The basic guiding principles of revenue recognition are that revenue is to be recognized when it is both realized or realizable and earned. SAB Topic 13 states (footnote references omitted):

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

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

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

SFAC No. 5, paragraphs 83 and 84, states the following, which is referred to above in SAB Topic 13:

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

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

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

84. In recognizing revenues and gains:

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

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

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

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

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

f. If product, services, or other assets are exchanged for nonmonetary assets that are not readily convertible into cash, revenues or gains or losses may be recognized on the basis that they have been earned and the transaction is completed. Gains or losses may also be recognized if nonmonetary assets are received or distributed in nonreciprocal transactions. Recognition in both kinds of transactions depends on the provision that the fair values involved can be determined within reasonable limits.

g. If collectibility of assets received for product, services, or other assets is doubtful, revenues and gains may be recognized on the basis of cash received.

EITF Issue No. 91-6, "Revenue Recognition of Long-Term Power Sales Contracts" ("EITF Issue 91-6"). In EITF Issue 91-6, the Task Force issued guidance for "non-utility generators" ("NUGs") as to the appropriate recognition of revenue from certain long-term power sales arrangements, i.e., electricity sales contracts. See below for further discussion.

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

EITF Issue 92-7, "Accounting by Rate-Regulated Utilities for the Effects of Certain Alternative Revenue Programs." In this Issue, the Task Force addressed the timing of revenue recognition for billings by regulated utilities (i.e., operations accounted for pursuant to SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation" (SFAS No. 71) under incremental, alternative revenue programs. See below for further discussion.

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

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

EITF Issue No. 02-3, "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities" ("EITF Issue

02-3"). In EITF Issue 02-3, the Task Force stated the following with respect to the presentation of revenues related to energy trading contracts:

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

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

See below for further discussion.

Accounting Policy

General principles

In the absence of specific accounting literature (e.g., software revenue recognition and other industry specific guidance), revenue shall be recognized when it is realized or realizable and earned. Per the guidance in SAB Topic 13, revenue is realized or realizable and earned when all of the following criteria are met:

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

Persuasive evidence of an arrangement exists

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

Delivery has occurred or services have been rendered

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

Sales price is fixed or determinable

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

Collectibility is reasonably assured

As noted in SFAC No. 5, in order to recognize revenue, the revenue must be realized or realizable. Thus, cash or a claim to cash must be received. In order to determine whether a claim to cash has been realized, collectibility of that claim must be established and reasonably assured of occurring.

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

Other considerations common to Duke Energy

Title transfer

SAB Topic 13 indicates that delivery is not considered to have occurred unless the customer has taken title to the product(s) and assumed the risks and rewards of ownership. Typically, the determination of transfer of title depends upon the terms of shipment, whether the customer assumes ownership upon shipment (FOB shipping point) or upon delivery (FOB destination). SAB Topic 13 intends the FOB terms and title transfer to be essential in determining when the risks and rewards of ownership are deemed to be transferred to the customer. Therefore, for purposes of determining when title and the related risks and rewards of ownership have passed to the customer, Duke Energy shall refer to the relevant shipping terms (FOB shipping point and FOB destination), except in sales type lease transactions accounted for under SFAS No. 13, "Accounting for Leases," and certain transactions outside the U.S. where title is retained for security interest purposes only (see SAB Topic 13 A.2. Question 1).

Customer acceptance

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

Unbilled and estimated revenues

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

Revenues related to sales of natural gas or other products or services not yet billed shall be estimated each month. These estimates are to be based on the relevant factors, including contract data, regulatory information, estimated distribution usage based on historical data adjusted for heating degree days, commodity prices, etc.

See the "Unbilled revenues" subsection of the "Financial statement disclosures" section of "Reporting & Disclosure Requirements" below for certain disclosures specifically requested for the Company in a 2007 SEC comment letter.

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

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

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

Trading and marketing revenues

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

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

Specialized industry accounting applicable to Duke Energy

Services accounting

Service transactions, as defined by the AICPA in its "white paper" on the subject, generally involve transactions between a seller and a purchaser in which, for a mutually agreed to price, the seller agrees to perform an act or acts, including permitting others to use enterprise resources, that do not alone provide a tangible commodity or product as the principal intended result. Service transactions are common to Duke Energy, specifically the provision of electricity to customers and the distribution of natural gas to end users. In the Interpretive Response to Question 2 in section 3.f. of SAB Topic 13, the SEC Staff stipulated ". . . that, provided all other revenue recognition criteria are met, *service revenue should be recognized* on a straight-line basis, unless evidence suggests that the revenue is earned or obligations are fulfilled in a different pattern, over the contractual term of the arrangement or the expected period during which those specified services will be performed."

Sales of Real Estate

Revenue recognition in transactions involving the sale of real estate is governed by specific accounting literature, SFAS No. 66, "Accounting for Sales of Real Estate", as amended by SFAS No.

98. It is important to note that SFAS No. 66 applies to all sales of real estate, not just those made by a real estate developer, and therefore, the principles enumerated below should be followed by all of Duke Energy's Business Units whenever a sale of real estate occurs.

Note: Subsequent to the deconsolidation of Crescent Resources, LLC in 2006, all sales of real estate projects are recognized as gains on sale of real estate in the consolidated statements of operations as those projects are considered to be productive assets at the time of sale, and appropriately, the cash flows associated with the purchase and sale of real estate projects are classified as investing cash flows.

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

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

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

4. ...collectibility of the sales price is demonstrated by the buyer's commitment to pay, which in turn is supported by substantial initial and continuing investments that give the buyer a stake in the property sufficient that the risk of loss through default motivates the buyer to honor its obligation to the seller. Collectibility shall also be assessed by considering factors such as the credit standing of the buyer, age and location of the property, and adequacy of cash flow from the property.

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

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

a. A sale is consummated (paragraph 6).

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

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

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

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

(Note: There are separate measurement and recognition criteria in SFAS No. 66 for "retail land sales", however, Duke Energy does not currently enter into such sales, which are defined in paragraph 100 of Appendix E to SFAS No. 66)

Lease Revenue

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

Revenue recognition related to leases would be as follows:

Direct financing

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

Sales-type leases

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

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

Operating leases

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

Leases Involving Real Estate

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

The first two sentences of paragraph 8 and paragraph 8(a) [of SFAS No. 13] are superseded by the following:
From the standpoint of the lessor, a lease involving real estate shall be classified as a sales-type lease only if it meets the criterion in paragraph 7(a) as appropriate under paragraph 6(b)(i). Otherwise, if the lease at inception meets any one of the four

criteria in paragraph 7 and in addition meets both of the following criteria, it shall be classified as a sales-type lease, a direct financing lease, a leveraged lease, or an operating lease as appropriate under paragraph 6(b). If the lease does not meet any of the criteria of paragraph 7 or both of the following criteria, the lease shall be classified as an operating lease.

a. Collectibility of the minimum lease payments is reasonably predictable. A lessor shall not be precluded from classifying a lease as a sales-type lease, a direct financing lease, or a leveraged lease simply because the receivable is subject to an estimate of uncollectibility based on experience with groups of similar receivables.

Indefeasible Right to Use ("IRU's")

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

Long-Term Power Purchase Arrangements

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

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

The consensus reached on these issues is as follows:

The Task Force reached a consensus that a NUG should recognize as revenue the lesser of (1) the amount billable under the contract or (2) an amount determined by

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

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

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

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

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

2. The revenue associated with the variable price period of the contract should be recognized as billed, in accordance with the provisions of the contract for that period. The Task Force noted that if the contractual terms during the separate fixed and variable portions of the contract are not representative of the expected market rates at the inception of the contract, the revenue associated with the entire contract should be recognized in accordance with the consensus reached for Issue 1 of Issue 91-6.
The Task Force observed that the long-term power sales contract should be periodically reviewed to determine whether it is a loss contract in which the loss should be recognized immediately.

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

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

Multiple element arrangements

Scope & Applicability

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

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

Therefore, revenue should be recognized from those separate units of accounting, as identified or not, based upon the principles set forth above (specific literature or SAB Topic 13). In applying the provisions of EITF Issue 00-21, paragraph 2 states that "separate contracts with the same entity or related parties that are entered into at or near the same time are presumed to have been negotiated as a package and should, therefore, be evaluated as a single arrangement in considering whether there are one or more units of accounting. That presumption may be overcome if there is sufficient evidence to the contrary."

There may be instances where higher level authoritative literature governs the allocation of consideration to multiple-element arrangements, such as SFAS Nos. 13, 45 and 66 (see paragraph 4a (i) and (ii)). Paragraph 4a (iii) states that:

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

Principles

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

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

Paragraph 9 states the following:

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

Additional Regulatory Considerations

In SFAS No. 71, paragraph 11, the FASB put forth certain instances in which a regulatory liability should be recognized. They include:

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

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

EITF Issue 92-7 addresses the timing of revenue recognition by "rate-regulated utilities" for billings under additional, alternative revenue programs. We have confirmed with our external auditors, Deloitte & Touche, that the reference in this Issue to rate-regulated utilities results in the guidance in EITF Issue 92-7 only being applicable to operations that are accounted for under SFAS No. 71. The types of "alternative revenue programs" addressed by EITF Issue 92-7 can generally be segregated into two categories, Type A and Type B. Type A programs adjust billings for the effects of weather abnormalities or broad external factors or to compensate the utility for demand-side management initiatives (for example, no-growth plans and similar conservation efforts). Type B programs provide for additional billings (incentive awards) if the utility achieves certain objectives, such as reducing costs, reaching specified milestones, or demonstratively improving customer service.

The Task Force reached a consensus on EITF Issue 92-7 that the additional revenues should be recognized when all of the following conditions have been met:

1. The program is established by an order from the utility's regulatory commission that allows for automatic adjustment of future rates. Verification of the adjustment to future rates by the regulator would not preclude the adjustment from being considered automatic.
2. The amount of additional revenues for the period is objectively determinable and is probable of recovery.
3. The additional revenues will be collected within 24 months following the end of the annual period in which they are recognized.

Reporting & Disclosure Requirements

Gross versus net presentation

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

EITF Issue 99-19 Indicators of Gross Reporting:

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

EITF Issue 99-19 Indicators of Net Reporting:

1. The supplier is the primary obligor in the arrangement
2. The amount the Company earns is fixed
3. "Please revise future disclosure to indicate the amount of unbilled revenues recorded at period end. To the extent applicable, please explain any material differences in amounts recorded between periods.The supplier has credit risk.

For a contract that is deemed to be an energy trading contract under EITF Issue 02-3, the related gains or losses should be presented net in the income statement whether or not settled physically. Also, the gross transaction volumes for those energy trading contracts that are to be physically settled should be disclosed. For those contracts that are accounted for under SFAS No. 133's normal purchase and sale exception, evaluation of gross versus net presentation should be made under the indicators mentioned above.

Accordingly, these disclosures should be made in all future SEC filings for all Duke Energy SEC registrants.Financial statement disclosures

APB Opinion No. 22, "Disclosure of Accounting Policies," requires disclosures of "...important judgments as to appropriateness of principles relating to the recognition of revenue." SAB Topic 13 expresses the opinion of the SEC Staff that because revenue recognition generally involves the exercise of judgment, companies are always required to disclose their revenue recognition policies. SAB Topic 13 also provides that, when applicable, the notes the financial statements shall include disclosure of:

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

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

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

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

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

Unbilled revenues

The following is a comment from the SEC, along with the Company's response, from a comment letter received in 2007 from the SEC's review of the 2006 form 10-K of Duke Energy Carolinas:

"Please revise future disclosure to indicate the amount of unbilled revenues recorded at period end. To the extent applicable, please explain any material differences in amounts recorded between periods.
The Company will revise future disclosure to indicate the amount of unbilled revenues recorded at period end. To the extent applicable, the Company will explain any material differences in amounts recorded between periods."

Accordingly, these disclosures should be made in all future SEC filings for all Duke Energy SEC registrants.

Related Policies, Standards, or Procedures:

Accounting for Risk Management and Hedging Activities Policy

Accounting for Regulated Entities Policy (SFAS No. 71)

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

Applicability:	Applies to Enterprise
Originator:	Corporate Controller
Approval:	Corporate Controller
Effective Date:	09/30/2004
Revision Date:	03/31/2008
Reissue Date:	03/31/2008

Statement of Purpose and Philosophy

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

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

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

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

Accountability: Roles and Responsibilities

- See Roles and Responsibilities Matrix below

Standards and Requirements

Identification of Issues / Transactions:

- See Roles and Responsibilities Matrix below
- CARG will have primary responsibility for identifying new accounting pronouncements or interpretations that affect the company. The Corporate Controller or the head of CARG will make an assessment to determine the needs of the implementation. The Corporate Controller or the head of CARG may either assign primary responsibility for the implementation to a member of the CARG team, or when it affects one particular area, a specific business unit or corporate area. When deemed appropriate, an implementation team will be formed to help ensure a consistent implementation of the accounting guidance across the company. The implementation of new accounting pronouncement is still subject to the Roles and Responsibilities Matrix below and the requirements of the related policy, Documentation and Consultation for Significant Accounting or Reporting Matters.
- Issues should be addressed on an ongoing basis throughout the year as they arise. For significant issues pending during a quarter close, they should be identified at the kickoff of the quarter-close process, at the meeting called to specifically identify pending and open issues. For significant issues closed during the quarter, those issues should be identified, and resolution communicated at the kickoff meeting.
- At the meeting, or at other times as appropriate, assignment of the issues will take place based on the matrix below. An individual will be assigned accountability, and will be responsible for updating the quarter close project manager and all other parties as defined in the matrix. This individual will act as the "Issue Project Manager" or IPM in managing through the deliverables and timelines. The IPM will use the matrix to determine who is responsible for each of the tasks defined.
- Deadlines and accountabilities will also be established at the pre-close meeting, and the IPM will have the responsibility of adhering to deadlines and schedules and keeping the quarter close project manager informed of any issues that will jeopardize meeting the deadline for resolution, documentation, and approval. Deadlines for submission for approval, if needed, will allow sufficient time for the review and approval process at Corporate (CARG / Corporate Controller). This review time will be established up front, and CARG and the Corporate Controller will be held accountable for adhering to it and updating the quarter close project manager and IPM of any issues that will jeopardize meeting the deadlines established.

Resolution of issues:

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

Related Policies, Standards, or Procedures

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

Roles and Responsibilities Matrix

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

Description	Identification / Communication of Issue and Status	Research & Documentation	Coordination with D&T	CARG Involvement
New accounting guidance	CARG or B.U. (either may identify - if B.U. identifies, CARG is responsible for communicating to other B.U.s). The B.U.s, with the assistance of CARG, are responsible for determining applicability.	CARG to determine (e.g. depending on whether the change impacts a single or multiple areas in the company)	CARG to determine (e.g. depending on whether the change impacts a single or multiple areas in the company)	Mandatory if impact of accounting change is greater than $10 million. CARG to determine specific extent of CARG involvement (e.g. based on the significance and pervasiveness of the accounting change)
Non-recurring issues of $10M or less pertaining to a specific B.U.	B.U.	B.U.	B.U. (at local level)	Optional - informational copy of documentation sent. Position paper logged into database
Non-recurring issues pertaining to all or multiple B.U.s	CARG or B.U. (either may identify - if B.U. identifies, CARG	**Research** - CARG. If any B.U. specific items to research, B.U. is	CARG	Mandatory

	is responsible for communicating issues potentially pertaining to other B.U.s). The B.U.s, are responsible for determining applicability.	responsible **Entity level documentation** - CARG **B.U. specific documentation** - B.U.		
Non-recurring issues greater than $10M pertaining to a specific B.U.	B.U. or CARG (either may identify)	B.U., with CARG involvement and consultation up front	**B.U. D&T staff** - B.U. **Central D&T staff** - CARG	Mandatory
Significant, non-recurring transactions or deals specific to a B.U. (e.g., asset acquisition or divestiture, business expansion, etc.)	M&A or B.U. team	B.U., with CARG involvement and consultation up front	**B.U. D&T staff** - B.U. **Central D&T staff** - CARG	Mandatory
Significant, non-recurring transactions or deals generated at or by Corporate (e.g., B.U. acquisition or divestiture)	M&A or other originating party	CARG	CARG	Mandatory
Significant, non-recurring issue generated by any other area (e.g., Tax issues, Treasury issues)		CARG, initially with transfer to B.U. if appropriate.	**B.U. D&T staff** - B.U. **Central D&T staff** - CARG	Mandatory

<u>Key Terms</u>

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

Identification / Communication of Issue and Status: Denotes who would typically identify that an accounting issue exists or that a transaction or deal has taken place that will require accounting involvement.

Research and Documentation: The party accountable for this activity will conduct the research, with input as necessary from CARG and the external auditors to reach a conclusion as to the proper accounting for the issue. The party will then adhere to the policy for the appropriate documentation content and format.

Coordination with D&T: The party accountable for this activity will coordinate with D&T at either the B.U. or central D&T level as appropriate. This will include managing the activity and timeline to ensure timely signoff by D&T, at each level needed. If local D&T representatives must get signoff at a higher level, the party accountable for the coordination will make sure time is built into the timeline for resolution, and communicate the status to the appropriate parties.

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

.S. GAAP Accounting and Disclosure Compliance Checklists

Applicability:	Applies to Enterprise
Originator:	Corporate Controller
Approval:	Corporate Controller
Effective Date:	12/01/2004
Revision Date:	03/31/2008
Reissue Date:	03/31/2008

Statement of Purpose and Philosophy

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

Policy Expectations

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

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

Accountability: Roles and Responsibilities

Business Unit Accounting/Corporate Areas

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

Corporate Controller's Department

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

Standards/Requirements

1. Corporate Internal Controls will coordinate with CARG and ERG to ensure that appropriate representations are included in the appropriate internal management representation letters. A representation will be required from the business/corporate units to indicate that they have completed, reviewed and submitted the Accounting checklist to CARG, as discussed below. Other representations may be deemed necessary as appropriate in the circumstances.
2. The CARG Accounting Issues database will be used for housing the Accounting Checklists. The business/corporate units will not be able to view each other's checklists. Each business/corporate unit will be responsible for completing the Accounting Checklist for their respective unit prior to the quarterly or annual earnings release. The ERG will be responsible for completing the Disclosure Checklist in connection with the issuance of the Form 10-K or Form 10-Q.
3. CARG will assist the business/corporate units in completing the Accounting Checklist by answering questions regarding U.S. GAAP.
4. CARG will review an accumulation of the completed Accounting Checklists for any identified events of noncompliance with U.S. GAAP and any inconsistencies in the application of U.S. GAAP.
5. CARG will coordinate and document the resolution of any identified instances of noncompliance with U.S. GAAP or any inconsistencies noted. ERG will coordinate and document the resolution of any required disclosures of significant relevance to Duke Energy or its SEC sub-registrants that are not included in the draft Form 10-K or Form 10-Q.

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

Duke Energy

Duke Energy Policy Statement

Accounts Payable and Imprest Petty Cash Policy

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

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

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

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

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

Roles and Responsibilities-

Business/Corporate Unit-

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

Accounts Payable:

- Payment authorization must be approved in accordance with the business/corporate unit delegation of authority. See the ***Delegation of Authority Policy*** for additional information.
  - Approvals should be by original signature or properly secured electronic approval.

- Approvals by initials, rubber stamp, forging a signature or using another person's password are prohibited.
- Automated approval of payments using automated matching of approved purchase order, receipt and invoice is acceptable.

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

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

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

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

Approval of Annual Budget Policy

Applicability: Applies to Enterprise
Originator: SVP Investor Relations and Financial Planning
Approval: Chairman, President and Chief Executive Officer ("CEO")

Effective Date: 08/31/2000
Revision Date: 04/01/2008
Reissue Date: 04/01/2008

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

Approval-

- Business/Corporate Unit annual capital budgets and income/expense forecasts are reviewed in a Senior Executive Leadership Team (SELT) meeting prior to submitting to CEO and Board of Directors for approval.
- Business/Corporate Unit annual capital budgets and income/expense forecasts are presented to the CEO and Board of Directors for approval in the year preceding the budget period.
- Annual capital budgets must include all projected capital expenditures, even if the specific projects or acquisitions are not yet determinable.
- Annual capital budgets must be presented gross with separate identification of divestitures.
- Annual capital budgets should be segmented as follows:
  - Expansion
  - Environmental
  - Maintenance

Variance Reporting-

- Income and annual capital budget variances must be reported monthly to the CEO, Direct Reports to the CEO and the Board of Directors.
- Refer to the Approval of Business Transactions Policy for approvals required associated with project cost overruns.

Approval of Business Transactions

Applicability:	Applies to Enterprise
Originator:	Finance
Approval:	President & Chief Executive Officer ("CEO")
Effective Date:	07/01/2000
Revision Date:	04/01/2008
Reissue Date:	04/01/2008

Statement of Purpose and Scope:

This Policy outlines the minimum reviews and approvals required for the execution of transactions, documents and forms necessary for the conduct of business of (1) Duke Energy Corporation ("Duke Energy"), (2) subsidiaries of Duke Energy that are treated by it as consolidated subsidiaries for accounting purposes, and/or (3) non-consolidated subsidiaries of Duke Energy that require the approval or consent of (i) Duke Energy, or any of its wholly-owned subsidiaries, or (ii) any board member or other voting representative appointed by Duke Energy or any of its wholly-owned subsidiaries. Transactions for purposes of this Policy, include, but are not limited to: expenditures of cash; use of employee(s) time; use of equipment, facilities, vehicles; payment of invoices; employee expense reimbursement; payroll related transactions; project approvals; contracts; operating and capital leases; divestitures and terminations; issuance of corporate securities; credit support; guarantees; non-binding bids or offers; warranties; and purchases or sales of commodities.

Transactions, including related contracts or other legally binding agreements, must be approved, in writing, by the appropriate authority prior to execution by Duke Energy or any of its subsidiaries.

No employee may approve a transaction that is for his/her own benefit.

This Policy does not provide for every possible scenario regarding the approval of transactions and is not a substitute for good judgment or communication; nor is it the objective of this Policy to set forth all additional necessary reviews which may be advisable in certain circumstances (e.g., Legal, Finance, Risk Management, etc.). It is Management's intent that those given the authority by this Policy to conduct business be responsible and accountable for assuring the advice, counsel, and review from appropriate staff are obtained and evidenced, as necessary.

This Policy outlines the authority limits of Duke Energy related to the commitment or disbursement of funds or resources. Approvals of the many varied work management documents and/or reports are to be defined and administered by the various Business Units/Corporate areas.

In addition to this Policy, Duke Energy has other corporate policies (e.g., Purchasing Controls Policy, Credit Policy, Legal Settlement Procedures, etc.). The approval of transactions shall conform to all corporate policies.

Lastly, Duke Energy maintains a Delegation of Authority ("DOA") Policy covering Duke Energy employees below the level of Direct Reports to the CEO. Employees based outside of the United States are covered by the Delegation of Authority – International Employees Policy.

Accountability: Roles and Responsibilities:

The **Board of Directors** is responsible for approving the authority limits for the President and CEO.

The **President and CEO** is responsible for approving this Policy and any updates. In addition, the **President and CEO** and the **Corporate Controller** are responsible for approving any requests for exceptions to the standard authority limits of the Direct Reports to the CEO.

The **Direct Reports to the CEO** are responsible for approving any requests from individuals within their organization for exceptions to the standard authority limits that are specified within this or the DOA Policy. They are also responsible for establishing and maintaining the appropriate processes to ensure all transactions are appropriately reviewed and approved and initiating or updating, as necessary, exceptions to his/her standard authority limits.

View Direct Reports to the CEO Authority Limit Matrices.

Duke Energy Management is responsible for adhering to this Policy and the DOA Policy, ensuring that their employees are classified in the proper Management Levels, and verifying the appropriateness of employee access to transactional systems.

The **Duke Energy Senior Vice President and Controller** is responsible for maintaining this Policy, including communicating all applicable updates and exceptions.

Administrators of Duke Energy Systems that utilize or store ABT data are responsible for the proper use, updating and maintenance of that data.

Approvals:

Below are the authority limits associated with the President and CEO and the standard authority limits for the Direct Reports to the CEO. If circumstances warrant, additional dollar level restrictions may be defined by individual Business Unit/Corporate areas and incorporated into department policy and/or procedures so long as the limits established do not increase approval authority from those limits set forth in this Policy or the DOA Policy.

Individual transactions cannot be separated into multiple transactions for the purpose of circumventing an individual's authorized approval limit. However, transactions may be evaluated for required authority limits individually where the transactions are discrete, separate and independent of each other.

Authority Limits for the President and CEO [1/]

Standard Authority	**Authority Limits**
Non-Routine and Routine Transactions (Including Expenditures and Terminations)	• US < $100 million • Non-US < $50 million
Cost Overruns/Scope Changes/Additional Funding for Previously Approved Transactions	Greater of $30 million or 20% of original amount; total overrun capped at $100 million for US and $50 million non-US
Purchases or Sales of Commodities, Storage, Transportation or Capacity, or Other Sales: • Fixed Price Contracts • Indexed, Cost Plus, Reimbursable or Tariff Contracts ○ Option Contracts	• Any transaction => 5 years in term • <= $500 million • <= $1 billion • < $100 million premium
Outgoing Credit Support, Guarantees and Warranties (Including Letters of Credit; Performance Bonds; Surety Bonds; Comfort Letters; Warranties; and Uncapped Guarantees for Measurable Theoretical Exposures, Standard Seller Indemnities, and Workers' Compensation)	• <= $500 million and prior approval of the Chief Financial Officer
Routine Common Stock Issuances (Including Dividend Reinvestment and Retirement Savings Plans)	• <= Existing shelf registration
Incurrence of Debt, Issuance of all Corporate Securities, Excluding Common Stock: • If Consistent with an Existing Shelf Registration and the Company's Approved Financing Plan • If Not Consistent with an Existing Shelf Registration and the Company's Approved Financing Plan	• < $1 billion • <= $500 million
Component Transactions of a Previously Approved Transaction	• <= Amount of previously approved transaction

1/ All transactions exceeding the specified authority limits must be approved by the Board of Directors and/or Finance & Risk Management Committee. Transactions which require Finance & Risk Management Committee approval are: Cost Overruns/Scope Changes/Additional Funding for Previously Approved Transactions and Incurrence of Debt, Issuance of all Corporate Securities, Excluding Common Stock.

For approval purposes under this Policy, the transaction amount is broadly defined and is based on expected gross, aggregate expenditures and commitments (including debt, leases, and other liabilities). The expenditures and commitments are considered in nominal dollars and not present value amounts. For dispositions or divestitures, the capital amount, for approval purposes, is the higher of the original cost or sales price. The measurement period for the term limit requirement includes the current calendar year the transaction is entered into, regardless of the obligation start date, through the end date of the transaction.

The routine standard authority limit for the Direct Reports to the CEO is $25 million.

Transactions which exceed the Direct Reports to the CEO authority limits require review/approval by the TRC and approval by the President and CEO. The Secretary of the TRC should be contacted for guidance and coordination of such approval requests. The Financial Analysis Manual provides specific guidelines for conducting a Financial Analysis.

Exceptions to Routine Standard Authority Limits:

Through the ABT Policy exception process, the President and CEO may delegate his/her authority limits to another individual within Duke Energy, as business needs dictate. The President and CEO and the Corporate Controller must approve all exceptions to the Direct Reports to the CEO standard authority limits. For further guidance and direction on the ABT Policy exception process, see Request for Exception to the Approval of Business Transactions (ABT) Authority Limits.

For existing exception authority limits applicable to the Direct Reports to the CEO, see the applicable Direct Report to the Chief Executive Officer (CEO) Authority Limit Matrix.

Any material changes made by the President and CEO to existing authority limits must be communicated to the Audit Committee of the Board of Directors.

Any exception to the standard approval authority limits for employees reporting up through the Direct Reports to the CEO requires approval by the applicable Direct Report to the CEO. For those limited circumstances where an increase in approval limit is needed, the Delegation of Authority Exception Request Form should be used to request an exception. For further guidance and direction, see the DOA Policy.

Standard Authority Limits – Non-Routine Transactions:

For purposes of this Policy, non-routine transactions are transactions that are not part of an individual's normal course of business and include such items as acquisitions, mergers, divestitures, joint ventures, partnerships and investments in third party businesses.

A Direct Report to the CEO has authority to approve non-routine transactions up to $5 million. Any non-routine transaction which is greater than $5 million must be approved by the President and CEO. Prior to submission to the President and CEO for approval, all such transactions must first be reviewed and approved by the TRC.

Special Approval Requirements:

- Transactions that might pose unusual or unique contingent exposure or risk to Duke Energy or any affiliate, as determined by the President and CEO, will be presented to the Board of Directors for approval.
- The President and CEO shall cause the Board of Directors to receive an informational briefing of transactions greater than $25 million, which do not otherwise require approval by the Board of Directors. These informational briefings are coordinated by the Board Secretary.
- Procurement of goods and services, including pricing agreements, must follow the guidelines in the Purchasing Controls Policy.
- Any transaction which causes a material change to Duke Energy's capital structure (e.g., consolidation of debt resulting from an increase in ownership percentage) will also require the prior approval of the Treasurer. All capital leases need to be approved by the Treasurer. However, once approved, these leases can be executed by Treasury, Business Unit, or Corporate area personnel with an appropriate authority limit. All operating leases are the responsibility of the appropriate Business Unit or Corporate area.
- Transactions involving less than 100% owned Duke Energy subsidiaries must be approved by individuals with the appropriate authority limits based on Duke Energy's direct or indirect ownership percentage in the subsidiary or the amount of the transaction attributable to Duke Energy, whichever value requires the higher level of approval.
- Non-binding bids or offers (e.g., indicative bids, indications of interest, letters of intent, memorandums of understanding, or other non-binding bids or offers) of a dollar amount which would otherwise require the approval of the President and CEO and/or Board of Directors, are to be reviewed and approved by the President and CEO and the Chief Financial Officer ("CFO"). A confirmation from Legal must be obtained supporting that the bid or offer is non-binding. For purposes of this approval, term limit requirements do not apply. In addition, notice to or review by the TRC is not required.
- A brief informational report must be provided to the TRC for material changes in project scope for transactions that do not have a monetary impact (e.g., a change in the location of a proposed power plant, a significant change in counterparties involved in the project) which were originally approved by the President and CEO and/or Board of Directors. The TRC will determine if notification to or re-approval by the President and CEO is required.
- The President and CEO may substitute an alternative committee review for an otherwise required review by the TRC.
- A brief informational report must be provided to the President and CEO and CFO for cost overruns/scope changes/additional funding for previously approved transactions approved by the Direct Reports to the President and CEO that result in total cost exceeding their normal authority.

Direct Reports to the CEO - Authority Limit Matrices

- Group Executive and Chief Administrative Officer
- Group Executive and Chief Financial Officer
- Group Executive and President,Commercial Businesses
- Group Executive and Chief Legal Officer
- Group Executive and Chief Nuclear Officer
- Group Executive and Chief Strategy, Policy and Regulatory Officer
- Group Executive and President, Chief Operating Officer, U.S. FE&G
- Senior Vice President and Chief Sustainability Officer

Check Signing Policy

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

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

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

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

Roles and Responsibilities-

Business/Corporate Unit-

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

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

Footnotes:

[1] "Authorized officer" is defined as:

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

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

Delegation of Authority

Applicability:	Applies to U.S. Employees
Originator:	Finance
Approval:	Corporate Controller
Effective Date:	08/31/2000
Revision Date:	01/01/2008
Reissue Date:	01/01/2008

Statement of Purpose

This policy establishes the approval authority limits for all employees within the organization below the Direct Reports to the Chief Executive Officer (CEO). Approval authority limits for the Board of Directors, CEO, and Direct Reports to the CEO are defined in the Approval of Business Transactions (ABT) Policy. Employees based outside of the United States are covered by the International Employee Delegation of Authority Policy.

This policy does not provide for every possible scenario regarding approval limits and is not a substitute for good judgment or communication.

Scope of Policy

This policy applies to business transactions that are part of an individual's normal course of business for commitments of less than five years. It applies to routine transactions including, but not limited to, invoice approvals, requisition approvals, employee expense approvals, and project approvals. Authority to execute transactions above an individual's standard approval limit requires approval, at a minimum, by a Direct Report to the CEO. Non-routine transactions, as defined by the ABT Policy, are transactions that are not part of an individual's normal course of business and include such items as acquisitions, mergers, divestitures, joint ventures, partnerships, and investments in third party businesses. Non-routine transactions are not covered by the standard approval authority limits set forth in this policy. Accordingly, unless an exception to the standard approval authority limits has been granted, all non-routine transactions of this nature must be approved by a Direct Report to the CEO or higher in accordance with the ABT Policy. Transactions with terms greater than or equal to five years also require approval in accordance with the ABT Policy.

Other policies that address approval limits for specific transactions or commitments will take precedence over the Delegation of Authority (DOA) Policy. Examples include, but are not limited to: Commodity Risk Policy and Credit Risk Limit as amended from time to time. In addition, transactions for the purchase of goods and services are subject to the Purchasing Controls Policy.

Accountability: Roles and Responsibilities

The Duke Energy Controller is responsible for approving this policy and any updates. Per the ABT Policy, the CEO and the Controller approve any requests for exceptions to the standard approval authority levels that are above the approval limits specified for the Direct Reports to the CEO.

Direct Reports to the CEO are responsible for approving any requests from individuals within their organization for exceptions to the standard approval authority levels that are specified within this policy. They are also responsible for establishing and maintaining the appropriate processes to track and monitor transaction expenditures within their respective areas of responsibility to ensure cost overruns are appropriately identified and approved.

Duke Energy Management is responsible for ensuring adherence to this policy, ensuring that their employees are classified in the proper Management Levels, and verifying the appropriateness of employee access to transactional systems.

The **Duke Energy Chief Procurement Officer** is responsible for communicating and implementing this policy throughout the corporation. This responsibility also includes interpreting requirements under the policy. The Chief Procurement Officer has purchasing approval authority up to the previously approved amount for the underlying transaction.

The Duke Energy DOA Administrator, under the direction of the Chief Procurement Officer, is responsible for the day to day administration of this policy including maintaining and updating the related database and exception form process.

Administrators of Duke Energy Systems that utilize or store DOA data are responsible for the proper use, updating and maintenance of that data.

Standard Approval Authority Limits

The table below defines the authorized approval limits for specified levels of the organization. Individual transactions cannot be separated into multiple transactions for the purpose of circumventing an individual's authorized approval limit.

Management Level[1]	Standard Approval Authority Limits
Level 1 (CEO)	Covered by ABT Policy
Level 2 (Direct Reports to CEO)	Covered by ABT Policy
Level 3 (Senior Vice President Level)	$10,000,000
Level 4 (Vice President Level)	$5,000,000
Level 5 (General Manager Level)	$1,000,000
Level 6 (Director Level)	$750,000
Level 7 (Manager Level)	$500,000

Level 8 (Supervisor Level)	$100,000
Level 9 (Individual Contributor Level)[2]	$5,000

1. These titles are representative of Management Levels 1-9; all other job titles are mapped to one of these management levels.

2. Certain individual contributors need substantially more than the $5,000 of standard approval authority to perform their job duties. Within the DOA database application, such positions are mapped to either a $50,000 or $100,000 approval limit. These positions include, but are not limited to, the following: engineers, scientists, material planners, project/product managers, and certain technicians.

Supplemental Funding Requests for Capital Projects

- It is the responsibility of the Direct Reports to the CEO to establish and maintain the appropriate processes to track and monitor project expenditures within their respective areas of responsibility
- If at any time total expected project expenditures exceed the original approver's DOA authority limit, project re-approval is required (e.g., Form 201)
- If actual project expenditures exceed the approved estimate by $3.5 million:
- Project re-approval is required (e.g., Form 201), and
- The appropriate Direct Report to the CEO must be notified

Note: For non-capital projects, if at any time the total expected expenditures exceed the original approver's DOA authority limit, re-approval of total expected expenditures is required by someone with the appropriate DOA authority.

Exceptions to Standard Approval Authority Levels

Any exception to the standard approval authority levels requires approval by a Direct Report to the CEO. Exceptions above the limits specified for the Direct Reports to the CEO require approval by the CEO and the Controller. For those limited circumstances where an increase in approval limit is needed, the Delegation of Authority Exception Request Form should be used to request or delegate an exception.

Employee Expense Policy

Applicability: Enterprise
Originator: Supply Chain
Approval: Corporate Controller

Effective Date: 08/31/2000
Revision Date: 07/01/2008
Reissue Date: 07/01/2008

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

Roles and Responsibilities

Approver's Responsibilities Concerning Employee Expenses

- Ensure that submitted expenses are valid and reasonable business expenses, and are properly described for tax purposes.
- Review accounting of expense items.
- Ensure that business/corporate unit procurement, travel, and asset policies/procedures are being followed for reported items.
- Ensure that expense reports and/or cash advances are approved by a higher level of management who is in the direct line of authority of the expenses being charged..
- Ensure that expenses do not include the approver, unless for a large group function.

Employee Expense Reports

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

- Descriptions for expensed items *must* be thorough. Descriptions should clearly identify the business purpose for the expense, which should include the business event (i.e., meeting, outage, conference, business trip) for which the expense was incurred. These descriptions are necessary to support the Company's tax deductions for business expenses.
- When approved by management, the per diem allowance will be reimbursed by Duke Energy to the employee for each scheduled shift of incurred lodging expense to cover the expense of meals, accommodations and all related miscellaneous expenses. Per diem will be reimbursed per the amount stated in HR10016 Travel and Work Expense Procedure for non-unionized employees and appropriate labor contract for union employees.

Expenses prohibited on Employee Expense Reports:

- Tangible property which should be recorded in Business Unit asset records. Examples of this type property include televisions, VCR's, DVD players, and audio equipment.
- Software should be purchased through the employee's local IT contact.
- The purchase of PDA's (Pocket PC, Smartphones, Blackberry devices, and PalmOS) should be made on a procurement card. However, the monthly service fees for those devices may be submitted on employee expense reports.
- All moving related expenses must be submitted to the Company's third party moving coordinator for reimbursement andappropriate tax treatment.
- Charitable contributions: All charitable giving should be conducted through DE Foundation. For more information refer to the Portal Community Involvement Page.
- Tuition Refund: Refer to Human Resources Policy for procedures on Education Assistance Program.

Cash Advances

- Requests must indicate the purpose of the advance.
- Individuals may not approve their own advances (except for business/corporate unit officers, and other unique circumstances approved by a business/corporate unit head who reports to a Policy Committee member where management is not available to approve advances).
- Cash advances may be obtained no earlier than 30 days before the date for which the expenses are to be incurred.
- Advances and related expenses must be reconciled and remitted on an expense report within three months of the advance issuance. IRS regulations may require advances not promptly remitted to the Company to be reported as taxable income to the employee.
- The maximum cumulative cash advance available is $10,000.
- Reports of cash advances not remitted in a timely manner must be provided to the next level of management for follow-up.
- Cash advances should be requested through the PeopleSoft Expense Reporting System.

American Express Card

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

Foreign Currency Exchange

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

Taxable Expenses

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

- Mileage - for travel to or from an employee's personal residence when the employee is required to report to his normal work location outside scheduled hours.
- Memberships - in organizations that are notcivic, service, or professional.
- Meal expenses - when employees are authorized lodging accommodations, but with advance management approval choose to return home.
- Reimbursements for off-premise overtime meals.
- Temporary Assignment Living Expenses- living expenses (e.g. meals, lodgings, per diem) for temporary away-from-home assignments lasting more than 1 year.
- Professional Exam Fees - one-time reimbursement of professional exam fees (including reasonable expenses incurred while taking the exam) upon successful completion of the exam.

Purchasing Controls Policy

Applicability: Applies to Enterprise
Originator: Global Sourcing and Logistics
Approval: *Corporate Controller*

Effective Date: 03/31/2004
Revision Date: 04/01/2008
Reissue Date: 04/01/2008

Statement of Purpose

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

Accountability: Roles and Responsibilities

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

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

Operational Management is responsible for compliance with this policy within their areas of responsibility. This responsibility includes ensuring the unit has adequate internal controls over the procurement process and establishing effective contract management.

Supply Chain Management is responsible for compliance with this policy for all purchases made by their personnel. Supply Chain personnel are responsible for managing the sourcing process for the purchase of goods and services above $100,000 excluding exceptions as defined within this policy.

Designated Sourcing Personnel are employees outside of the Supply Chain function within Duke Energy International (DEI) and Duke Energy Generation Services (DEGS) who have been authorized by the Chief Procurement Officer to act in an agent capacity to contractually obligate Duke Energy. Designated Sourcing personnel are responsible for managing the purchasing process for goods and services greater than $100,000. They may also be involved with procurements of less than $100,000 as requested. Designated Sourcing personnel should comply with this policy in carrying out their responsibilities.

Standards/Requirements

1. Purchase Commitments

Supply Chain personnel and Designated Sourcing personnel are authorized to make purchase commitments consistent with their Delegation Of Authority (DOA) limits. Officers can make contractual commitments consistent with the Approval of Business Transaction Policy and this policy. Other employees covered by the Delegation of Authority Policy are not authorized to contractually commit the Company. All purchases of goods and services for amounts greater than $100,000, except those noted below, must be sourced through Supply Chain personnel or Designated Sourcing personnel. Supply Chain personnel and Designated Sourcing personnel will be active in the selection of qualified bidders; developing the sourcing strategy; managing the bidding process; negotiating terms and conditions; and ensuring compliance with this policy. In cases where, pursuant to this policy, involvement of Supply Chain personnel or Designated Sourcing personnel is not required, the person making the purchase is responsible for compliance with this policy.

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

Exceptions to this policy include: real estate (buying, selling, leasing properties), fuel, energy trades, mergers and acquisitions, financing charges/treasury fees/audit services, legal services, statutory tax payments and insurance. These do not require involvement of Supply Chain personnel or Designated Sourcing personnel.

2. Sourcing

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

Single Sourcing

A single source purchase occurs when a competitive bidding process is not undertaken and the decision is made to select a specific supplier based on technical, commercial, or other valid business reasons. Because a single source procurement removes the advantages of the competitive bidding process, it should be used on an exception basis. Contract extensions, inclusive of exercising contract options to extend longer than six months should be treated as single sourcing decisions.

Sole Sourcing

This situation exists when because of unique or specialized characteristics only one supplier offers a particular product or service. An example of a sole source would be a supplier who has a specific patent or other proprietary right on a good or service. In this case, there is not an opportunity to use a competitive bid process.

Premium Over Low Bid Sourcing

Another purchasing exception is premium over low bid sourcing. This occurs when the decision is made to select a supplier who is not the lowest evaluated bidder based on technical, commercial, or other business considerations.

Single, Sole, or Premium over Low Bid Sourcing Documentation and Approval Requirements

Any recommendation to single source or to pay a premium over lowest evaluated bid for spend greater than $100,000 must be supported by documentation explaining the rationale for the recommendation. This recommendation requires joint approval by a Vice President (VP) or their designee and Supply Chain. The VP will establish the designee's single source or premium over lowest evaluated bid approval limits (can be separate from their DOA limits) with a signed document to be filed with, and retained by Supply Chain. Recommendations to sole source purchases greater than $100,000 must be approved by Supply Chain in accordance with their DOA limits.

Purchasing Cards

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

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

Supplier Diversity

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

3. Contract Formation

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

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

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

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

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

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

4. Purchasing Process Guidelines

The purchasing process and related documentation should reflect the complexity and materiality of the goods or services being purchased. The steps identified below should be considered and included in the process as appropriate to support compliance with this policy or to meet specific operational requirements.

a. Engineering or technical review to ensure compliance with statement of work or other specifications.
b. Supplier qualification review.
c. Compliance with a standard set of terms and conditions with any legal exceptions approved by Legal.
d. Commercial and risk assessment including insurance and credit considerations and appropriate hedges against foreign currency or commodity risks.

e. Reviews by Accounting and Corporate Tax for any sales or property tax implications (e.g., mill machinery) or accounting considerations (e.g., lease obligations).
f. Other analyses and functional coordination as appropriate.

Documentation of the purchase process should support that the appropriate steps were taken and provide an audit trail. Documentation should be maintained in accordance with the Records Management Policy and the Duke Energy Records Retention Schedule (DERRS) and may be attached to the request in the purchasing system.

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

Prior to being implemented, any material changes in contract terms including requirements, work scope, or cost should be documented in writing and approved in accordance with this policy, the Delegation of Authority, and Approval of Business Transactions policies.

6. Confidentiality

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

Supplier quotations should always be maintained as confidential information. Quotations of one supplier are not to be divulged to another. This information should not be made available within the Company except to individuals with a business need to know. The number of bidders, who is bidding, how much is in the budget, the past performance of bidders, and future business potential are topics that should **not** be discussed with suppliers unless Supply Chain personnel or Designated Sourcing personnel authorize the discussion.

7. Segregation of Duties

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

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

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

8. Standard of Business Conduct and Ethics

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

9. Sourcing Requirements Summary

Category	**Requirements**
Purchases >$100K	Competitive bid process will be required unless sourced through an alliance agreement. Approval by Supply Chain personnel and Designated Sourcing personnel in accordance with DOA limits. Must actively involve Supply Chain personnel or Designated Sourcing personnel.
Purchases <$100K	Approval at appropriate DOA limits.
Single source recommendation above $100,000	Documentation and approval by functional VP or their designee. Approval by Supply Chain management in accordance with DOA limits.
Sole source recommendation above $100,000	Approval by Supply Chain management in accordance with their DOA limits.
Premium over low bid recommendation of $100,000 or greater	Documentation and approval by functional VP or their designee. Approval by Supply Chain management in accordance with DOA limits.
Procurement card	Should be used for non-stock purchases of less than $5,000 per transaction.

Engaging the Independent Auditor for Services

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

Effective Date: 04/23/2003
Revision Date: 12/12/2007
Reissue Date: 12/12/2007

Statement of Purpose and Philosophy

This policy describes the guidelines to be used when considering the use of the independent auditor for all audit and non-audit services work.

Policy Expectations

The Audit Committee of the Board of Directors (the "Audit Committee") of Duke Energy Corporation (the "Company") is required to pre-approve all audit and non-audit services performed by the Company's independent auditor in order to assure that the provision of such services does not impair the auditor's independence. Unless a type of service to be provided by the independent auditor has received general pre-approval pursuant to the policies and procedures set forth in this Policy, it will require specific pre-approval by the Audit Committee. In addition, any proposed services exceeding pre-approved cost levels will require specific pre-approval by the Audit Committee.

The term of any pre-approval is 12 months from the date of pre-approval, unless the Audit Committee specifically provides for a different period. The Audit Committee will periodically, but no less often than annually, review and revise, as necessary, the list of pre-approved services that may be provided by the independent auditor without obtaining specific pre-approval from the Audit Committee. The services by the independent auditor pre-approved by the Corporate Controller in accordance with this policy shall be reported to the Audit Committee by the independent auditor at the Audit Committee's first regularly-scheduled meeting that occurs after the independent auditor's engagement. In addition, the Company will inform and review with the Audit Committee at each of its meetings, but not less frequently than on a calendar quarterly basis, all services being provided by the independent auditor.

The Audit Committee may delegate specific pre-approval authority to one or more of its members. The member or members to whom such authority is delegated shall report any pre-approval decisions to the Audit Committee at its next scheduled meeting. The Audit Committee does not delegate its responsibilities to pre-approve services performed by the independent auditor to management.

Accountability: Roles and Responsibilities

Business Units/Corporate Areas:

- Prior to beginning any engagement of Duke Energy Corporation's independent auditor, contact the Corporate Controller's Department to confirm whether or not the requested services are included in the annual base scope of work that has been approved by the Audit Committee. If the requested services are outside the approved base scope of work, then these requirements must be followed:
  o Obtain advance approval from the Corporate Controller prior to beginning the engagement of the independent auditor
- Ensure that only officers of the Company or authorized contracting agents sign engagement letters

Corporate Controller:

- Determine whether services are included in the base scope of work that has been approved by the Audit Committee or whether separate approval of the services is required
- Obtain Audit Committee approval for any engagement outside of the base scope or pre-approved services
- Approve engagements of the independent auditor in accordance with pre-approvals by the Audit Committee, as follows:
  - <u>Audit Services</u>. The annual audit services engagement terms and fees will be subject to the specific pre-approval of the Audit Committee. The Audit Committee will approve, if necessary, any changes in terms, conditions and fees resulting from changes in audit scope, Company structure or other matters. The Audit Committee pre-approves other Audit services listed below, which are those services that only the independent auditor reasonably can provide. The Audit services listed below are pre-approved up to $100,000 in estimated fees per individual project and up to $1,000,000 in estimated fees in the aggregate. All Audit services not listed below or that exceed the amounts stated above must be separately pre-approved by the Audit Committee.
    - Statutory audits or financial audits for subsidiaries or affiliates of the Company
    - Services associated with Securities and Exchange Commission (SEC) registration statements, periodic reports and other documents filed with the SEC or other documents issued in connection with securities offerings (e.g., comfort letters, consents), and assistance in responding to SEC comment letters
    - Consultations by the Company's management as to the accounting or disclosure treatment of transactions or events and/or the actual or potential impact of final or proposed rules, standards or interpretations by the SEC, FASB, or other regulatory or standard setting bodies[1]
    - Consultations regarding accounting research and appropriate accounting treatment of transactions, including any fees associated with the independent auditor's electronic or web-based, proprietary tools (<u>e.g.</u>, Deloitte & Touche's Deloitte Accounting Research Tool, a web-based accounting research system)
    - Attest services required by statute or regulation
  - <u>Audit-Related Services</u>. Audit-related services are assurance and related services that are traditionally performed by the independent auditor. The Audit Committee believes that the provision of Audit-related services does not impair the independence of the auditor, and pre-approves the Audit-related services listed below. The Audit-related services listed below are pre-approved up to $100,000 in estimated fees per individual project and up to $1,000,000 in estimated fees in the aggregate. All Audit-related services not listed below or that exceed the amounts stated above must be separately pre-approved by the Audit Committee.
    - Due diligence services related to potential business acquisitions/dispositions
    - Financial statement audits of employee benefit plans

  - Internal control reviews and assistance with internal control reporting requirements
  - Agreed-upon or expanded audit procedures related to accounting and/or billing records required to respond to or comply with financial, accounting or regulatory reporting matters
  - Consultations by the Company's management as to the accounting or disclosure treatment of transactions or events and/or the actual or potential impact of final or proposed rules, standards or interpretations by the SEC, FASB, or other regulatory or standard-setting bodies
  - Consultations regarding accounting research and appropriate accounting treatment of transactions, including any fees associated with the independent auditor's electronic or web-based, proprietary tools (e.g., Deloitte & Touche's Deloitte Accounting Research Tool, a web-based accounting research system)
  - Attest services not required by statute or regulation
- Tax Services. The Audit Committee believes that the independent auditor can provide Tax services to the Company, such as tax compliance, tax planning and tax advice, without impairing the auditor's independence. The Audit Committee pre-approves the Tax services listed below. The Tax services listed below are pre-approved up to $100,000 in estimated fees per individual project and up to $1,000,000 in estimated fees in the aggregate. All Tax services not listed below or that exceed the amounts stated above must be separately pre-approved by the Audit Committee.
  - Review of international and U.S. federal, state and local income and non-income tax returns and similar types of returns for the Duke Energy consolidated entity
  - Review and preparation of international and U.S. federal, state and local income tax returns, non-income tax returns and similar types of returns for subsidiaries, investments, and joint ventures
  - Assistance in connection with tax audits and appeals of international and U.S. federal, state and local income and non-income tax returns, including communicating with taxing authorities regarding tax returns
  - Assist in resolving identified state reporting and disclosure tax compliance issues
  - Tax compliance and consulting services, including assistance with respect to (1) tax savings/planning/refund opportunities, (2) the proper tax treatment of certain types of income and expenses, (3) calculation of total tax liabilities relating to exposures, (4) preparation of calculations needed to properly reflect certain types of income, expenses, exemptions, and credits on a tax return, (5) updates and analysis of legislative tax matters, (6) planning for deduction of certain transaction costs, (7) confirmation of the current administrative position of revenue authorities, (8) ruling requests filed with taxing authorities, (9) planning and calculation of debt/equity ratios for thin capitalization purposes to come to a conclusion regarding inter-group interest deductibility, (10) foreign tax treaties, and (11) verification of tax assessments
  - Assistance regarding tax issues with respect to acquisitions, dispositions and restructurings, including due diligence on potential acquisition targets, ruling requests and meetings with tax authorities
  - Assistance in determining the corporate income tax and indirect tax implications of proposed or actual transfers of the Company's subsidiaries' stock between related Company entities
  - Services related to compensation and compensation packages; granting and exercise of stock options; benefit plans; and payroll, social security and information reporting tax issues
  - Assistance with GST and Value Added Tax (VAT) issues in foreign jurisdictions
  - Compliance and planning issues with respect to import, export, and international transport services and activities
  - Technical, planning, and other assistance relating to transfer pricing issues
  - Services related to internet website tools

- Other Services. The Audit Committee pre-approves the Other services listed below. The Other services listed below are pre-approved up to $100,000 in estimated fees per individual project and up to $500,000 in estimated fees in the aggregate. All Other services not listed below or that exceed the amounts stated above must be separately pre-approved by the Audit Committee.
  - Accounting and other related training
  - Other general consulting not prohibited as described below
- Maintain an internal process to ensure compliance with approved services and accurate reporting to the Audit Committee

Standards/Requirements

The following guidelines should be used in engaging the independent auditor for services:

- When a need is identified for additional services from the independent auditor, the Business Unit/Corporate Area should submit a scope of work including a fee estimate to the Corporate Controller's Department in advance of work being performed
- The independent auditor is to perform services only at the Company's request and in conformity with all applicable standards. The scope of service and estimate of fees must be documented in an engagement letter or scope definition signed by both the independent auditor and the Company (typically the Corporate Controller or Business Unit Accounting Vice President) in advance of work being performed.
- Engagement letters must be signed by an appropriate Company representative in advance of work
- Engagement letters must be provided to the Corporate Controller for approval in advance of work
- The Corporate Controller's Department will maintain copies of all engagement letters
- If the requested services are not included in the base scope or pre-approved services, each new service request or change order will require approval individually by the Audit Committee. The Corporate Controller will coordinate the approval. Requests to provide services that require separate pre-approval by the Audit Committee will be submitted to the Audit Committee by the Chief Financial Officer or Controller and a representative of the Legal Department, and must include a joint statement, in writing, (a) describing (i) the scope of the service, the fee structure for the engagement, and any side letter or other amendment to the engagement letter, or any other agreement (whether oral, written, or otherwise) between the independent auditor and the Company, relating to the service; and (ii) any compensation arrangement or other agreement, such as a referral agreement, a referral fee or fee-sharing arrangement, between the independent auditor (or an affiliate of the independent auditor) and any person (other than the Company) with respect to the promoting, marketing, or recommending of a transaction covered by the service; and (b) discussing the potential effects of the services on the independence of the independent auditor. The independent auditor will provide a detailed description of the scope of the services to be performed, a description of the fee structure for the engagement, and a statement that the independent auditor does not believe the service will impair its independence.
- Independent auditor cannot be engaged to perform the following services[2]:
  - Bookkeeping or other services related to the audit client's accounting records or financial statements
  - Financial information system design or implementation services
  - Appraisal or valuation services, fairness opinions, or contribution-in-kind reports
  - Actuarial services
  - Internal audit outsourcing services
  - Management functions or human resources
  - Broker or dealer services, investment adviser or investment banking services
  - Legal services and expert services unrelated to the audit
  - Tax services on a contingency basis
  - Tax service to a person in a financial reporting oversight role at the Company, or an immediate family member of such person, during the audit and professional engagement period, unless: (a) the person is in a financial reporting oversight role at the Company only because he or she serves as a member of the Board of

Directors or similar management or governing body of the Company; (b) the person is in a financial reporting oversight role at the Company only because of his or her relationship to an affiliate of the Company (i) whose financial statements are not material to the consolidated financial statements of the entity being audited; or (ii) whose financial statements are audited by an auditor other than the firm or an associated person of the firm; or (c) the person was not in a financial reporting oversight role at the Company before a hiring, promotion, or other change in employment event and the tax services are (i) provided pursuant to an engagement in process before the hiring, promotion, or other change in employment event; and (ii) completed on or before 180 days after the hiring or promotion event

- Invoices must be approved by the Business Unit/Corporate Area requesting party under an established engagement letter; invoices should reference which engagement letter authorizes the payment
- Business Unit/Corporate Area requesting party will process invoice for payment if within the parameters of an approved engagement letter
- Copies of all approved invoices of the independent auditor must be sent to the Corporate Controller
- The Corporate Controller will provide a report on the use of the independent auditor and associated fees at each Audit Committee meeting

[1]Under SEC rules, some consultations may be considered "audit-related" services rather than "audit" services. For example, the SEC recognized that complex accounting issues may require that the firm engage in consultation with "national office" or other technical reviewers to reach an audit judgment and stated that this activity constitutes an audit service since it is a necessary procedure used by the accountant in reaching an opinion on the financial statements. This would contrast, the SEC stated, with a situation where a registrant is evaluating a proposed transaction and asks the independent auditor to evaluate the accounting for the proposed transaction. After research and consultation, the accounting firm provides an answer to the registrant and bills for those services. In considering the nature of the services, the SEC stated that these services would not be considered to be audit services.

[2]The Legal Department should be consulted for guidance as to the definitions of these services and the applicability of exceptions to certain of the prohibitions.

Hiring Policy for Employees and Former Employees of the External Auditor

Applicability:	Applies to Enterprise
Originator:	Corporate Controller
Approval:	Corporate Controller
Effective Date:	04/04/2006
Revision Date:	02/01/2008
Reissue Date:	02/01/2008

Statement of Purpose and Philosophy

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

Policy Expectations

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

Standards/Requirements

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

- The terms used in these guidelines are defined as follows:
  - Audit Team - Lead partner, concurring partner, or any other member of the audit engagement team who provides more than ten hours of audit, review or attest services for the issuer.
  - Financial Reporting Oversight Role - Means a role in which a person is in a position to or does exercise influence over the contents of the financial statements and related information (e.g., management discussion and analysis) or anyone who prepares them, such as when the person is a member of the board of directors or similar management or governing body, chief executive officer, president, chief financial officer, chief operating officer, general counsel, chief accounting officer, controller, director of internal audit, director of financial reporting, treasurer, or any equivalent position.

- No member of the Audit Team that is auditing Duke Energy and its affiliated entities can be hired into a Financial Reporting Oversight Role for a period of 2 years following association with that audit.
- Any uncertainties (e.g. whether a position is a Financial Reporting Oversight Role) must be cleared with the Duke Energy Corporate Controller before any job offers are executed.
- Duke Energy's Corporate Controller must approve any hires from the independent auditor prior to an offer being made.
- Duke Energy's Corporate Chief Financial Officer ("CFO") must approve all executive level (O classification and above and all Leadership jobs) hires from the external auditor.
- Duke Energy's Corporate Controller shall report annually to the Audit Committee any of the preceding year's hires from the external auditor.

Accountability: Roles and Responsibilities

Business Units/Corporate Areas

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

Corporate Controller/Corporate CFO

- Review and approve, if appropriate, requests to hire employees from Duke Energy's external auditor.
- Report annually to the Audit Committee any of the preceding year's hires from the external auditor.

Duke Energy Policy Statement

Property, Equipment and Inventory Policy

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

Approval Date: 08/31/00
Revision Date:

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

Roles and Responsibilities-

Business/Corporate Unit-

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

Asset Sales

- Business/corporate unit management must authorize the disposal or sale of company property, equipment or inventory in accordance with the Delegation of Authority. See the ***Delegation of Authority Policy*** for additional information.
- Significant company assets (property, plant, equipment and inventory) should be marked, or otherwise identified, so they can be readily located in detailed asset and inventory records.
- Bids or other competitive mechanisms should be used to sell property, equipment, or inventory.
- A different person should perform each of the following functions. These functions must be segregated between at least two people. Weaker segregation structures should be accompanied by additional management review.
    - declaration of need to sell
    - entry on accounting tracking system
    - sales

Creation, Dissolution, or Restructuring of Legal Entities and Subsidiaries

Applicability:	Applies to Enterprise
Originator:	Corporate Controller
Approval:	Corporate Controller
Effective Date:	03/25/2004
Revision Date:	03/25/2004
Reissue Date:	03/15/2008

Statement of Purpose and Philosophy

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

Policy Expectations

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

Accountability: Roles and Responsibilities

Business Unit /Corporate Area

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

Corporate Secretary Office

- Retain the completed request form which serves as evidence of the approval for the creation, dissolution, or restructuring of the Duke Energy legal entity or subsidiary.

- Distribute a summary of final approved actions to the appropriate parties involved in the approval process.

Business Unit General Counsel/Corporate Secretary Office

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

Approvals

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

Sarbanes-Oxley Change Control

Applicability: Applies to Enterprise
Originator: General Manager, Financial Controls
Approval: Corporate Controller

Effective Date: 04/01/2004
Revision Date: 09/15/2007
Reissue Date: 04/01/2006

Statement of Purpose and Philosophy

It is the policy of Duke Energy Corporation, including its subsidiaries, such as Duke Energy Carolinas, LLC, Duke Energy Ohio, Inc., and Duke Energy Indiana, Inc. and affiliates, to comply fully with the Sarbanes-Oxley Act of 2002 ("the Act"). As part of this policy, the Company wants to ensure that, as relevant business processes, controls and information technology (IT) components (collectively, "SOX processes") are changed or enhanced, appropriate approval is obtained for such changes, and documentation is maintained reflecting the latest approved processes, controls and systems. Collectively, the disciplines associated with the timely approval, coordination and documentation of changes in SOX processes covered under the Act shall be referred to as "SOX Change Control."

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

Policy Expectations

A designated universe of SOX processes, sub-processes, controls and IT components has been defined, and can be obtained by contacting the Sarbanes-Oxley Program Management Office.

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

- As SOX process changes are implemented, the responsible Business Process Owner shall enter a current, standards-compliant, approved copy of the process and control documentation to the Sarbanes-Oxley Process/Control Documentation Repository located on the portal at Home - Policies - Sarbanes-Oxley Compliance gadget.
- IT change activities will comply with enterprise level change control policies and local IT change control procedures
- The Sarbanes-Oxley Process/Control Documentation Repository will be a controlled file housing the most recent and official SOX documentation. The content of the repository will be the responsibility of the Business Unit or Corporate area process owner. Centralized maintenance of the repository will be the responsibility of the Corporate FCG

Accountability: Roles and Responsibilities

The responsibilities of Business Unit/Corporate area management are to:

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

The responsibilities of the Business Process Owners in each Business Unit/Corporate area are to:

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

The responsibilities of the Business Unit and/or Corporate area executive are to:

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

The responsibilities of the Corporate Controller are to:

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

The responsibilities of the Corporate Financial Controls Group are to:

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

Glossary

SOX Processes - Business processes, controls and ITcomponents which have a role in ensuring an appropriate financial control environment at Duke Energy Corporation and its subsidiaries and which play a role in the accuracy of the financial statements of the Company.

Process Control/Documentation Repository - The Sarbanes-Oxley Process/Control Documentation Repository will be a controlled file housing the most recent and official documentation for SOX processes throughout the Company.

Surety Bonds

Applicability: Applies to Enterprise
Originator: Global Risk Management & Insurance
Approval: Senior Vice President and Treasurer

Effective Date: 09/26/2000
Revision Date: 06/01/2007
Reissue Date: 06/01/2007

Statement of Purpose and Philosophy

This Surety Bond policy (hereinafter, this "Policy") addresses the approval, issuance and management of all surety bonds to be issued for the account of Duke Energy Corporation (hereinafter, "DEC") or any of their direct or indirect subsidiaries and affiliates. This Policy is designed to support Duke Energy's business values, in particular the value of financial integrity. This policy does not address the approval, issuance, entering into or management of liabilities associated with guarantees, letters of credit or analogous credit enhancement instruments or indemnities, warranties or comfort letters. The execution of General Agreements of Indemnity with Surety Companies financially obligating DEC, that allows the issuance of surety bonds on DEC's behalf, are handled like guarantees and not addressed by this policy.

Policy Expectations

The issuance and administration of outgoing Surety Bonds is managed by the Global Risk Management & Insurance. The majority of Surety Bonds are required to secure contractual obligations such as performance and bid bonds requirements. Other bonds are required by law or regulation of government agencies. Requests for the issuance of surety bonds to a single entity should be for the total anticipated obligation and not a series of incremental requests.

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

Standards/Requirements

Approval Requirements

- All applications and requests for the issuance of surety bonds require review and approval in accordance with this Policy and the Approval of Business Transactions Policy.
- The General Manager, Global Risk Management & Insurance is authorized to and approves the issuance of surety bonds. The General Manager, Global Risk Management & Insurance

may delegate in writing such authority for bonds not exceeding $25 million pursuant to a properly executed Delegation of Authority Form.

- The General Manager, Global Risk Management & Insurance must approve any increases in the aggregate bond program term amount with any Surety Company for which DEC has a General Agreement of Indemnity.
- Contracts requiring the issuance of a surety bond must be executed by a person(s) so authorized by the Delegation of Authority Policy and in accordance with the Approval of Business Transactions Policy.
- Business Unit management will contact Global Risk Management & Insurance to review and evaluate surety bond requirements.
- The General Manager, Global Risk Management & Insurance is authorized to approve applications to insurance brokers for the issuance of surety bonds. The General Manager, Global Risk Management & Insurance may delegate in writing the authority to approve such applications.
- Exceptions to this Policy may be approved in some instances. Any exception to this Policy must be requested by the Head of the corresponding Business Unit or Corporate Function and approved by the Corporate Treasurer. Exceptions to policy requests must be submitted to Global Risk Management & Insurance, as appropriate, in the Request for Exception to Surety Bond Policy Form (attached hereto as Attachment A). Global Risk Management & Insurance will pursue the approval of the Corporate Treasurer, if deemed advisable, and further retain all necessary documentation of all such exceptions to policy so approved. In turn, the Business Unit or Corporate Unit whose request for an exception to policy has been duly approved must document such an approval in its Delegation of Authority form in accordance with the Delegation of Authority Policy.

Application and Reporting of Surety Bonds

- Surety bonds must be requested through Global Risk Management & Insurance. Requests are submitted using the surety bond forms and procedures available via links on this Policy site or on the Portal site maintained by Global Risk Management & Insurance.

Accountability: Roles and Responsibilities

Business Unit/Corporate Units

- If there are proposed changes in standard terms and conditions for the surety bonds, submit drafts to Legal and Global Risk Management & Insurance for review and recommendation for approval, prior to the submission of any DEC bond application or request for approval and issuance.
- Obtain Business Unit and Corporate Unit approval per the Delegation of Authority Policy and the Approval of Business Transactions Policy, if required, before requesting the final issuance of surety bonds from Global Risk Management & Insurance.
- Request surety bond using the surety bond forms and procedures available via links on this Policy site or on the Portal site maintained by Global Risk Management & Insurance.
- Provide Global Risk Management & Insurance with the internal accounting information needed to process the annual bond premium.
- Evaluate the continued need for all outstanding bond obligations and strive to eliminate bonds when no longer required. Inform Global Risk Management & Insurance to cancel bonds as projects are completed or when the bond obligation is no longer required and when bonds should not be renewed by submitting a Bond Release Request Form available via links on this Policy site or on the Portal site maintained by Global Risk Management & Insurance.

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

- DEC's representative on an affiliate governing board or management committee must ensure the affiliate in question does not obligate or bind DEC to cause the issuance of a surety bond prior to approval at the appropriate levels within DEC pursuant to this Policy and the Approval of Business Transactions Policy.
- The required approval level will be determined by the amount and term requested in accordance with the Approval of Business Transactions Policy and this Policy.
- DEC's representative must obtain approval from the General Manager, Global Risk Management & Insurance for affiliate or joint venture requests or applications for surety bonds for amounts greater than DEC's pro rata share ownership based on DEC's percentage ownership interest in the affiliate or joint venture.
- Surety bond application requests must be submitted to Global Risk Management & Insurance for review and approval in accordance with this Policy. The General Manager, Global Risk Management & Insurance is authorized to approve request applications to insurance brokers for the issuance of surety bonds. The General Manager, Global Risk Management & Insurance may delegate in writing the authority to approve such surety bond request applications.

Global Risk Management & Insurance

- Approve and assign insurance brokers for issuance of surety bonds.
- Manage the issuance of surety bonds consistent and in accordance with this Policy. Review all applications or requests for unusual or special surety bonds and address any issues with the Business Units. After verifying appropriate approvals, manage the execution, issuance, delivery and reporting of all surety bonds.
- Maintain records and reports on all outstanding surety bonds.
- Annually renew all existing bonds and invoice the business units for bonds they request unless a Bond Release Request Form is received requesting cancellation prior to renewal.
- Coordinate the cancellation of bonds no longer needed as documented by the Bond Release Request Form.
- Prior to approving a surety bond request from a Crescent Resources, LLC subsidiary under DEC Credit Support in accordance with the Formation and Sale Agreement dated September 7, 2006, verify that the surety bond is for a project of a subsidiary qualifying as an "existing project" per the Formation and Sale Agreement and would not exceed DEC's outstanding credit support obligations as delineated in Section 6.8 of the noted Formation and Sale Agreement.
- Review the DEC total outstanding credit support obligations as delineated in Section 6.8 of the Formation and Sale Agreement for qualifying Crescent Resources, LLC subsidiary projects to ensure it does not exceed DEC's outstanding credit support obligations as delineated in Section 6.8 of the noted Formation and Sale Agreement at least quarterly.

Corporate Legal

- Review and approve any DEC contract or agreement that requires DEC issuance of a surety bond.
- Provide the Corporate Seal on surety bonds as needed for final distribution to obligees.
- Review and approve all General Agreements of Indemnity with Surety Companies.

Duke Energy.
Duke Energy Policy Statement

Payroll Policy

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

Approval Date: 08/31/00
Revision Date:

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

Roles and Responsibilities-

Business/Corporate Unit-

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

Business Continuity and Crisis Management Policy

Applicability:	Applies to Enterprise
Originator:	Risk Management Services
Approval:	Chief Administrative Officer
Effective Date:	07/01/1998
Revision Date:	08/09/2003
Reissue Date:	06/01/2007

Statement of Purpose and Philosophy

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

Policy Expectations

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

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

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

Accountability: Roles and Responsibilities

Senior management will annually assess the business continuity and crisis management preparedness of all critical and essential organizational elements and verify appropriate actions have been taken for the continuation of critical business functions.

Utilizing guidelines from the Enterprise Business Continuity and Crisis Management Program, operating units and corporate departments will institute and maintain an on-going program for developing, maintaining and validating emergency response, crisis management and business continuity plans to:

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

The Enterprise Business Continuity and Crisis Management Program will ensure a methodology exists to manage enterprise-level issues associated with business continuity and crisis management actions during a disruptive event.

Commodity Risk Policy

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

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

Statement of Purpose and Philosophy

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

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

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

Commodity Policy, Risk Limits and Procedures

Commodity Policy

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

Risk Limits

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

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

Business Unit Procedures

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

These policies and limits are intended to:

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

Policy Expectations

Objectives

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

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

Risks

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

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

Approved Counterparties

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

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

Approval of Business Transactions

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

Accountability: Roles & Responsibilities

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

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

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

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

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

Senior Management

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

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

Corporate Risk Management

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

Business Units

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

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

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

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

Requirements

Risk Decomposition and Transaction Designation

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

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

Conflict of Interest and Confidentiality

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

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

Authorization and Approval of Commodities, Products, and Projects

Approved Commodities

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

Approved Products

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

Transaction Review Process

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

Risk Measurement

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

Deal Capture

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

Limit Violations

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

Commodity Forward Market Curves and Commodity Price Forecasts

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

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

Modeling and Valuation

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

Risk Limits

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

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

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

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

Reporting

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

Changes to Policy & Risk Limits

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

Adoption & Implementation

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

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

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

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

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

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

Credit Policy

Applicability: Applies to Enterprise
Originator: Finance - Global Risk Management
Approval: Treasurer - Duke Energy

Effective Date: 04/01/2006
Revision Date: 05/01/2008
Reissue Date: 05/01/2008

Statement of Purpose and Scope

Extending and monitoring credit to customers and counterparties is integral to all of Duke Energy Corporation's businesses. Global Risk Management (GRM) has established standards of practice related to Credit Risk Management across Duke Energy Corporation and its subsidiaries ("Duke Energy"). This policy governs the extension of credit related to wholesale business activity (including fuel procurement), major construction projects and all enterprise sourcing. This policy does not pertain to the extension of credit for the franchised customer sales which are governed by applicable state law and regulatory rules for each jurisdiction.

Extension of credit includes sales of goods, services, commodities, storage, transportation, and capacity to counterparty where payment is expected at a future date and/or where Duke prepays counterparty for the delivery of goods or services at a future date. Extension of credit also includes the fixed price purchase of goods, services, commodities, storage, transportation and capacity as well as any contract which under which Duke Energy may assert a monetary damage claim in the event of failure to perform by the other party.

Authorized employees are expected to provide for and utilize resources necessary to make sound, credit decisions under the Credit Delegation of Authority (Credit DOA).

All subsidiaries and affiliates, including consolidated Joint Ventures, will manage credit risk in accordance with this policy or in the case of Joint Ventures, the risk policy approved by its Board of Directors, or other appropriate governing body. The Treasurer or designee will review such joint venture policies to assess compliance with this Policy.

Credit Policy, Credit Delegation of Authority, and Procedures

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

Credit Delegation of Authority
The Credit DOA contains various required credit activities and standards involved in setting credit limits including the delegation of credit authority. It bridges Policy and evolving market conditions

as well as provides guidance for best practices to ensure consistent application across the Enterprise. As such, the Credit DOA will be more frequently reviewed and updated than the Policy. All credit limits must be approved by GRM in accordance with the Credit DOA.

Credit Procedures

It is the responsibility of GRM to develop Credit Procedures to ensure compliance with both the Credit Policy and Credit DOA. Credit Procedures will be reviewed and approved by the head of GRM or a designee.

The Credit Policy, Credit DOA and Credit Procedures are intended to:

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

Policy Expectations

GRM must approve all extensions of credit related to business transactions within the Scope of this Policy, as defined below:

- All transactions involving extension of credit must be with counterparties approved by GRM.
- All Commodity, Storage, Transportation or Capacity purchases or sales transactions must be with approved counterparties.
- Any exception to this Policy must be approved by the Treasurer.

GRM will analyze counterparties, approve or reject counterparties and set credit limits. Business Units will ensure that any new transactions or modifications to existing transactions shall be within the specified counterparty limit. Credit extension to any counterparty not approved is prohibited. New counterparties must be reviewed and approved by GRM. All credit support instruments (e.g. parent guarantees or letters of credit) must be submitted to GRM and Legal Counsel for review before consenting to the form of these documents.

Accountability: Roles and Responsibilities

Duke Energy Treasurer

The Treasurer leads the credit risk management function across Duke Energy. Responsibilities include:

- Formulating credit strategy

- Creating a common credit culture by developing efficient, effective and consistent applications of Credit Policy
- Approving either directly or through a delegate, Credit DOA and Credit Procedures
- Approving either directly or through a delegate, any exceptions to Credit Policy, Credit DOA or Credit Procedures

Global Risk Management

As it relates to credit risk management, GRM has the following areas of responsibility:

- Formulating Enterprise Credit Policy
  GRM supports the Treasurer in formulating credit strategy, establishing a consistent credit culture and recommending new or revised credit policies. GRM ensures that the Credit Policy and Credit DOA support strategy and stakeholder objectives. GRM sets credit risk objectives, contract-related credit risk terms and conditions and is responsible for reporting credit exposure to management.
- Monitoring and Reporting
  GRM monitors credit exposure and performance and analyzes counterparty credit quality.
- Managing Credit Risk
  GRM performs credit reviews on specific transactions, counterparties and/or credit exposures as set forth above. GRM sets credit risk objectives, assigns credit limits and Internal Risk Ratings to counterparties. GRM is responsible for negotiating credit terms of transactions and trading agreements (e.g. default parameters, collateral arrangements); As a result of such review, GRM may require risk mitigation consistent with corporate objectives.
- Technology Applications. GRM maintains adequate credit risk systems which allow for timely recording and reporting of exposures.
- Information and Analysis Consistency
  GRM identifies, reviews and approves consistent credit exposure calculations and credit risk methodologies.

Business Units and Corporate Areas

- All Business Units and Corporate Areas must comply with the Credit Policy, operate within credit limits set forth by GRM and develop procedures and controls to ensure compliance.
- All Business Units and Corporate Groups must communicate/report information and/or transactions to GRM with adequate time for review so they can complete the counterparty credit risk assessments.
- Prior to entering into any transaction, all Business Units and Corporate Areas must receive credit approvals for extension of credit and credit-related contract terms.
- Employees who execute transactions are responsible for ensuring that GRM has approved all prospective counterparties before extension of credit, and that any new transactions or modifications to existing transactions are within specified limits. Transactions with counterparties not approved by GRM are prohibited.
- In addition, transactions in excess of existing credit limits shall be reviewed with GRM to determine how to enhance the credit position and/or modify credit limits.

Organizational Relationships

The GRM group is independent of the business. No member of GRM should have a direct reporting relationship to any of the businesses. However, Business Units may have risk personnel that maintain a dotted line reporting relationship with GRM.

Compensation, including incentive compensation or spot bonuses, for all GRM personnel shall be independent of Business Unit financial performance.

Any exceptions to the above rule must be approved by the Treasurer or designee.

Changes to the Policy

All changes to the Credit Policy will be reviewed and approved by the Treasurer.

Adoption & Implementation

This policy supersedes prior publications and is effective April, 2008. GRM, Corporate Areas and the Business Units must comply. Policy updates may require changes to business practices and procedures at Business Units and Corporate Areas.

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

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

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

Loan Policy

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

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

Statement of Purpose and Philosophy

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

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

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

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

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

Roles and Responsibilities

Business Units and other Corporate Units (Origination)

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

Corporate Treasury

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

Corporate Risk Management

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

Risk Limits for the Origination and Administration of Loans

Guiding Principles

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

Client Files

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

Financial Statement Requirements

- Financial statements should be maintained on all customers, including guarantors/endorsers/co-makers, general partners in partnership and other third parties providing support to a transaction.
- Financial statements include:
  - balance sheet
  - income statement
  - statement of cash flows
  - consolidating statements for all entities, and
  - footnotes including description of contingent liabilities, discussion of material subsequent events, and description of deviations from GAAP.
  - Updated financial statements are to be received at least annually and within three months of the customer's fiscal year end.

Credit Approval Form

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

Credit Memorandum

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

Extension of Credit

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

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

Summary of Internal Controls and Financial Controls Policies

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

Effective Date: 12/16/2004
Revision Date: 12/16/2004
Reissue Date: 12/16/2004

Statement of Purpose and Philosophy

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

Policy Expectations

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

Accountability: Roles and Responsibilities

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

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

Corporate Controller's Department

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

Standards/Requirements

List of Internal Controls and Financial Controls Policies

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

Accounting for Income Taxes

Applicability:	Applies to Enterprise
Originator:	Senior Vice President Tax
Approval:	Senior Vice President Tax
Effective Date:	06/30/2004
Revision Date:	03/31/2008
Reissue Date:	03/31/2008

Statement of Purpose and Philosophy

Provide a framework for the processes, organization, and policies encompassing income tax accounting for Duke Energy Corporation and its subsidiaries ("Company").

Policy Expectations

This Policy sets forth certain standards for U.S. Federal, U.S. State, and foreign income tax accounting, clarifies organizational responsibilities within the Finance function, and identifies certain technology to be deployed in the process.

Accountability: Roles and Responsibilities

The **Senior Vice President Tax** is responsible for:

- Preparation and review of the consolidated income tax provisions and payments
- Review and approval of quarterly and annual internal representation letters required by Duke Energy to support Sarbanes Oxley compliance and other internal control procedures as it relates to income tax accounting and related disclosures.
- Worldwide tax compliance, tax audits and tax strategy
  - The Senior Vice President Tax may delegate compliance work to staff and/or outside firms.
  - The Senior Vice President Tax retains responsibility for compliance regardless of delegations
- Preparing and filing the U.S. Federal, U.S. State, and foreign income tax returns
  - The Chief Financial Officer must approve the U.S. Federal Income Tax return before it is fil
- Preparation and review of tax return to tax accrual reconciliations. Preparation and review of worldwide income tax valuation allowances and reserves. Preparation and review of the consolidated income tax forecast. Complying with Generally Accepted Accounting Principles (GAAP) and all related accounting standards and interpretations related to tax accounting.
  - Identify and submit issues to the Corporate Controller or his designee which relate to complex income tax accounting issues.
- Ensuring that staff assigned to income tax accounting is adequately trained and knowledgeable with respect to GAAP, accounting interpretations and other authoritative guidance
- Ensuring the do - review process is present and responsibilities are segregated amongst the staff and that staff with adequate knowledge of income tax accounting is engaged in this process
- Ensuring the monthly close cycle allows adequate time for analyzing and recording the income tax provision, including income tax reserves, rollforwards of asset and liability accounts, calculation of the effective tax rate (ETR) and other key analyses

- Recording income tax provisions, perform reconciliations and provide reports and other information as prescribed in this Policy
- Preparing the income tax forecast in a manner that is materially consistent with this Policy (for input to the Corporate forecast model)

The **Corporate Controller** is responsible for:

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

Standards (policies)

The Company shall comply with Financial Accounting Standards (FAS) 109,*Accounting for Income Taxes* and Financial Accounting Standards Board (FASB) Interpretation (FIN) 48, *Accounting for Uncertainty in Income Taxes*, an interpretation of FAS 109 and all related interpretations and other guidance issued by the FASB, Emerging Issues Task Force (EITF), American Institute of Certified Public Accountants (AICPA) and other authoritative bodies.

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

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

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

Requirements (procedures)

Recording income tax provisions:

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

Income tax valuation allowances and reserves:

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

Reconciliation of tax returns to the general ledger:

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

Reporting:

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

Duke Energy
Duke Energy Policy Statement

Property Tax Policy

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

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

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

Roles and Responsibilities-

Business/Corporate Unit-

Property Taxes and Payments Policy

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

Relations With Tax Authorities Policy

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

Effective Date: 08/31/2000
Revision Date: 08/31/2000
Reissue Date: 03/31/2008

Statement - This Policy covers relations such as inquires and correspondence with tax authorities by Business Unit/Corporate Areas. The Policy describes the minimum controls required. The Business Units/Corporate Areas should implement additional procedures and controls as needed to ensure an appropriate level of control exists regarding relations with tax authorities.

Roles and Responsibilities-

Business Unit/Corporate Area-

Relations with Taxing Authorities Policy

- Business Unit/Corporate Areas must refer all U.S. income tax inquiries or correspondence received from taxing authorities except general payroll related correspondence to the Tax Department for resolution.
- The Tax Department must be apprised of foreign and other inquiries or correspondence received from taxing authorities.

Sales/Use and Excise Tax Policy

Applicability:	Applies to Enterprise
Originator:	Senior Vice President Tax
Approval:	Senior Vice President Tax
Effective Date:	08/31/2000
Revision Date:	11/01/2007
Reissue Date:	11/01/2007

Statement- This policy covers sales/use and excise tax processes used by Business/Corporate units and Corporate Tax. The policy describes the minimum controls required. Business/Corporate units and Corporate Tax should implement additional procedures and controls as needed to ensure an appropriate level of control exists regarding sales/use & excise taxes.

Roles and Responsibilities

Business/Corporate Unit are responsible for:

- ensuring that employees responsible for processing vendor invoices are properly trained on the sales and use tax requirements for coding transactions through the applicable Accounts Payable systems. This includes, for example, proper category, ship-to, and DCE code selection for transactions processed through Peoplesoft, Passport, and BDMS systems.
- ensuring that employees responsible for generating customer invoices are properly trained on sales/use and excise tax requirements as they pertain to applicable billing systems.
- notifying Corporate Tax in a timely manner regarding any audits initiated by taxing authorities.
- reconciling on a regular basis all sales/use and excise tax accrual accounts associated with returns filed by each group. Discrepancies will be reviewed within the Business/Corporate unit or Corporate Tax accordingly and any necessary adjustments booked on a timely basis.
- sales/use and excise tax returns that have not been transitioned to the Corporate Tax Department, it will be the responsibility of Business/Corporate units to file on a timely basis their own sales/use and excise tax returns with all applicable taxing authorities, for remitting the proper tax to those taxing authorities and for handling any follow-up correspondence of a routine nature. When necessary, Business/Corporate units will work with Corporate Tax to initiate new tax registrations and to resolve any non-routine situations.
- collecting and maintaining valid customer exemption certificates and/or direct pay permits, when applicable. These certificates must be kept up-to-date and must be available for presentation to a state/local tax auditor.

Corporate Tax is responsible for:

- filing on a timely basis all sales/use and excise tax returns with applicable taxing authorities, for remitting the proper tax to those taxing authorities, and for handling any follow-up correspondence, as long as responsibility for all applicable returns has been properly transitioned from the Business/Corporate unit to Corporate Tax. It will also be the responsibility of Corporate Tax to initiate new tax registrations and to resolve all compliance and registration issues.
- coordinating and leading all audit matters related to sales/use and excise tax returns.

- reconciling on a regular basis all sales/use and excise tax accrual accounts associated with returns filed by each group. Discrepancies will be reviewed within the Business/Corporate unit or Corporate Tax Department accordingly and any necessary adjustments booked on a timely basis.
- providing oversight and communication on a timely basis to Business/Corporate units regarding new sales/use or excise tax statutes and regulations.
- advising Business/Corporate units on compliance, systems, and processing matters with respect to sales/use and excise taxes.

Tax Reserves Policy

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

Effective Date: 12/31/2004
Revision Date: 03/31/2007
Reissue Date: 03/31/2007

Statement of Purpose and Philosophy

The purpose of the policy is to provide a framework for the processes, organization and policies encompassing the recording of reserves for income taxes for the company and its subsidiaries.

Policy Expectations

This policy sets forth certain standards for U.S. Federal, U.S. State, and foreign tax reserves, including income, property, franchise, capital, and all consumption taxes.

Accountability: Roles and Responsibilities

The Senior Vice President Tax is responsible for:

- Analyzing and documenting the need for reserves.
- Recording the journal entries for tax reserves.
- Updating the Corporate Controller as to the adequacy of income tax reserves once each fiscal quarter prior to closing the books.
- Maintaining account reconciliations for reserve accounts.
- Determining the adequacy of the work papers and documentation with respect to internal controls, external audit and other related issues.

The Corporate Controller is responsible for:

- Determining the GAAP treatment of the reserves.

The Senior Vice President Tax will have final approval as to the adequacy of reserves after considering input from the Corporate Controller.

The Corporate Controller and the Senior Vice President Tax will review the reserves with the Chief Financial Officer each quarter.

Standards/Requirements

Analysis of Tax Reserves and Identification of Potential Tax Reserves

Each quarter, the Senior Vice President -Tax or designee will analyze tax reserves. The analysis considers tax, interest and penalties, if applicable. With the analysis, consideration is given to changes in facts and events, including business transactions, lapse of audit cycles, and issuance of case law or Internal Revenue/State Department of Revenue positions. Reserves will be documented and maintained by the Corporate Tax department.

The Senior Vice President Tax exercises professional judgment as to the need for third party tax and/or legal consultation and possible need to obtain formal Tax Opinions or other written advice for issues identified during the above review.

Analytical Process for Determining the Possible Need for and Related Amount of Tax Reserves

Income tax reserves: The Company follows FIN 48, "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109". FIN 48 prescribes a minimum recognition threshold a tax position is required to meet, otherwise, a reserve of all or a portion of the tax position is required. Tax positions are filing positions that the Company has taken or expects to take on its tax return by including the position in the current tax provision. Under FIN 48, a tax benefit is not recognized unless the "more likely than not" recognition threshold is met, i.e. the tax benefit is expected to be sustained on audit by the taxing authority based solely on the technical merits of the position. If the recognition threshold is met, the tax benefit recognized is measured at the largest amount of the tax benefit that is greater than 50 percent likely to be realized.

Non-income tax reserves: The Company follows FAS 5 in determining the need for and the amount of non-income tax reserves. In accordance with FAS 5, reserves will be accrued if information available prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and that amount of the loss can be reasonably estimated. Reserves may be accrued at 100% or risk adjusted based on the facts and circumstances.

Documentation of Tax Reserves and the Calculation of the Reserve Amounts

- Adequate documentation supporting the tax reserves and any changes to the tax reserves is required to be developed and retained in the Corporate Tax department, including spreadsheets, memoranda and other documentation.
- The Do/Review process is used and documented according to company policy for calculations of reserve amounts.

Proper Recording of Tax Reserves

- Tax reserves must be recorded in the appropriate taxes payable account.
- Reserves should be recorded at the appropriate registrant level.

Accounting for Cash Overdrafts

Applicability:	Applies to Enterprise
Originator:	Corporate Controller
Approval:	Corporate Controller
Effective Date:	03/31/2006
Revision Date:	10/31/2007
Reissue Date:	10/31/2007

Statement of Purpose and Philosophy

The purpose of this policy is to provide guidelines at the Business Unit Accounting level to follow which will allow for a consistent application of generally accepted accounting principles ("GAAP") throughout the Company with respect to cash overdrafts.

Book overdrafts representing outstanding checks in excess of funds on deposit should be classified as liabilities at the balance sheet date. Generally, credit book balances are not offsets to other cash accounts or equivalent accounts (including time deposits, certificates of deposit, money market funds and similar temporary investments) except where the legal right of offset may exist within the same financial institution and legal entity. Where right of offset does not exist, credit balances are a reinstatement of the liabilities that were cleared in the bookkeeping process.

Cash overdrafts can be either book or bank overdrafts. Book balances reflect the amount recorded on the general ledger which is reconciled to the respective bank statement. Bank balances simply represent the amount of funds on deposit at the bank at any point in time. A book overdraft represents outstanding checks in excess of funds on deposit, while bank overdrafts represent the total of payments honored by the bank without sufficient funds in the account to cover them (a loan). For purposes of the Company's monthly analysis, both bank and book overdrafts must be considered for purposes of determining materiality and proper classification.

Duke Energy utilizes a central Cash Management group for the maintenance of the bank accounts at the corporate level. Part of Cash Management's role is to reduce the Company's interest expense. One way they are able to achieve this reduction is through notional pooling of bank accounts. Cash Management pools (groups) different accounts together at financial institutions. As part of the pooling agreements, the financial institutions look at these multiple accounts as sub accounts that are consolidated into a large main account. However, when Cash Management sets up these pooled accounts, their grouping is not based on Business Units, but rather on different factors, such as geography, currency, etc. As a result, a Business unit may be in an overdraft position at their sub account level, but the pooled level (consolidated) is actually not in an overdraft position.

Policy Expectations

This policy should be applied to all Business Units to ensure a consistent and proper approach to accounting for cash overdrafts. Proper execution of this policy will require participation by the Corporate Controller's Department (specifically, the Corporate and Business Unit Accounting groups and the Corporate Reporting group), and the Treasury Department (Cash Management).

Accountability: Roles and Responsibilities

- Cash Management – Provide an updated list of all notionally pooled accounts and the month-end bank balance, including proper exchange rates, to both Business Unit Accounting and the Corporate Reporting groups on the first business day of each month[1] reflecting the balance as of the last day of the previous month.
- Business Unit Accounting – 1) Record journal entries as outlined below for non-pooled accounts. Analyze bank and book balances for non-pooled accounts by financial institution and legal entity on a monthly basis and make reclassification entries for negative balances, ensuring pooled accounts are excluded from the analysis. 2) Record journal entries as outlined below for pooled accounts. Analyze bank and book balances for pooled accounts by financial institution and legal entity on a monthly basis and make reclassification entries for negative balances, ensuring non-pooled accounts are excluded from the analysis. Provide month-end bank and book balances, including proper exchange rates, by financial institution and legal entity as well as details of any reclassifications made to Corporate Reporting (per data request)
- Corporate Reporting – Review pooled accounts analysis received from Business Unit Accounting for reasonableness. Determine if any reclass entries recorded for pooled accounts by Business Unit Accounting areas should be reversed at each consolidated SEC registrant level to ensure the net balance of each pool is correct. If material, direct Corporate Accounting to record the proper journal entry.
- Corporate Accounting – Record proper journal entry for pooled accounts, if material, as determined in conjunction with Corporate Reporting.

Analysis of Bank Accounts

Each Business Unit Accounting area is responsible for the analysis of non-pooled and notionally pooled bank accounts at the segment level. Bank accounts should be analyzed by financial institution and legal entity where the legal right of setoff (offset) exists. The analysis of non-pooled accounts must be performed independently of the analysis of notionally pooled accounts. Balances between pooled and non-pooled accounts with the same financial institution cannot be offset.

In general, to offset the overdraft (liability) with cash (asset), the four conditions stated below must all be met.

Paragraph 5 of FASB Interpretation No. 39: Offsetting of Amounts Related to Certain Contracts states the following:

A right of setoff is a debtor's legal right, by contract or otherwise, to discharge all or a portion of the debt owed to another party by applying against the debt an amount that the other party owes to the debtor. A right of setoff exists when all of the following conditions are met:

a. Each of two parties owes the other determinable amounts.
b. The reporting party has the right to set off the amount owed with the amount owed by the other party.

c. The reporting party intends to set off.
d. The right of setoff is enforceable at law.

A debtor having a valid right of setoff may offset the related asset and liability and report the net amount.

The entry to record a cash overdraft is as follows:

Dr. Cash (PeopleSoft Acct #: within GAAP Node 1111 – Cash)

Cr. Bank Overdraft (PeopleSoft Acct #: within GAAP Node 2104– AP Banks)

[1] *Note:* The first business day of each month is defined as the first day that the banks provide previous day balances. If an international holiday falls on the first U.S. business day of the month, the bank balances will not be available until the following day.

Bank Account and Check Disbursement Policy

Applicability: Applies to Enterprise
Originator: Corporate Treasury – Cash Management
Approval: Senior Vice President & Treasurer

Effective Date: 08/31/00
Revision Date: 06/01/07
Reissue Date: 06/01/07

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

Roles and Responsibilities-

Corporate Cash Management Department –

- Domestic – All domestic bank accounts must be established and modifications (including signature card updates) must be processed through Corporate Cash Management.
- International - All bank accounts denominated in U.S. or Canadian dollars must be established and modifications (including signature card updates) must be processed through Corporate Cash Management. Corporate Cash Management must be consulted prior to the establishment of local in-country bank accounts. These local in-country accounts, including authorized signers, must be reported to Corporate Cash Management on a quarterly basis.

Business/Corporate Unit –

- Requests for establishing and modifying all domestic and international bank accounts denominated in U.S. or Canadian dollars must be made through Corporate Cash Management. Corporate Cash Management should be consulted prior to the establishment of local in-country bank accounts internationally. Each request must include documentation describing the business reason for the request.
- Bank accounts must be reconciled on a periodic basis. Corrections should be made within one month of identifying a reconciliation difference.
    - The bank statement must be reconciled to the checkbook
    - The bank statement must be reconciled to the general ledger account
    - Reconciliations must be reviewed by management
- Unissued checks, including blank check stock, must be physically secured.
- Check signers must not have access to blank checks.
- Checks must be controlled by sequential numbering.
- All checks which are voided must be retained or records kept when destroyed.

Guidelines –

- The following functions should be separated between at least two people. Weaker segregation of duties should be accompanied by additional management review.
    - cash disbursement
    - purchasing
    - contract administration
    - receiving
    - bank account reconciliation
    - accounts payable
- Unissued checks should be accounted for periodically by personnel independent of check custody. Checks issued should be balanced to the daily payments journal and must be balanced to the monthly payments journal.

Corporate Cash Management Policy

Applicability:	Applies to Enterprise
Originator:	Treasury - Corporate Cash Management
Approval:	Senior Vice President & Treasurer
Effective Date:	04/01/2006
Revision Date:	06/01/2007
Reissue Date:	01/01/2008

Statement of Purpose and Philosophy

The purpose of this Policy is to confirm Duke Energy's Cash Management Objectives and to define the responsibilities and the authority within the Corporation for achieving those objectives.

Policy Expectations

This policy applies to the consolidated Corporation, which consists of Duke Energy Corporation and all of its consolidated or controlled subsidiaries and affiliates. Cash is a critical asset of the Corporation. It is the policy of Duke Energy that all cash assets of the Corporation be properly safeguarded and then managed to maximize value.

Accountability: Roles and Responsibilities

Duke Energy's Corporate Cash Management Group (Corporate Cash Management) is responsible for achieving Duke Energy's Cash Management Objectives which are as follows:

- Provide daily liquidity
- Safeguard cash assets
- Maximize the value of cash assets
- Minimize short-term interest expense
- Maximize short-term interest income
- Provide cost effective banking services

For those entities with non-Duke shareholders, Corporate Cash Management recognizes its fiduciary responsibilities and will optimize the cash assets of those entities using the above objectives. Corporate Cash Management is responsible for executing or directing all cash management activities within the consolidated Corporation.

Cash Management Activities

Cash management activities include:

- Prepare reliable cash forecasts
- Set cash position accurately and timely

- Consolidate cash, where appropriate (taking into consideration legal, regulatory, tax and any other appropriate considerations)
- Manage movement of funds through the money pool arrangement
- Borrow needed funds at attractive rates
- Maximize return on available cash within approved guidelines
- Maintain strong relationships with a broad group of commercial banks
- Open, maintain (including signature card updates), and close all U.S. and Canadian dollar bank accounts and provide consultation for the establishment of international in-country bank accounts
- Select banking services and monitor service quality and price
- Execute wire transfer payments and other electronic payments accurately and timely
- Execute certain foreign currency payments
- Arrange other commercial banking services, including escrow agreements

Borrowing for the entire consolidated Corporation is the responsibility of Duke Energy's Treasury Department. Corporate Cash Management will coordinate with other Treasury Department personnel to determine and establish short-term borrowing programs across the consolidated Corporation. Only individuals authorized by the head of Cash Management will be permitted to initiate short-term borrowings. Such authorizations are to be reflected in the appropriate Delegation of Authority and communicated to appropriate borrowing agents through letters signed by the head of Cash Management. Authorized individuals are authorized to borrow up to the size of the individual borrowing programs.

Investing cash for the entire consolidated Corporation is the responsibility of Duke Energy's Treasury Department. Only authorized individuals may make cash investments on behalf of Duke Energy and its subsidiaries. Authorizations and approved short-term investment products are outlined in the Short-Term Investment Guidelines maintained by Treasury.
Corporate Cash Management is responsible for the consolidation of cash for the consolidated Corporation. Authorizations and requirements for cash consolidation are further defined in the Intercompany Funding Policy.

DOMESTIC CASH MANAGEMENT (US)

Corporate Cash Management is responsible for executing all cash management activities within the consolidated Corporation in the US, and will work closely with all business units to ensure that Duke Energy's Cash Management Objectives are being achieved while maximizing business unit and corporate earnings.
Bank accounts must be established and modifications (including signature card updates) must be processed through Corporate Cash Management.
Corporate Cash Management (as authorized by appropriate Boards) is responsible for executing all short-term borrowing and cash investing within the consolidated Corporation. With regard to wire transfer and other individual electronic payments, Corporate Cash Management is responsible for ensuring that such wire transfer and certain electronic payments have been properly approved before being executed.

INTERNATIONAL CASH MANAGEMENT (includes Canada)

Corporate Cash Management is responsible for executing and directing all cash management activities within the consolidated Corporation at Duke Energy's international locations. Corporate Cash Management will work closely with local business unit management, Regional Treasury Managers and the local personnel responsible for cash management to ensure that Duke Energy's Cash Management Objectives are being achieved. Before issuing cash management directives, Corporate Cash Management will coordinate and consult with the business unit, tax, legal, treasury, and other key personnel to ensure that those directives incorporate appropriate strategic, legal and tax considerations, country and currency risks, local banking relationship considerations, and local banking regulations and restrictions.

Whenever possible and practical, cash in excess of working capital needs should be consolidated among similarly owned entities in US dollars. Whenever possible and practical, where currency risk is high or country risk is higher than established levels, cash must be invested outside of that country.

Standards: The following section contains information that applies to all Treasury policies and guidelines

- Treasury: Treasury is a centralized corporate center servicing and operating on behalf of Duke Energy and its consolidated or controlled subsidiaries and affiliates. All Corporate Departments and Business Units are expected to comply with the contents of this manual. Changes to policies must be approved in accordance with Duke Energy policy. Changes to guidelines will be made within functions and must be approved by the Treasurer.
- Delegation of Authority: Only authorized individuals may enter into Treasury activities. Such activity and limits are covered under the Approval for Business Transactions Policy. Individuals and their corresponding functions and limits are listed in the Treasury Delegation of Authority ("DOA"). Exceptions may be granted with written approvals by individuals authorized to the required transaction levels consistent with the DOA. Both documents are managed within the Controller's group. No Duke Energy employee shall knowingly personally benefit from any Treasury transaction. All Treasury activity will conform to the "Approval of Business Transactions" policy and the Treasury DOA.
- External Counterparts: External counterpart determination will be made within the Duke Energy Finance organization in coordination with Treasury and Global Risk Management & Insurance. Credit Risk guidelines will be the responsibility of Global Risk Management & Insurance.
- Transactional Controls: Transactional control procedures will comply with documented control procedures.
- Accounting Standards: Accounting treatment for all transactions will be in accordance with GAAP and will be determined, if applicable, in coordination with the Corporate Accounting Research Group in accordance with the Accounting for Risk Management and Hedging Activities Policy and Accounting for Intercompany Transactions Policy, on the portal and managed within the Controller's group.
- Terms, Definitions and Approved Products and Instruments: Financial terms shall have meanings consistent with definitions found in *Barron's Dictionary of Finance and Investment Terms*. A list of approved finance and hedging products and instruments is available from Treasury. Use of other products or instruments must be approved by the Treasurer and Chief Financial Officer.

Financing Activity and Financial Risk Management Policy

Related Links

Approval of Business Transactions

Delegation of Authority

Accounting for Risk Management and Hedging Activities Policy

Financial Analysis Manual

Guaranty Documentation Guide

Treasury Policy and Guideline

Applicability:	Applies to Enterprise
Originator:	Corporate Treasury
Approval:	Corporate Chief Financial Officer
Effective Date:	04/01/2006
Revision Date:	04/01/2006
Reissue Date:	04/01/2006

Statement of Purpose and Philosophy

Policy Objectives: The scope of this policy covers financing and financial risk management activities within Duke Energy's Corporate Treasury. This policy does not cover other activities managed within Corporate Treasury that include: Cash Management, Long-Term Investment and Financial Planning and Analysis. Policy and guideline information for those activities is managed under separate policies and guidelines within the "Corporate Treasury Policy and Guideline Manual."

The objective of Duke Energy's financing and financial risk management activities within Corporate Finance and Portfolio Management in Corporate Treasury is to provide enterprise-wide services that enhance Duke Energy's, its subsidiaries', affiliates' and each Business' ability to increase revenue, reduce costs and manage risk. This is accomplished through, but is not limited to the following activities:

- Optimize capitalization, including all financing activity
- Optimize liquidity, including access to bank and capital markets
- Position debt portfolios of Duke Energy and its operating companies to minimize cost of capital and optimize maturity profile, consistent with overall risk management goals
- Manage and monitor long-term debt, including administration and compliance
- Optimize credit ratios to maintain desired credit ratings
- Manage and monitor interest rate risk exposure
- Manage and monitor foreign currency risk exposure
- Forecast enterprise financing needs
- Issue and manage credit enhancements
- Oversee transaction review, including establishing cost of capital and hurdle rates

Functions within Corporate Finance and Portfolio Management fall into two categories: Financing Activity and Financial Risk Management.

Policy Expectations and Accountabilities

Financing Activity

Financing activity throughout the corporation is the sole responsibility of Corporate Treasury. With the exception of the short-term and intercompany financing activity within Cash Management, financing activity is the responsibility of Corporate Finance. Financing activity includes, but is not limited to, the following: (A) Security issuances in the public and private placement markets, including long-term and short-term debt, equity, hybrid structures, MLP and Income Fund units; (B) Repurchases, redemptions or retirements of any debt and equity instruments or units; (C) Lines of credit and borrowing facilities, whether syndicated or bilateral; and (D) Issuances of letters of credit and corporate guarantees.

In connection with this activity, primary financial institution relationships will be managed exclusively out of Corporate Treasury. Specifically, Corporate Finance will be the lead managers of, and primary points of contact to, the financial institutions that serve the corporation. Business Units are prohibited from hiring financial institutions for financing activity.

Under no circumstances will any group or entity, for which Duke Energy has controlling interest, outside of Corporate Treasury, conduct the above actions without prior written approval from the Corporate Chief Financial Officer.

Credit Enhancement Instruments (Guarantees and Letters of Credit)

Corporate credit enhancement instruments will be negotiated, issued and administered within Corporate Treasury. All applications and requests for the issuance of guarantees or letters of credit require review and approval in accordance with this policy and the Approval of Business Transactions Policy.

Credit enhancement instruments should be issued with a stated fixed amount and a fixed term, or with a right of revocation. Uncapped guarantees must be reviewed and approved by the business unit head and then forwarded for review by an Expanded Executive Committee member for the business unit, the Corporate Treasurer and the Corporate CFO. Uncapped guarantees require the approval of the Board of Directors unless a theoretical maximum exposure can be established and is within authorized approval limits of the CFO and CEO. Credit enhancement instruments with a maturity date greater than 10 years from the date of issuance must be approved by the Corporate Treasurer and the Corporate CFO, and for instruments in excess of 20 years, by the CEO.

Credit enhancement instruments issued on behalf of non-wholly owned entities shall be in an amount based on Duke Energy's pro-rata ownership interest in such entity. Credit support in excess of such pro-rata ownership interest requires approval in accordance with the Approval of Business Transactions Policy and the Corporate

Treasurer of Corporate CFO.

No credit enhancement instruments should be issued on behalf of unaffiliated third parties.

Credit enhancement instruments issued in support of assets or subsidiaries being divested must be terminated or released at the closing of such divesture, or promptly thereafter. Failure to terminate such credit enhancement instruments at closing must be back-stopped and supported by an indemnity from the purchaser or other credit enhancement instrument acceptable to Credit Risk Management for the limited period that the credit support remains outstanding. Exceptions to this Policy must be approved by the Corporate Treasurer, the Chief Risk Officer and the Corporate CFO.

Contracts requiring the issuance of a credit enhancement instrument must be executed by a person(s) so authorized by the DOA and in accordance with the Approval of Business Transactions Policy. No Contract incorporating language requiring the issuance of a credit enhancement instrument can be executed unless both Corporate Legal and Corporate Treasury have approved such language.

If specifically authorized in writing pursuant to a business unit DOA (signed by the Corporate Treasurer), a business unit may, however, issue its own guarantees in support of its own subsidiaries. Such issuance must be consistent with language and procedures developed by Corporate Legal and Corporate Treasury in accordance with the "Guaranty Documentation Guide", which is available from Corporate Treasury.

The Corporate Treasurer and Head of Corporate Finance are authorized to execute properly approved guarantees. The Corporate Treasurer and Head of Corporate Finance may approve bank applications for letters of credit which have been properly authorized, and may delegate such approval.

Any exceptions to compliance with this section of the policy must be requested by a business unit CEO or CFO, Corporate General Manager or Corporate Vice President and approved by the Corporate Treasurer and Corporate CFO.

Transaction Review

The transaction review process will be executed as is detailed in the "Financial Analysis Manual". This includes involvement of the Transaction Review Committee. Any material changes to approved projects, whether quantitative or qualitative, must re-visit the "Approval of Business Transactions" process. Please review the "Financial Analysis Manual" or contact the Corporate Finance group within Corporate Treasury for further clarity on this issue.

Financial Risk Management

Interest Rate Risk Management

Interest rate risk is defined as the impact on Duke Energy earnings per share and asset returns from interest rate market movements. The goal of the interest rate risk management program is to reduce the cost of funds, manage the mix of fixed and floating rate debt and to position the company for changes in interest rate levels.

Authorization

- Corporate Treasury is authorized to use derivative financial instruments to manage the interest rate risks associated with outstanding debt or to hedge interest rate risk associated with new debt issuances.
- All interest rate trading activity with third parties will be executed solely by/in coordination with Corporate Treasury.
- Speculation in interest rate transactions is prohibited.

Reporting

- Interest rate risk and hedge information will be periodically reported by Corporate Treasury to senior management. Business units will report interest rate risk to Corporate Treasury, as requested.

Foreign Currency Risk Management

Foreign Currency risk is defined as the impact on Duke Energy earnings per share and asset returns from foreign currency market movements. This will include, but is not limited to net investment, earnings and cash flow risk as well as risk arising from planned projects. This policy statement covers the management of foreign currency risk associated with existing asset positions, new and anticipated asset positions or changes as well as physical and financial energy commodity trading positions. The extent to which a business segment is held accountable for foreign currency results for incentive performance evaluation purposes will be determined by its Group President.

Authorization

- Corporate Treasury is authorized to manage foreign currency risk through local currency funding activity as well as by entering into derivative transactions with third parties.
- Business units are authorized only to manage foreign currency risk through commercial contract arrangements with its customers or suppliers or by entering into internal derivative transactions with Corporate Treasury.
- All foreign currency trading activity with third parties will be executed solely by/in coordination with Corporate Treasury. Corporate Treasury may transact in a corporate name and transfer the results to a business unit or may transact in the name of the business unit entities consistent with international laws. Actual results will be fully transferred to the applicable business unit.
- Hedging activity related to intercompany foreign currency exposures will be managed consistent with external exposures and will be managed by Corporate Treasury.

- Speculation in foreign currency transactions is prohibited.

Reporting

- Foreign currency risk and hedge information will be periodically reported by Corporate Treasury to senior management. Business units will report currency risk to Corporate Treasury, as requested.
- Business units will report forecasted Balance Sheet, Income Statement and Cash Flow items by currency to Corporate Treasury, as requested.
- Corporate Treasury will report hedge determination and results to the business units, as needed.

New Projects

- Any business unit that creates foreign currency risk due to a project, expansion, acquisition, or divestiture must develop a foreign currency risk assessment in coordination with Corporate Treasury. If applicable, this assessment must be included in the project's approval recommendation.
- Corporate Treasury will establish a project specific FX Rate Curve. Corporate Treasury will consider input from the business unit in this process. The business unit will use the FX Rate Curve during the approval process.
- Corporate Treasury will provide sovereign-adder guidance for hurdle rates.
- Corporate Treasury will be responsible for creating hedge strategies as well as acquiring or selling currency needed to complete all international investments.

Standards: The following section contains information that applies to all Corporate Treasury policies and guidelines

- Corporate Treasury: Corporate Treasury refers to and includes the functions of Cash Management, Corporate Finance, Portfolio Management, Long-Term Investments and Financial Planning and Analysis and is a centralized corporate center servicing and operating on behalf of Duke Energy and its consolidated or controlled subsidiaries and affiliates. All Corporate Departments and Business Units are expected to comply with the contents of this manual. Changes to policies must be approved in accordance with Duke Energy policy. Changes to guidelines will be made within functions and must be approved by the Corporate Treasurer.
- Delegation of Authority: Only authorized individuals may enter into Corporate Treasury activities. Such activity and limits are covered under the "Approval for Business Transactions" policy. Individuals and their corresponding functions and limits are listed in the Corporate Treasury "Delegation of Authority" ("DOA"). Exceptions may be granted with written approvals by individuals authorized to the required transaction levels consistent with the DOA. Both documents are managed within the Controller's group. No Duke Energy employee shall knowingly personally benefit from any Corporate Treasury transaction. All Corporate Treasury activity will conform to the "Approval of Business Transactions" policy and the Corporate Treasury "Delegation of Authority."
- External Counterparts: External counterpart determination will be made within the Duke Energy Finance organization in coordination with Corporate Treasury and Corporate Risk Management. Credit risk guidelines will be the responsibility of Corporate Risk Management.
- Transactional Controls: Transactional control procedures will comply with documented control procedures.
- Accounting Standards: Accounting treatment for all transactions will be in accordance with GAAP and will be determined, if applicable, in coordination

with the Corporate Accounting Research Group in accordance with the "Accounting for Risk Management and Hedging Activities Policy" and "Accounting for Intercompany Transactions Policy", on the portal and managed within the Controller's group.

- Terms, Definitions and Approved Products and Instruments: Financial terms shall have meanings consistent with definitions found in *Barron's Dictionary of Finance and Investment Terms*. A list of approved finance and hedging products and instruments is available from Corporate Treasury. Use of other products or instruments must be approved by the Treasurer and Chief Financial Officer.

Intercompany Funding Policy

Applicability:	Applies to Enterprise
Originator:	Corporate Treasury - Cash Management
Approval:	Senior Vice President & Treasurer
Effective Date:	04/01/2006
Revision Date:	06/01/2007
Reissue Date:	06/01/2007

Statement of Purpose and Philosophy

The scope of this policy covers Intercompany Funding activities managed by Duke Energy's Corporate Treasury. The purpose of this document is to provide parameters around the activities that encompass cash consolidation.

Corporate Treasury has the responsibility to ensure that in accordance with the "Corporate Cash Management Policy", cash assets are, i) properly safe-guarded, ii) managed to maximize value within approved investment parameters, iii) available to Corporate Treasury on a timely basis to fund general corporate needs, iv) not left idle and under utilized, and v) not unnecessarily exposed to the claims of lenders, other creditors, or unacceptable short-term cash investment risks.

Corporate Treasury is also responsible and accountable for funding all expenditures that have been appropriately approved in accordance with the "Approval of Business Transactions Policy". This funding will often require the movement of cash between business entities in the form of Intercompany Cash Advances, Intercompany Loans, Equity Distributions and/or Intercompany Equity Investments.

Policy Expectations

Cash Consolidation Expectations

This policy applies to Duke Energy and its consolidated or controlled subsidiaries and affiliates.

All Corporate Departments and Business Units are expected to comply with this policy.

This policy is not meant to cover intercompany accounts payable and receivable occurring from the purchase and sale of intercompany products or services, or accounting entries resulting from cross-billing for products and services paid on behalf of another Business Unit. These intercompany transactions are routinely settled in cash on a periodic basis.

This policy does not supplant compliance with any legal requirements related to corporate authorizations, corporate filings, registration statements, or other required regulatory actions.

Depending on the entities involved, board resolutions and/or other approval processes may be necessary in order to comply with applicable governance and legal requirements.

In cases of joint ventures or minority owned projects where Duke Energy is represented on the board or other management committee, the Duke Energy ownership percentage of the joint venture or project must be voted in accordance with the direction of the attached Corporate Treasury "Delegation of Authority".

All Intercompany Funding Transactions covered under these guidelines should be accounted for and periodically reviewed in accordance with the "Accounting for Intercompany Transactions Policy".

General Description

All cash not necessary for day-to-day operations of the business units will be distributed, except:

- Approved cash reserves for near-term expenses and changes in working capital.
- Approved cash reserves to fund near-term capital expenditures (in general less than 3 months).
- Restricted reserve account balances (e.g., project finance reserve accounts).
- Cash reserves to meet Rating Agency requirements.
- Cash reserves to meet regulatory requirements.

Consideration will be given to the associated tax, accounting, legal, and regulatory implications of any cash distribution or cash contribution.

Accountability: Roles and Responsibilities

Corporate or Business Unit

- All Corporate and Business Unit personnel of the Enterprise shall ensure compliance with these guidelines.
- All Intercompany Funding Transactions must be approved in accordance with the Corporate Treasury "Delegation of Authority".
- Originator of the transaction must coordinate with Tax, Treasury, Accounting and Legal to determine the nature of funding (dividend or Return of capital or cash advance or Intercompany loan).
- Each Business Unit Controller, or his or her designee, will be responsible for tracking, servicing and accounting for their respective Intercompany Funding Transactions.
- Notice of all Intercompany Funding Transactions, along with copies of any supporting documentation, should be provided upon closing to the associated Business Unit Controller's group and accounted for as appropriate for the type of transaction.
- All Intercompany Funding Transactions should be accounted for and periodically reviewed in accordance with the "Accounting for Intercompany Transactions Policy".

Corporate Cash Management

- Corporate Cash Management will ensure the wire requests comply with the "Wire Transfer Policy".

- Corporate Cash Management will, at its discretion determine the appropriate Funding Node for each Business Unit, and with regard to regular and routine transactions, will keep a chart of designated Funding Paths.
- Corporate Cash Management, jointly with other Treasury groups, Tax, Legal and Business Unit, will determine the nature of funding (dividend or return of capital or cash advance, equity contribution or Intercompany loan).
- Corporate Cash Management will coordinate with BU or Corporate Departments requiring approvals by Treasurer or CFO. Cash Management will coordinate with Corporate Treasury groups in determining Treasury issues and/or resolutions.
- Corporate Cash Management will provide appropriate financial terms and conditions for all Intercompany Loans based upon consultation with the Business Unit Controllers as well as other Treasury groups, and giving consideration to relevant legal, regulatory, tax and other business reasons
- Corporate Cash Management will monitor and report on all intercompany loans funded. Intercompany loans should be reviewed with Corporate Controller on periodic basis.
- Corporate Cash Management has unlimited authorization to transact any Domestic Intercompany Cash Advance as needed. International Cash Advances require the additional approval of Tax. All Intercompany Cash Advances initiated by other Corporate Departments or Business Units must be approved by Corporate Cash Management.

Tax

- Tax, jointly with Treasury, Legal and Business Unit, will determine the nature of funding (dividend or return of capital or cash advance, equity contribution or Intercompany loan).
- Corporate Cash Management has unlimited authorization to transact any Domestic Intercompany Cash Advance as needed. International Cash Advances require the additional approval of Tax. All Intercompany Cash Advances initiated by other Corporate Departments or Business Units must be approved by Corporate Cash Management.

Legal

- Corporate Legal will provide standard loan templates for all Intercompany Loans. The use of documents other than the standard templates must be approved by Corporate Legal and Corporate Cash Management.
- Legal will ensure proper approvals and resolutions are executed for equity contribution or distributions or intercompany loans.

Requirements

The approvals per these guidelines are in addition to any legal requirements related to corporate authorizations, corporate filings, registration statements, or other required regulatory actions.

Intercompany Cash Advances

- All Intercompany Cash Advance transactions will be evidenced in the respective Business Unit's daily bank account report, and should be accounted for by the net lender and net borrower in their respective Intercompany Advance accounts.
- Corporate Cash Management has unlimited authorization to transact any Domestic Intercompany Cash Advance as needed. International Cash Advances require the additional approval of Tax. All Intercompany Cash Advances initiated by other Corporate Departments or Business Units must be approved by Corporate Cash Management.

Intercompany Loans

- All intercompany loans must be approved in accordance with the Corporate Treasury "Delegation of Authority" as well as in coordination with Tax.
- Where required for legal, regulatory, tax or other business reasons, certain Intercompany Funding Transactions will be funded using a formal Intercompany Loan.
- The standard templates must be used. Any changes should be approved by Corporate Legal and Corporate Cash Management. For international or cross-border Intercompany Loans, special consideration should be given to the accounting designation of such loans and any associated foreign currency impacts. Any foreign currency hedging will be in accordance with the Financing Activity & Financial Risk Management Policy.
- Notice of all Intercompany Loans, and copies of any supporting documentation, should be provided upon closing to the associated Business Unit Controller's group. Interest expense and accruals for Intercompany Loans should be accounted for by the respective Controller's group.
- A "Money Pool Agreement" is a specific kind of intercompany revolving loan.
- Transactions within the loans established under this policy are considered previously approved.

Intercompany Equity Investments or Distributions

- All Intercompany Equity Investments or distributions must be approved in accordance with the Corporate Treasury "Delegation of Authority". This approval is in addition to any legal requirements related to corporate authorizations, corporate filings, registration statements, or other required regulatory actions.
- Business Unit Controllers must be informed of any equity distributions from their Business Unit(s).
- Each Business Unit Controller, or his or her designee, will be responsible for tracking, monitoring, servicing and accounting for Intercompany Equity Investments and Equity Distributions at entities within their management control; including any up stream roll-up and reconciliation.

Conflict Resolution

- In the unlikely event that consensus cannot be gained among the relevant internal constituencies (i.e., Legal, Tax, Regulatory, Treasury, Business Unit), the Corporate CFO will have final authority in resolving any conflicts with regard to the appropriate type of Intercompany Funding Transactions to use in certain situations.

Standards: The following section contains information that applies to all Corporate Treasury policies and guidelines

- Corporate Treasury: Corporate Treasury is a centralized corporate center servicing and operating on behalf of Duke Energy and its consolidated or controlled subsidiaries and affiliates. All Corporate Departments and Business Units are expected to comply with the contents of this manual. Changes to policies must be approved in accordance with Duke Energy policy. Changes to guidelines will be made within functions and must be approved by the Corporate Treasurer.
- Delegation of Authority: Only authorized individuals may enter into Corporate Treasury activities. Such activity and limits are covered under the "Approval for Business Transactions" policy. Individuals and their corresponding functions and limits are listed in the Corporate Treasury "Delegation of Authority" ("DOA"). Exceptions may be granted with written approvals by individuals authorized to the required transaction levels consistent with the DOA. Both documents are managed within the Controller's group. No Duke Energy employee shall knowingly personally benefit from any Corporate Treasury transaction. All Corporate Treasury activity will conform to the "Approval of Business Transactions" policy and the Corporate Treasury "Delegation of Authority."

- External Counterparts: External counterpart determination will be made within the Duke Energy Finance organization in coordination with Corporate Treasury and Corporate Risk Management. Credit risk guidelines will be the responsibility of Corporate Risk Management.
- Transactional Controls: Transactional control procedures will comply with documented control procedures.
- Accounting Standards: Accounting treatment for all transactions will be in accordance with GAAP and will be determined, if applicable, in coordination with the Corporate Accounting Research Group in accordance with the "Accounting for Risk Management and Hedging Activities Policy" and "Accounting for Intercompany Transactions", on the portal and managed within the Controller's group.
- Terms, Definitions and Approved Products and Instruments: Financial terms shall have meanings consistent with definitions found in *Barron's Dictionary of Finance and Investment Terms*. A list of approved finance and hedging products and instruments is available from Corporate Treasury. Use of other products or instruments must be approved by the Treasurer and Chief Financial Officer.

Key Terms

Corporate Treasurer: the Treasurer for Duke Energy Corporation

Equity Distributions: cash distributions such as dividends, return of capital, capital reductions, etc., by an entity to its parent companies, or shareholders - excludes repayment of loan principal, or repayment of cash advances

Funding Node: designated Business Unit(s) used by Corporate Treasury to consolidate cash resources and provide cash resources to other Business Units as needed for appropriately authorized and approved business transactions

Funding Path: path designated by Corporate Cash Management between a Funding Node and a Business Unit for funding routine Intercompany Cash Advances

Intercompany Cash Advances: a non-interest bearing cash loan, as evidenced only in the daily bank reports of two Business Units, and accounted for on a net basis in the general ledgers of the Business Units

Intercompany Equity Investments: includes any kind of equity like investment such as equity infusions/contributions, paid in capital, additional paid in capital, share capital, and common and preferred stock/share purchases

Intercompany Funding Transaction: an intercompany transaction where cash is sent from one Business Unit to another in order to 1) provide funds for appropriately approved and authorized cash expenditures or 2) consolidate cash at a particular designated Funding Node at the discretion of Corporate Cash Management

Intercompany Loans: a formal, documented cash loan between two Business Units

Wire Transfer Policy

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

Effective Date: 08/31/2000
Revision Date: 01/01/2008
Reissue Date: 01/01/2008

Statement of Purpose and Philosophy

The intent of this Policy is to adequately safeguard cash while processing wire and Automated Clearing House (ACH) transfers for authorized amounts. The owner of this policy is Corporate Cash Management (CCM) within Treasury.

Role of Corporate Cash Management

- Maintain internal department procedures to address the following:
    - Segregation of duties.
    - Security of data.
    - Verification of approvals for manual wires and ACHs.

- Except for transactions processed first through Accounts Payable (see Accounts Payable Exception to the Wire Transfer Policy section below), CCM will verify that both approvers of a wire/ACH have Delegation of Authority (DOA) approval limits and at least one of the approvers has sufficient DOA approval limits to authorize the dollar amount associated with the transaction.
- An email with attached payment instructions sent directly from an authorized individual is considered a valid approval. Since two approvers are required, the first and second approver's emails must be received separately by CCM. The second approver cannot simply forward the first approver's email due to editing capabilities within the email system.
- Attached is a link to the DOA portal page where the DOA Policy and Inquiry Tool can be found **here.**

    - Dual control over the input and verification/release of wires and ACHs in the treasury or banking systems.
    - Balancing and transaction verification of Treasury generated payments on a daily basis.
    - Generation of properly authorized Treasury automated wires (e.g., funding wires, investment wires, etc.) through CCM's treasury system.
    - Review and approval of International wire transfer procedures as submitted by the international business units.

Business/Corporate Units

- Domestic
    - Units must process all manual wire transfers and ACHs through CCM.

- Units are responsible for ensuring employees have the appropriate DOA to process manual wires and/or ACH's. Any exceptions to authorization levels based upon *unique needs of the group such as the approval of Payroll, Tax, or Treasury* transactions should be captured via the DOA exception form process.
- Except for Accounts Payable transactions (see Accounts Payable Exception to the Wire Transfer Policy section below), all manual wire transfer requests and ACHs require approvals from two (2) DOA authorized individuals. One of these approvers must have a sufficient DOA level to authorize the transaction. Approval levels are documented within the Delegation of Authority On-Line Inquiry system. CCM will validate approvals per the Delegation of Authority On-Line Inquiry prior to payment.
- Units must provide a properly authorized Wire Transfer or ACH Payment Requisition form (in accordance with the format and timing established by CCM) for manual wires and ACHs prior to the transfer of funds.

- International
  - With the issuance of any revisions to this policy, international offices must present their local in-country wire transfer procedures to CCM for review and approval. These procedures should include such basic internal controls as validation against the Delegation of Authority and dual control through the bank or banking system for the execution of wire transfers.
- Accounts Payable Exception to the Wire Transfer Policy
  - Wire transfer or ACH requests processed first through the Accounts Payable Department (A/P) can be processed either manually or via the electronic payment files created by the Accounts Payable system. For both forms of wire/ACH payment requests, A/P will evidence their validation of the approver's DOA limits in a mutually agreed-upon (i.e. between CCM and A/P) format. Therefore, CCM needs only to confirm the wire is being submitted by the A/P department on behalf of a business unit or department within the company.

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SUMMARY OF MANAGEMENT POLICIES, PRACTICES AND ORGANIZATION
CORPORATE FINANCIAL CONTROLS ORGANIZATION
SFR Reference: Chapter II (B)(9)(b)(ii,vi)

I. Policy and Goal Setting

The Corporate Financial Controls Department is responsible for various internal controls matters within the Corporate Controller's function, including governance and oversight activities related to execution of Sections 302 and 404 of the Sarbanes-Oxley Act, to ensure activities associated with documenting, testing, and evaluating the effectiveness of the Company's internal controls over financial reporting are successfully performed by the organization, and to support Management's quarterly and annual assertions regarding the effectiveness of such internal controls.

II. Strategic Planning

Preparation of the Corporate closing calendar and applicable quarterly/annual due dates for specific regulatory filings are the responsibility of the Corporate Controller's Department. The Corporate Financial Controls Department adheres to these due dates as it establishes its applicable quarterly work plans relative to achievement of Sarbanes-Oxley, Section 302 quarterly compliance activities and applicable accounting policy updates.

Planning activities as they relate specifically to achievement of implementation of annual Sarbanes-Oxley, Section 404 compliance requirements are the direct responsibility of the GM, Financial Controls. Detailed work plans are developed and approved on an annual basis and communicated to affected business areas. Critical due dates are established and closely monitored; periodic status reports are produced and provided to both executive management and the Audit Committee of the Board of Directors.

The Corporate Financial Controls Department provides specific data components for preparation of the Corporate Controller's annual budget. The overall budgeting/planning effort is coordinated and facilitated by Financial Close & Consolidate, reporting directly to the Corporate Controller. The annual plan for the entire Corporate Controller's Department is developed, reviewed and ultimately approved by the Corporate Chief Financial Officer.

III. Organizational Structure

The Corporate Financial Controls Department is under the direction of the General Manager, Financial Controls, who reports to the Senior Vice President & Controller. In addition to a staff of Company personnel, external consulting firms are utilized, as deemed necessary, to providing supplemental consulting expertise. This support varies from year to year depending on specific corporate business needs. Business process owners, for each applicable affected business area (e.g., Human Resources, Business Units, etc.), are also actively engaged in the various compliance activities, as it relates to both Section 302 and Section 404 efforts.

The Organization chart of the Corporate Financial Controls Department is attached as Exhibit CFC-1.

IV. Responsibilities

Primary responsibilities of the Corporate Financial Controls Departments include:

Internal Controls

Primary responsibilities for Internal Controls include providing general oversight, guidance and monitoring to ensure that quarterly activities associated with the Section 302/404 internal representation letter process are executed by the applicable business process areas and maintaining the Corporate Financial/Accounting policies and procedures. Specific duties of Internal Controls include:

- Maintaining Corporate Financial/Accounting policies and procedures;
- Coordinating Section 302/404 internal representation letter process;
- Training interface for internal controls; and
- Maintaining delegation of authority (approval of business transactions).

Section 404 Program Management Office

Primary responsibilities for the Program Management Office (PMO) include providing general oversight, guidance and monitoring to ensure that activities associated with documenting, testing, and evaluating the effectiveness of the Company's internal controls over financial reporting are executed by the applicable business process areas responsible for such controls, to support Management's assertion regarding the effectiveness of such internal controls. Program management activities include establishing and monitoring project plans and timelines; communicating project status to key stakeholders; tracking and monitoring remediation activities; and providing training and guidance to business process owners, as necessary. Specific duties of the PMO include:

- Training applicable business process owners on Section 404 related requirements and responsibilities;
- Developing and monitoring detailed project plans and timelines;
- Performing periodic risk assessments of the financial statements and footnotes to determine scope of Section 404 activities;
- Developing consistent standards for documentation and testing;
- Identifying, for each transaction cycle, the control objectives and risks and developing control activity guidance for the business process owners;
- Reviewing business process owner's identification and documentation of control activities and assessment of control design;
- Developing testing criteria and templates for use by business process owners for their effectiveness testing;
- Reviewing, as necessary, business process owner effectiveness testing and associated documentation;
- Coordinating the documentation of the Company's entity level controls and development of entity level test templates to facilitate business process owners "self assessment;"
- Coordinating re-testing of business process owner's transaction level testing and the independent testing of transaction level control activities;
- Maintaining remediation database and monitoring remediation activities and status;
- Providing counsel and direction to business process owners in the completion of transaction level remediation activities, as necessary;
- Participating with business process owners responsible for the implementation of new company's initiatives to ensure the appropriate internal controls over financial reporting are being designed, implemented, and are working effectively;
- Monitoring the activities of the Securities and Exchange Commission and the Public Company Accounting Oversight Board in order to ensure Section 404 activities are in accordance with applicable authoritative guidance;
- Coordinating the Management Section 404 assertion process;
- Interfacing with the Company's external auditors regarding their attestation work; and
- Communicating project status and other related information (e.g., remediation activities status) to key stakeholders.

V. Practices and Procedures

As stated earlier, the Corporate Financial Controls Department adheres to corporate practices and procedures as it relates to overall compliance with applicable due dates for both Section 302 and Section 404 regulatory requirements. The Corporate Financial Controls Department develops and directly manages to an overall program work plan; day-to-day work activities are closely monitored to ensure the timely completion of all Section 302/404 related requirements. Various weekly/monthly/quarterly meetings are held with specific process owners, executive management and the Audit Committee of the Board of Directors to discuss current work activities, program status and any applicable issues. In addition, periodic status reports are prepared by applicable staff members to ensure all activities are being addressed appropriately. The Corporate Financial Controls Department monitors activities of the Securities and Exchange Commission and the Public Company Accounting Oversight Board as it relates to the issuance of authoritative guidance associated with Section 302/404, to ensure Company compliance.

VI. Decision Making and Control

The GM, Financial Controls has responsibility for the general oversight, governance and monitoring of Section 302/404 activities, reporting directly to the Corporate Controller. Various sub-committees are utilized to report and discuss program status and related issues, and include members of the Corporate Controller's direct reports, business unit management and the Corporate Financial Disclosure Committee, made up of key executive financial officers and financial management In addition, ad hoc meetings of applicable business process owners occur, as necessary, to address areas of specific or immediate concern. At the transaction level, applicable business process areas have established compliance positions responsible for execution of Section 302/404 activities, and providing business process owners necessary guidance and assistance in order for them to provide their annual assertions as to the effectiveness of internal controls over financial reporting related specifically to their affected business areas. The Corporate Controller is ultimately responsible for reporting progress as to Section 302/404 implementation efforts to the Audit Committee of the Board of Directors. Periodic presentations on program status are included on the Audit Committee agenda, as deemed necessary. In addition the GM, Financial Controls and/or Corporate Controller is (are) responsible for reporting progress on a periodic basis to executive management, including the Chief Financial Officer and the Chairman, President, and Chief Executive Officer.

VII. Internal and External Communication

The Corporate Financial Controls Department, in the performance of its duties and responsibilities, interfaces frequently with personnel from outside and within the Company. These interfaces are accomplished by written communications (e.g., e-mails, reports, memorandum, etc.), telephone conversations, and personal meetings.

External interfaces include the Company's external auditors and other utility companies. Periodic meetings are held between the Corporate Financial Controls Department and the Company's external auditors to discuss the status of the external auditor's attestation activities, including any potential issues or areas of concern.

Internally, there are frequent interfaces with business process owners and other key stakeholders.

The Corporate Financial Controls Department holds routine staff meetings. The purpose of these meetings is to communicate current work activities, status, and timelines and to provide a forum to discuss problems, concerns, and suggestions.

Quarterly meetings are held with the Corporate Disclosure Committee, of which the Corporate Controller serves as Chairperson. The purpose of the Corporate Disclosure Committee is to assist the Company's Chief Executive Officer and Chief Financial Officer in fulfilling their responsibilities for oversight of the accuracy and timeliness of disclosures made by the Company. The Corporate Disclosure Committee is responsible for considering the materiality of information and assisting in determining disclosure obligations pursuant to applicable securities laws and regulations and stock exchange requirements.

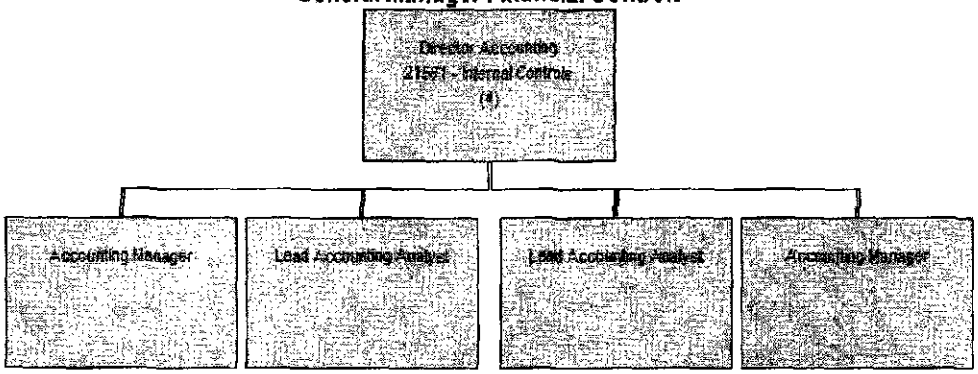
Periodic program status update meetings are held with executive management and the Audit Committee of the Board of Directors. Attendees of these meetings include the Corporate Controller, General Manager, Financial Controls (as necessary) and the Company's internal and/or external audit engagement partners.

VIII. Goal Attainment and Qualification

The achievement of the Company's financial compliance efforts are measured by the successful and timely execution of the department's established work plans, goals and objectives. Executive management, applicable business unit areas and financial managers establish annual goals as it relates to compliance activities. In addition, periodic meetings are held with executive management and the Audit Committee of the Board of Directors to report overall program status.

Exhibit CFC-1

DUKE ENERGY CORPORATION MANAGEMENT STRUCTURE
General Manager Financial Controls



DUKE ENERGY
DUKE ENERGY OHIO
SUMMARY OF MANAGEMENT POLICIES, PRACTICES AND ORGANIZATION
FINANCIAL OPERATIONS OF THE COMMERCIAL BUSINESS UNIT
SFR Reference: Chapter II(B)(9)(b)(i,ii,iii,iv)

I. Policy and Goal Setting

The Financial Operations department of the Commercial Business Unit (CBU) develops policy and practice guidelines as required in order to uniformly administer corporate and business unit directives and policies set by executive management. These policies are generally developed within the department, taking into account specific work conditions, schedules, departmental specific practices, industry standards, and processes developed through past experience and best practices. CBU Financial Operations supports the established departmental practices and policies and corporate policies through department directives, practices and procedures.

Each year the Vice President Non-Regulated Accounting acts as the Business Unit Controller of CBU (CBU Controller) and develops departmental objectives that are approved by the Duke Energy Senior VP & Controller that are used to align and measure departmental performance with the objectives of the Corporate Controller's department as well as the business plan of the Commercial Business Unit. The Financial Operations departmental objectives generally consist of high-level targets set for timing and usefulness of reports, accuracy, compliance with required policies and regulations and initiatives that are supportive of the corporate goals and business plan. These high-level objectives are translated into more specific processes and procedures for each functional group in the Financial Operations department to support the overall department in achieving its desired objectives. The focus is on fixed, known and measurable indicators of performance to avoid subjective evaluation of results.

II. Strategic Planning

The Strategic Planning and Forecasting function is facilitated by the CBU Planning & Forecasting group (P&F) that reports to the Duke Energy Senior VP & Treasurer. P&F department facilitates the development of the three-year Commercial Business Unit Business Plan. Corporate financial, environmental, and operational goals are considered, along with applicable growth targets. This department serves more as governance, control and facilitation function rather than a contributor to the planning process.

The formal annual budget cycle, which consists of preparing a complete three-year financial and operational plan is performed each year in early fall and usually finalized in October. The three-year plan is updated each month with more recent operations and market assumptions to provide improved financial and operational targets on a quarterly and annual basis to executive management and investor relations for performance monitoring and measurement. Operation of the department itself, execution of the business plan, staff development and performance against department objectives are a function of planning at the manager level.

III. Organizational Structure

The CBU Financial Operations department is part of a centralized Duke Energy corporate finance department led by the Duke Energy Group Executive and Chief Financial Officer (CFO). The CBU Financial Operations function is split between Accounting & Reporting and Planning & Forecasting. The CBU Accounting and Reporting function is led by the CBU Controller who reports to the Duke Energy Senior VP & Controller. The CBU Planning and Forecasting function is led by the General Manager, Financial Planning and Analysis DEA (CBU B&F General Manager) reporting to the Duke Energy Senior VP & Treasurer. The Duke Energy Senior VP & Controller and the Duke Energy Senior VP & Treasurer both report directly to the Duke Energy CFO.

CBU Accounting and Reporting

CBU Accounting and Reporting is organized into the following functional departments: Power and Gas Accounting/Settlements, Coal and Emission Allowance Accounting/Settlements, Financial Reporting and Risk Analysis and Reporting. Each group consists of various levels of accountants and/or analysts that report to a manager.

The Commodity Accounting and Settlement groups (Power, Gas, Coal and Emission Allowances) are responsible for billing, confirmations, cost allocations and trade settlements. These groups also record all associated accounting entries to the general ledger and prepare detailed reports for FERC reporting on a monthly, quarterly and annual basis.

The Financial Reporting and Risk Analysis and Reporting groups prepare and analyze the monthly, quarterly and annual financial executive management reports for the CBU businesses. Actual results versus budget is compared and variances are explained on a monthly basis. These performance results are reported to CBU President and direct reports as well as to the corporate Senior VP & Controller on a monthly basis. The actual versus budget reporting includes analysis of revenues, cost of goods sold, plant operation and maintenance expense and administrative and general expenses.

CBU Planning and Forecasting
CBU Planning and Forecasting consists of financial analysts and managers that compile the annual 3-year budget and the monthly projections for the CBU. Revenue, Cost of Goods Sold, direct expenses and capital expenditures are consolidated and in some cases developed by this group for ultimate consolidation within the corporate budgeting and planning process. This group reports to the CBU B&F General Manager who reports to Duke Energy Senior VP & Treasurer.

The organizational chart of the CBU financial operations is attached as CBUFO-1.

IV. Responsibilities

The Financial Operations group is a corporate shared-service organization providing high quality analysis, finance, accounting and reporting services to the Commercial Business Unit, which consists entirely of non-regulated business activities of Duke Energy Ohio. These services are required to be in accordance with applicable codes, laws, regulations and industry standards, as well as to maximize the clarity and visibility of financial results and performance within the CBU.

A listing of the responsibilities follows:

- Perform confirmation, accounting and settlement function for non-regulated power, natural gas, coal and emission allowance transactions;
- Provide financial information supporting rates included in Duke Energy Ohio's Rate Stabilization Plan (RSP) as it pertains to fuel, purchased power, emission allowances, Midwest ISO administrative costs, environmental costs, etc.;
- Prepare monthly actual to budget results variance analysis with operational drivers for CBU Management and Duke Energy VP & Controller
- Track operational performance for incentive plan purposes;
- Prepare CBU Financial Three-Year Plan on annual basis;
- Develop CBU projection targets (monthly updates to annual 3-year plan);
- Support key corporate finance initiatives;
- Support quarterly earnings release analytics;
- Prepare supporting schedules for the quarterly 10-Q/10-K;
- Draft and/or review MD&A for CBU to be included in 10-Q/10-K;
- Monitor payment processes;
- Provide Exception reporting;
- Perform Regulatory Reporting;
- Analyze PowerXL data for Accounting plus fill data requests as received;

- Validate curves are complete and audited, trade and multiplier data; complete, start End of Day (EOD) processing;
- Validate legal entity assignment of load and revenue; verify proper; assignment of transactions;
- Perform end of month closing activities;
- Summarizing journal entries for prior period adjustments;
- Validate expense assignment by the PACE Model, which is used for Fuel and Purchased Power calculation;
- Provide accurate and reliable information to Rates and Accounting;
- Maintain functionality and data integrity of PowerXL;
- Assist in development of new PowerXL functionality;
- Support Commercial Asset Management (CAM) Organization in the use and administration of PowerXL;
- Publish daily Profit and Loss Statement for CAM;
- Support Generation valuation in PowerXL;
- Administer End-of-Day control processes;
- System administrators of PowerXL;
- Verify deal valuation results are consistent with deal inputs;
- Develop specifications and test new functionality prior to implementation;
- Answer system questions and assist in issue correction or training; and

V. Practices and Procedures

The policies and procedures for Duke Energy that are being followed by the CBU are located on an internal company intranet web site. These policies provide guidance and consistency across Duke Energy and updates are posted to the website to ensure the latest version of the policies are available to employees at all times. Both management and employees can access the sit from any personal computer with their employee login information. Each functional group within CBU Financial Operations maintains their own specific policies and procedures as either desk procedures, checklists and the like.

VI. Decision Making and Control

With few exceptions, personnel at all levels are provided general supervision and granted latitude to make daily decisions, plan activities, coordinate schedules and travel as required to perform their core functions. Managers review employee activities regularly, but not continuously, to monitor compliance with company policies and standards of conduct. If anomalies are discovered or decision-making seems inappropriate, a higher degree of control and monitoring is initiated and documented. Training and counseling can be provided in an attempt to improve performance. General Managers review Manager activities on a frequency appropriate for the experience level of the employee. All employees are expected to comply with company policies and formally document completion of required training programs and certifications.

Control of individual purchasing activities and access to cash reimbursements are strictly controlled by each level of management in accordance with the Duke Energy Delegation of Authority (DOA). DOA approval limits are captured in the various purchasing, transaction and settlement systems and electronically verified to ensure that proper authorization is received prior to contracts are executed or payments disbursed. The Duke Energy VP & Controller administers the formal DOA process.

Standards for individual reports and document preparation are governed by specific accounting rules, legal requirements or regulatory agreements as appropriate for each. Internal reporting is flexible to enable rapid performance-based decision-making and is thus more ad-hoc. As changes are made, file copies of the documents are retained indicating changes, authorizations and timing.

VII. Internal and External Communication

Informal verbal communication may be conducted between individuals directly or by telephone. Telephone calls are normally conducted on an informal basis and are not generally documented.

Formal verbal communications are used in special circumstances involving direct orders, instructions or reports. Formal verbal communication is used in certain disciplinary actions and is usually confirmed by documents.

Verbal communications include the conduct of meetings and conference calls. In general, meetings are held each month to communicate internally within and between the work groups, to receive updates, review department performance, strategy, progress towards goals, evaluate methods and discuss changes required to achieve goals.

- Monthly Staff Meetings - Each department generally conducts staff meetings at least on a monthly basis to review account reconciliations, exchange information relative to the department function and to pass on information gained from the next level of management. These meetings are typically not documented with meeting minutes. Conference calls are also used for this purpose; and
- Monthly Corporate Controller Staff meeting - The purpose of this meeting between the Corporate Controller and Staff is to review various activities of each group, and selected topics relevant to Company, Business Unit and department performance.

Electronic Mail is used extensively, along with internal company departmental shared network drives and/or web sites to exchange both formal and informal communication. It is also used as a method of transmitting reports providing access to the latest up-to date policies and procedures utilized by the CBU. Most procedures that require the use of specific forms and documents are designed such that the forms are submitted and filed electronically.

Financial Operations groups communicate with other internal service entities regularly to exchange information in the normal course of business. A partial listing includes Treasury, Tax, Fixed Asset Accounting, Rates, Generation Operations, Retail Revenue Accounting, Commercial Asset Management, Payroll, General Accounting, Human Resources, Information Technology, Investor Relations, and Legal.

External communications are not part of normal operations, and would be handled through Investor Relations. An exception to this would be found in the trade settlement and verification area, where daily communication with our wholesale counter-parties is required via phone, facsimile and e-mail.

VIII. Goal Attainment and Qualification

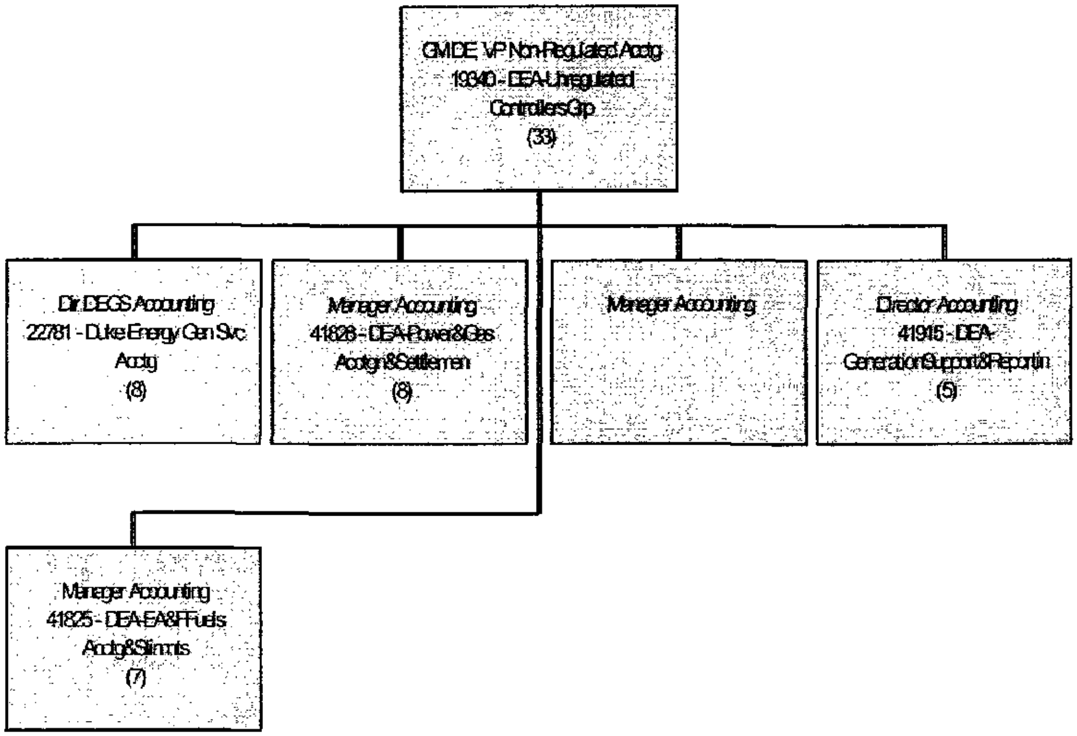
Meeting or exceeding the annually established goals is the measure of accomplishment of the Organization. Performance indicators are measures of goal performance. Examples of performance indicators that relate to specific goal performance are listed below:

- Achieving monthly close timelines and accuracy;
- Meeting monthly reporting deadlines to External Reporting team for monthly and quarterly results schedules and account roll forwards;
- Manage budget/resource utilization;
- Accuracy and timeliness of daily P&L reporting;
- Accuracy and timeliness of PTA Performance, Generation , Fuels and Accounting reporting; and
- EOD process completes successfully;

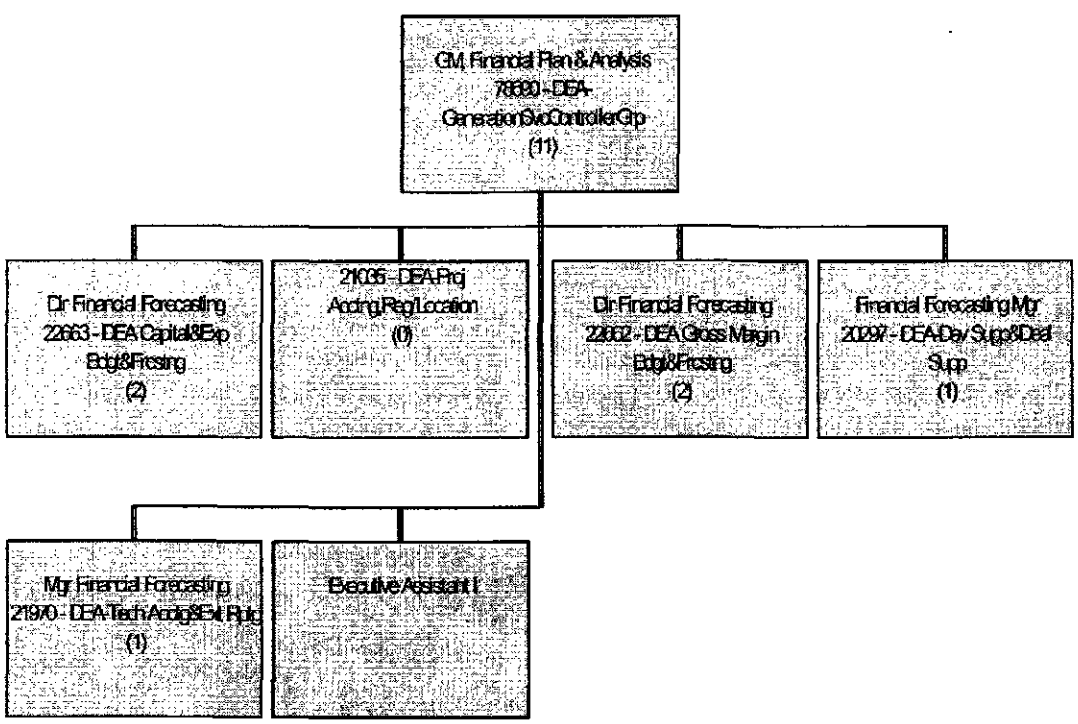
Employees receive annual performance reviews to measure and report progress towards individual goals in support of the department and corporate goals.

DUKE ENERGY CORPORATION MANAGEMENT STRUCTURE

Vice President Non-Regulated Accounting



General Manager Financial Planning & Analysis, DEA



DUKE ENERGY
DUKE ENERGY OHIO
SUMMARY OF MANAGEMENT POLICIES, PRACTICES AND ORGANIZATION
TREASURY DEPARTMENT
SFR Reference: Chapter II (B)(9)(b)(i,ii,iii,iv)

I. Policy and Goal Setting

The financial policies of the Company are the responsibility of the Group Executive, Chief Financial Officer, who is principally responsible for the development and protection of the Company's financial resources.

The Treasury Department supports the corporate financial policies and the corporate policies embodied in the Duke Energy Code of Business Ethics, which establishes the guidelines by which Duke Energy employees are expected to conduct business.

In addition, the Corporate Treasury Policy and Guideline Manual and Investment Policy Statements provide further policy and guideline parameters under which Treasury operates. Examples of specific Treasury policies include but are not limited to:

- Intercompany funding
- Wire Transfers
- Check signing and disbursements
- Short-term investments
- Financing Activity and Financial Risk Management Policy
- Delegation of authority and approval of business transactions

The annual goals and objectives of the Treasury Department are designed to support the achievement of the Duke Energy business plan. These goals and objectives are developed by all levels of departmental personnel and are approved by the Senior Vice-President & Treasurer. The focus of treasury related goals routinely encompass items such as minimizing or reducing costs related to financing related transactions, increasing returns on cash investments, providing superior support to other corporate areas such as regulatory affairs and corporate accounting, and maintaining excellent credit rating agency support to encourage appropriate credit ratings.

II. Strategic Planning

Financial planning in the Treasury Department (i.e., Corporate Finance, Cash Management, and Long-Term Investments) centers on the cash forecast, which is prepared primarily from the Company's Annual Financial Plan. The cash forecast is updated monthly to reflect variations between actual results and budget, as well as to reflect revised estimates of cash needs obtained from the major operating subsidiaries. The forecast identifies the magnitude, timing, and tenor of external financing needs. This information, as well as corporate policy, market information, and other Company specific information, is used to determine the amount of short-term liquidity resources needed and to plan the type of external long-term financings needed. These financial plans are reviewed by the Senior Vice-President & Treasurer and the Group Executive, Chief Financial Officer. Short-term financing requirements and all long-term financings are reviewed and approved by the Board of Directors.

Long-Term Investments provides management oversight of the assets in the Company's pension benefit trusts, 401(k) plans (Plans), and nuclear decommissioning trusts. In providing these services, Long-Term Investments partners with Human Resources and external service providers to effectively meet the goals and objectives of the Plans.

III. Organizational Structure

The Treasury Department is divided into three principal sections, Corporate Finance, Cash Management, and Long-Term Investments. Long-Term Investments reports to Corporate Finance which reports with Cash Management to the Senior Vice-President & Treasurer. The Senior Vice-President & Treasurer reports to the Group Executive, Chief Financial Officer.

The organization chart of the Treasury Department is attached as Exhibit TR-1.

IV. Responsibilities

The Treasury Department, under the general direction of the Senior Vice-President & Treasurer, provides various financial services to the Company under three areas of responsibility:

- Corporate Finance;
- Cash Management; and
- Long-Term Investments;

Through various short and long-term financing options, the Treasury Department provides, in a cost-effective manner, the funding necessary to support working capital outlays, capital expenditures and the cost of expansion into energy related markets for Duke Energy and affiliate companies. This includes developing alternative financing strategies that optimize benefits for both shareholders and ratepayers.

The department has responsibility for all corporate funds of the Company, including cash funds management, wire transfer disbursements and borrowing and/or investing of funds. Treasury also has responsibility for money pool administration, asset and liability management, leasing, indenture administration, pension fund and 401(k) asset management oversight, and cost of capital studies. The department is also responsible for maintaining relationships with the banking community, fixed income investors, credit rating agencies, trust custodians, investment managers, and investment consultants.

V. Practices and Procedures

Cash Management

Daily money movement decisions (including borrowing and/or investing corporate funds) are the responsibility of the General Manager, Cash Management. Cash Management personnel assist in executing this responsibility with oversight from the General Manager. The Cash Management group obtains interest rates from banks/brokers/dealers, and evaluates the most advantageous actions to be taken by the Company. Various financial analyses and reports are prepared that reflect daily cash activity. These reports are distributed to the Senior Vice-President & Treasurer and other financial employees as necessary.

Corporate Finance

Corporate Finance provides the resource which converts the Duke Energy Annual Financial Plan to actionable items. In doing so it regularly maintains active dialogues with relationship banks to analyze and investigate various financing alternatives in order to raise needed capital in a cost efficient manner. Individual financing transactions are coordinated with appropriate parties including banks, legal advisors, credit rating agencies and others to facilitate the transaction. These actions provide support to the company's balance sheet strength in accordance with its credit ratings objectives and supports other financial objectives such as exposure to floating rate interest rates, shareholder dividend policy, and short-term liquidity needs. All financing transactions are approved by the Senior Vice-President & Treasurer and the Group Executive, Chief Financial Officer under the delegation of authority set forth in the corporate Approval of Business Transaction Policy. In addition, other activities include economic overview and analysis support for large capital expenditure recommendations, accounting and regulatory support for "finance oriented" projects, and periodic interaction with credit rating agencies to respond to needed data requests.

Long-Term Investments

Long-Term Investments manages the ongoing trust cash flows including contributions to various plans, funding benefit payments and paying management consultants and trustee fees and expenses. Activities also include re-balancing asset investment positions consistent with established benchmarks and objectives and monitoring manager and fund performances compared to performance benchmarks making manager changes as necessary. Performance is periodically reported to the Investment Committee of the Board of Directors and annually to the Board of Directors.

VI. Decision Making and Control

The level at which decisions are made within Treasury and the amount of control exercised by individual department personnel are in many cases specified in resolutions approved by the Board of Directors (or subcommittees thereof). In addition, a formal Corporate Treasury Policy and Guideline Manual and Investment Policy Statements have been approved which further delineate, among other matters, decision making authority within Treasury. The Treasury Policy and Guideline Manual is attached as Exhibit TR-2. All employees are apprised of their responsibilities and authority and are expected to make decisions within the parameters of that authority and report their results to the next level of supervision as appropriate.

Many of the major decisions in the area of Corporate Finance are made pursuant to resolutions approved by the Board of Directors. These resolutions delegate authority to the Group Executive, Chief Financial Officer, Senior Vice-President & Treasurer, other Treasury management or other designated persons (employees, agents, etc.).

VII. Internal and External Communication

Departmental groups hold periodic staff meetings for all employees of the group. The purpose of these staff meetings are to communicate policies and decisions of management, to discuss work assignments and work schedules, and to provide an informal forum to discuss problems, concerns, and suggestions of the employees. The Senior Vice-President & Treasurer holds periodic staff meetings with all of her management team .

Daily interaction is maintained between the Senior Vice-President & Treasurer, Managers, and other employees. Frequent informal communication lines are also maintained with other departments within the Company. In addition, department personnel are made available for presentations to other departments within the Company.

External communications are maintained with commercial and investment banks, credit rating agencies, pension fund managers, trust custodians and consultants.

VIII. Goal Attainment and Qualification

Corporate Finance

Performance is measured by the success of meeting time schedules for financing, obtaining long-term funds on the most favorable terms possible, and the accuracy of related documents. Performance for preparation of financial and disclosure documents is measured by timely and accurate preparation, distribution and filings with various agencies.

Other indicators which are part of the financial planning process and performance attainment comparisons include:

- Ability to complete financing requirements at costs comparable to or better than equivalent rated companies;
- Capital structure ratios;
- Interest coverage ratios;
- Levels of restrictive financial covenants contained in indentures or bank credit agreements;
- Implicit interest rates on leases; and
- Timely completion of disclosure reporting requirements.

Cash Management

Performance is measured by a number of factors, most of which relate to the following:

- Ability to concentrate funds for optimizing cash flow strategies;
- Ability to complete short-term borrowing requirements at costs comparable to equivalent or higher-rated companies;
- Ability of obtain favorable rates of return on cash investments;
- Ability to secure bank pricing that is below published national averages;
- Support of Company initiatives that impact cash receipts and disbursements; and
- Timely inputs into the monthly closing process.

Long-Term Investments

Performance is largely evaluated by comparing the total funds investment performance with the total fund composite benchmark. Further performance comparisons are made for total equity, total fixed income, and individual managers with their respective benchmarks.

Performance goals are specified in the approved Investment Policy Statement. While investment performance is monitored and evaluated on a continuous basis, the attainment of performance goals have a longer term focus (e.g. generally rolling 3-year and 5-year periods) and are evaluated on such a basis.

DUKE ENERGY CORPORATION MANAGEMENT STRUCTURE

Senior Vice President & Treasurer

DE-VP & Treasurer
10045 - FIN-Treasurer
(61)

- Dir. DEI Risk Mgmt & Credit
  21000 - Market Risk DEI
  (6)
- GM Global Risk Mgmt &Insurance
  21991 - Insurance and Risk Management
  (28)
- Treasury Manager
- GM Corp Finance & Ast Treasurer
  18860 - Corporate Finance
  (5)
- GM Cash Mgmt & Ast Treasurer
  23247 - Cash Mgmt Credit Gov & Rptg
  (13)
- GM Long Term Invest & Ast Trea
  41041 - Long Term Investments
  (1)
- Executive Assistant I
- GM Proj &International Finance

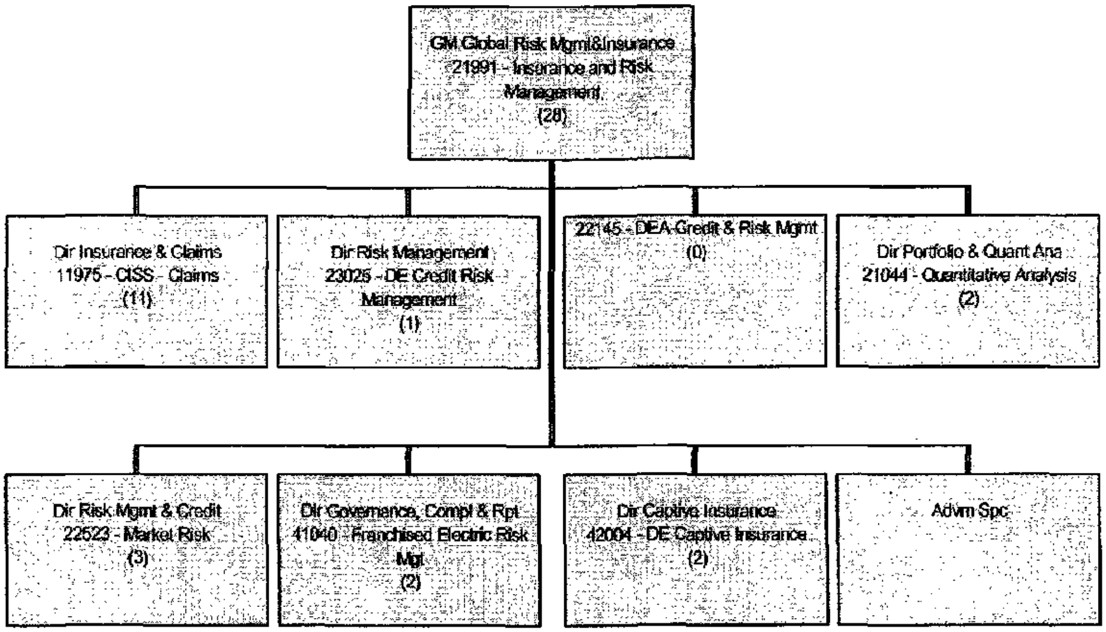
Director, DEI Risk Management & Credit

Dir, DEI Risk Mgmt & Credit
21000 - Market Risk DEI
(6)

- Risk Management Director
- 20787 - DEI-Risk Market &Mgmt
  (1)
- Risk Management Manager
- Dir Risk Management
  22071 - DEI-Plng,Budget&Forecasting
  (1)
- Risk Management Director

DUKE ENERGY CORPORATION MANAGEMENT STRUCTURE

General Manager Global Risk Management & Insurance



General Manager Cash Management & Assistant Treasurer

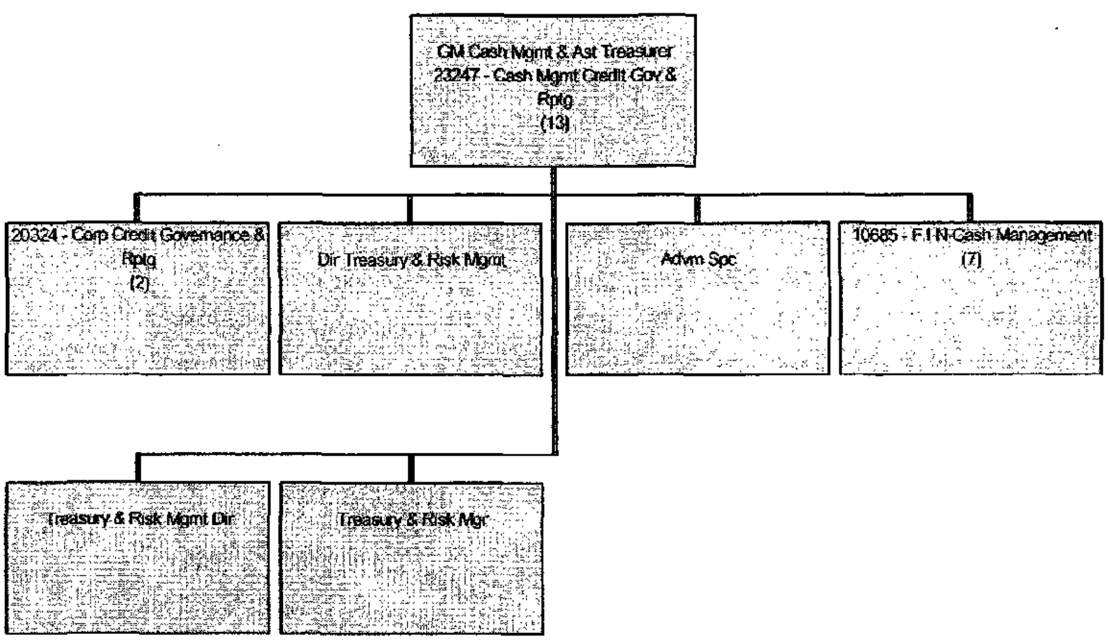


Exhibit TR-2

Corporate Treasury Policy and Guideline Manual

Dated: April 1, 2006

As Amended and Restated:

Corporate Treasury Policy and Guideline Manual

Confidential Information –

The information contained within this policy manual is confidential and proprietary to Duke Energy and is applicable to Corporate Treasury as well as Business Units on an as needed basis. Other information that is confidential to Duke Energy includes, but is not limited to, financial statements, hedging strategies and capital markets related information.

Disclosure of confidential information to any party outside of Duke Energy and its subsidiaries and affiliates requires the execution of a confidentiality agreement that has been approved by internal legal counsel.

Employee Acknowledgment Form

The Corporate Treasury Policy and Guideline Manual contains important information regarding the governance and guidelines of certain Duke Energy activities. Please read and review the manual carefully. If you have any questions regarding its contents, please contact your immediate supervisor. It is very important that you understand how the information in the manual applies to your current position. After reading and understanding the manual, please agree to and sign the statement below:

"I have read the Corporate Treasury Policy and Guideline Manual which outlines Duke Energy Treasury's expectations of me, with respect to this document and any other related documents incorporated herein, during my employment. I understand how the manual applies to my position. Should my responsibilities at Duke Energy change, I will contact my immediate supervisor with any questions regarding the application of the manual to my new role and responsibilities.

My signature below acknowledges that I understand, accept, and agree that it is my responsibility to read and comply with the information contained in this manual as well as any future revisions made to this manual. I understand that failure to comply with the information stated herein may result in disciplinary action including, in some cases, dismissal. If I encounter a situation in which I do not understand how the information applies, I will contact my immediate supervisor. I understand that this manual is not a contract of employment and will not be deemed as such."

Employee Signature:

____

Employee Title:

____

Print:

____

Date:

____

Contents

Treasury Activity Summary and Policy and Guideline Parameters

Corporate Treasury

Corporate Treasury refers to and includes the functions of Cash Management, Corporate Finance, Portfolio Management, Long-Term Investments and Financial Planning and Analysis and is a centralized corporate center servicing and operating on behalf of Duke Energy and its consolidated or controlled subsidiaries and affiliates. All Corporate Departments and Business Units are expected to comply with the contents of this manual. Changes to policies must be approved in accordance with Duke Energy enterprise policy. Changes to guidelines will be made within functions and must be approved by the Corporate Treasurer.

Delegation of Authority

Only authorized individuals may enter into Corporate Treasury activities. Such activity and limits are covered under the "Approval for Business Transactions" policy (Appendix C). Individuals and their corresponding functions and limits are listed in the Corporate Treasury "Delegation of Authority" ("DOA") (Appendix A). Exceptions may be granted with written approvals by individuals authorized to the required transaction levels consistent with the DOA. Both documents are managed within the Controller's group. No Duke Energy employee shall knowingly personally benefit from any Corporate Treasury transaction. All Corporate Treasury activity will conform to the "Approval of Business Transactions" policy and the Corporate Treasury "Delegation of Authority."

External Counterparts

External counterpart determination will be made within the Duke Energy Finance organization in coordination with Corporate Treasury and Corporate Risk Management. Credit risk guidelines will be the responsibility of Corporate Risk Management.

Transactional Controls

Transactional control procedures will comply with documented control procedures.

Accounting Standards

Accounting treatment for all transactions will be in accordance with GAAP and will be determined, if applicable, in coordination with the Corporate Accounting Research Group in accordance with the "Accounting for Risk Management and Hedging Activities Policy" and "Accounting for Intercompany Transactions Policy", on the portal and managed within the Controller's group.

Terms, Definitions and Approved Products and Instruments

Financial terms shall have meanings consistent with definitions found in Barron's Dictionary of Finance and Investment Terms. A list of approved finance and hedging products and instruments is attached in Appendix B. Use of other products or instruments must be approved by the Treasurer and Chief Financial Officer.

Cash Management Policy

Applicability:	Applies to Enterprise
Originator:	Corporate Treasury – Cash Management
Approval:	Corporate Chief Financial Officer
Approval Date:	TBD
Effective Date:	April 1, 2006
Revision Date:	April 1, 2006
Reissue Date:	April 1, 2006

Statement of Purpose and Philosophy

The purpose of this Policy is to confirm Duke Energy's Cash Management Objectives and to define the responsibilities and the authority within the Corporation for achieving those objectives.

Policy Expectations

This Policy applies to the consolidated Corporation, which consists of Duke Energy Corporation and all of its consolidated or controlled subsidiaries and affiliates. Cash is a critical asset of the Corporation. It is the Policy of Duke Energy that all cash assets of the Corporation be properly safeguarded and then managed to maximize value.

Accountability: Roles and Responsibilities

Duke Energy's Corporate Cash Management Group (Corporate Cash Management) is responsible for achieving Duke Energy's Cash Management Objectives which are as follows:

- Provide daily liquidity
- Safeguard cash assets
- Maximize the value of cash assets
- Minimize short-term interest expense
- Maximize short-term interest income
- Provide cost effective banking services

For those entities with non-Duke shareholders, Corporate Cash Management recognizes its fiduciary responsibilities and will optimize the cash assets of those entities using the above objectives. Corporate Cash Management is responsible for executing or directing all cash management activities within the consolidated Corporation.

Cash Management Activity

Cash management activities include:

- Prepare reliable cash forecasts
- Set cash position accurately and timely
- Consolidate cash, where appropriate (taking into consideration legal, regulatory, tax and any other appropriate considerations)
- Borrow needed funds at attractive rates

- Maximize return on available cash within approved guidelines
- Maintain strong relationships with a broad group of commercial banks
- Open, maintain (including signature card updates), and close all bank accounts
- Select banking services and monitor service quality and price
- Execute wire transfer payments and other electronic payments accurately and timely
- Execute certain foreign currency payments
- Arrange other commercial banking services, including escrow agreements

Borrowing for the entire consolidated Corporation is the responsibility of Duke Energy's Treasury Department. Corporate Cash Management will coordinate with other Treasury Department personnel to determine and establish short-term borrowing programs across the consolidated Corporation. Only individuals authorized by the head of Cash Management will be permitted to initiate short-term borrowings. Such authorizations are to be reflected in the appropriate Delegation of Authority and communicated to appropriate borrowing agents through letters signed by the head of Cash Management. Authorized individuals are authorized to borrow up to the size of the individual borrowing programs.

Investing cash for the entire consolidated Corporation is the responsibility of Duke Energy's Treasury Department. Only authorized individuals may make cash investments on behalf of Duke Energy and its subsidiaries. Authorizations and approved short-term investment products are outlined in the Corporate Treasury Short-Term Investment Guidelines maintained by Treasury.

Corporate Cash Management is responsible for the consolidation of cash for the entire consolidated Corporation. Authorizations and requirements for cash consolidation are further defined in the Intercompany Funding Guidelines which should be obtained by business units from Corporate Treasury.

DOMESTIC CASH MANAGEMENT (US and Canada)

Corporate Cash Management is responsible for executing all cash management activities within the consolidated Corporation in the US and Canada, and will work closely with all business units to ensure that Duke Energy's Cash Management Objectives are being achieved while maximizing business unit and corporate earnings.

Bank accounts must be established and modifications (including signature card updates) must be processed through Corporate Cash Management.

Corporate Cash Management (as authorized by appropriate Boards) is responsible for executing all short-term borrowing and cash investing within the consolidated Corporation. With regard to wire transfer and other individual electronic payments, Corporate Cash Management is responsible for ensuring that such wire transfer and certain electronic payments have been properly approved before being executed.

INTERNATIONAL CASH MANAGEMENT

Corporate Cash Management is responsible for executing and directing all cash management activities within the consolidated Corporation at Duke's international locations. Corporate Cash Management will work closely with local business unit management, Regional Treasury Managers and the local personnel responsible for cash management to ensure that Duke Energy's Cash Management Objectives are being achieved. Before issuing cash management directives, Corporate Cash Management will coordinate and consult with the business unit, tax, legal, treasury, and other key personnel to ensure that those directives incorporate appropriate strategic, legal and tax considerations, country and currency risks, local banking relationship considerations, and local banking regulations and restrictions.

Whenever possible and practical, cash in excess of working capital needs should be consolidated among similarly owned entities in US or Canadian dollars. Whenever possible and practical, where currency risk is high or country risk is higher than established levels, cash must be invested outside of that country.

Standards: The following section contains information that applies to all Corporate Treasury policies and guidelines

- Corporate Treasury: Corporate Treasury refers to and includes the functions of Cash Management, Corporate Finance, Portfolio Management, Long-Term Investments and Financial Planning and Analysis and is a centralized corporate center servicing and operating on behalf of Duke Energy and its consolidated or controlled subsidiaries and affiliates. All Corporate Departments and Business Units are expected to comply with the contents of this manual. Changes to policies must be approved in accordance with Duke Energy policy. Changes to guidelines wil be made within functions and must be approved by the Corporate Treasurer.
- Delegation of Authority: Only authorized individuals may enter into Corporate Treasury activities. Such activity and limits are covered under the "Approval for Business Transactions" policy. Individuals and their corresponding functions and limits are listed in the Corporate Treasury "Delegation of Authority" ("DOA"). Exceptions may be granted with written approvals by individuals authorized to the required transaction levels consistent with the DOA. Both documents are managed within the Controller's group. No Duke Energy employee shall knowingly personally benefit from any Corporate Treasury transaction. All Corporate Treasury activity will conform to the "Approval of Business Transactions" policy and the Corporate Treasury "Delegation of Authority."
- External Counterparts: External counterpart determination will be made within the Duke Energy Finance organization in coordination with Corporate Treasury and Corporate Risk Management. Credit risk guidelines will be the responsibility of Corporate Risk Management.
- Transactional Controls: Transactional control procedures will comply with documented control procedures.
- Accounting Standards: Accounting treatment for all transactions will be in accordance with GAAP and will be determined, if applicable, in coordination with the Corporate Accounting Research Group in accordance with the "Accounting for Risk Management and Hedging Activities Policy" and "Accounting for Intercompany Transactions Policy", on the portal and managed within the Controller's group.
- Terms, Definitions and Approved Products and Instruments: Financial terms shall have meanings consistent with definitions found in *Barron's Dictionary of Finance and Investment Terms*. A list of approved finance and hedging products and instruments is available from Corporate Treasury. Use of other products or instruments must be approved by the Treasurer and Chief Financial Officer.

Related Policies, Standards, or Procedures

- Intercompany Funding Policy
- Accounting for Intercompany Transactions Policy
- Wire Transfer Policy
- Approval of Business Transactions
- Delegation of Authority

Intercompany Funding Policy

Applicability:	Applies to Enterprise
Originator:	Corporate Treasury – Cash Management
Approval:	Corporate Chief Financial Officer
Approval Date:	TBD
Effective Date:	April 1, 2006
Revision Date:	April 1, 2006
Reissue Date:	April 1, 2006

Statement of Purpose and Philosophy

The scope of this policy covers Intercompany Funding activities managed by Duke Energy's Corporate Treasury. The purpose of this document is to provide parameters around the activities that encompass cash consolidation.

Corporate Treasury has the responsibility to ensure that in accordance with the "Corporate Cash Management Policy", cash assets are, i) properly safe-guarded, ii) managed to maximize value within approved investment parameters, iii) available to Corporate Treasury on a timely basis to fund general corporate needs, iv) not left idle and under utilized, and v) not unnecessarily exposed to the claims of lenders, other creditors, or unacceptable short-term cash investment risks.

Corporate Treasury is also responsible and accountable for funding all expenditures that have been appropriately approved in accordance with the "Approval of Business Transactions Policy". This funding will often require the movement of cash between business entities in the form of Intercompany Cash Advances, Intercompany Loans, Equity Distributions and/or Intercompany Equity Investments.

Policy Expectations

<u>Cash Consolidation Expectations</u>

This policy applies to Duke Energy and its consolidated or controlled subsidiaries and affiliates.

All Corporate Departments and Business Units are expected to comply with this policy.

This policy is not meant to cover intercompany accounts payable and receivable occurring from the purchase and sale of intercompany products or services, or non-cash accounting entries resulting from cross-billing for products and services paid on behalf of another Business Unit.

This policy does not supplant compliance with any legal requirements related to corporate authorizations, corporate filings, registration statements, or other required regulatory actions.

Depending on the entities involved, board resolutions and/or other approval processes may be necessary in order to comply with applicable governance and legal requirements.

In cases of joint ventures or minority owned projects where Duke Energy is represented on the board or other management committee, the Duke Energy ownership percentage of the joint venture or project must be voted in accordance with the direction of the attached Corporate Treasury "Delegation of Authority".

All Intercompany Funding Transactions covered under these guidelines should be accounted for and periodically reviewed in accordance with the "Accounting for Intercompany Transactions Policy".

General Description

All cash not necessary for day-to-day operations of the business units will be distributed, except:

- Approved cash reserves for near-term expenses and changes in working capital.
- Approved cash reserves to fund near-term capital expenditures (in general less than 3 months).
- Restricted reserve account balances (e.g., project finance reserve accounts).
- Cash reserves to meet Rating Agency requirements.
- Cash reserves to meet regulatory requirements.

Consideration will be given to the associated tax, accounting, legal, and regulatory implications of any cash distribution or cash contribution.

Accountability: Roles and Responsibilities

Corporate or Business Unit

- All Corporate and Business Unit personnel of the Enterprise shall ensure compliance with these guidelines.
- All Intercompany Funding Transactions must be approved in accordance with the Corporate Treasury "Delegation of Authority".
- Originator of the transaction must coordinate with Tax, Treasury, Accounting and Legal to determine the nature of funding (dividend or Return of capital or cash advance or Intercompany loan).
- Each Business Unit Chief Financial Officer, or his or her designee, will be responsible for tracking, servicing and accounting for their respective Intercompany Funding Transactions.
- Notice of all Intercompany Funding Transactions, along with copies of any supporting documentation, should be provided upon closing to the associated Business Unit Controller's group and accounted for as appropriate for the type of transaction.
- All Intercompany Funding Transactions should be accounted for and periodically reviewed in accordance with the "Accounting for Intercompany Transactions Policy".

Corporate Cash Management

- Corporate Cash Management will ensure the wire requests comply with the "Wire Transfer Policy".
- Corporate Cash Management will, at its discretion determine the appropriate Funding Node for each Business Unit, and with regard to regular and routine transactions, will keep a chart of designated Funding Paths.
- Corporate Cash Management, jointly with other Treasury groups, Tax, Legal and Business Unit, will determine the nature of funding (dividend or return of capital or cash advance, equity contribution or Intercompany loan).
- Corporate Cash Management will coordinate with BU or Corporate Departments requiring approvals by Treasurer or CFO. Cash Management will coordinate with the Portfolio Management and Corporate Finance groups in determining Treasury issues and/or resolutions.
- Corporate Cash Management will provide appropriate financial terms and conditions for all Intercompany Loans based upon consultation with the Business Unit CFO's as well as other Treasury group, and giving consideration to relevant legal, regulatory, tax and other business reasons
- Corporate Cash Management will monitor and report on all intercompany loans funded. Intercompany loans should be reviewed with Corporate Controller on periodic basis.
- Corporate Cash Management has unlimited authorization to transact any Domestic Intercompany Cash Advance as needed. International Cash Advances require the additional approval of Corporate Tax. All Intercompany Cash Advances initiated by other Corporate Departments or Business Units must be approved by Corporate Cash Management.

Corporate Tax

- Corporate Tax, jointly with Treasury, Legal and Business Unit, will determine the nature of funding (dividend or return of capital or cash advance, equity contribution or Intercompany loan).
- Corporate Cash Management has unlimited authorization to transact any Domestic Intercompany Cash Advance as needed. International Cash Advances require the additional approval of Corporate Tax. All Intercompany Cash Advances initiated by other Corporate Departments or Business Units must be approved by Corporate Cash Management.

Legal

- Corporate Legal will provide standard loan templates for all Intercompany Loans. The use of documents other than the standard templates must be approved by Corporate Legal and Corporate Cash Management.
- Legal will ensure proper approvals and resolutions are executed for equity contribution or distributions or intercompany loans.

Requirements

The approvals per these guidelines are in addition to any legal requirements related to corporate authorizations, corporate filings, registration statements, or other required regulatory actions.

Intercompany Cash Advances

- All Intercompany Cash Advance transactions will be evidenced in the respective Business Unit's daily bank account report, and should be accounted for by the net lender and net borrower in their respective Intercompany Advance accounts.
- Corporate Cash Management has unlimited authorization to transact any Domestic Intercompany Cash Advance as needed. International Cash Advances require the additional approval of Corporate Tax. All Intercompany Cash Advances initiated by other Corporate Departments or Business Units must be approved by Corporate Cash Management.

Intercompany Loans

- All intercompany loans must be approved in accordance with the Corporate Treasury "Delegation of Authority" as well as in coordination with Corporate Tax.
- Where required for legal, regulatory, tax or other business reasons, certain Intercompany Funding Transactions will be funded using a formal Intercompany Loan.
- The standard templates must be used. Any changes should be approved by Corporate Legal and Corporate Cash Management. For international or cross-border Intercompany Loans, special consideration should be given to the accounting designation of such loans and any associated foreign currency impacts. Any foreign currency hedging will be in accordance with the Financing Activity and Financial Risk Management Policy and Guidelines with appropriate advance notice to international tax.
- Notice of all Intercompany Loans, and copies of any supporting documentation, should be provided upon closing to the associated Business Unit Controller's group. Interest expense and accruals for Intercompany Loans should be accounted for by the respective Controller's group.
- A "Money Pool Agreement" is a specific kind of intercompany revolving loan.
- Transactions within the loans established under this policy are considered previously approved.

Intercompany Equity Investments or Distributions

- All Intercompany Equity Investments or distributions must be approved in accordance with the Corporate Treasury "Delegation of Authority". This approval is in addition to any legal requirements related to corporate authorizations, corporate filings, registration statements, or other required regulatory actions.
- Business Unit CFO and Controllers must be informed of any equity distributions from their Business Unit(s).

- Each Business Unit Chief Financial Officer, or his or her designee, will be responsible for tracking, monitoring, servicing and accounting for Intercompany Equity Investments and Equity Distributions at entities within their management control; including any up stream roll-up and reconciliation.

Conflict Resolution

- In the unlikely event that consensus cannot be gained among the relevant internal constituencies (i.e., Legal, Tax, Regulatory, Treasury, Business Unit), the Corporate CFO will have final authority in resolving any conflicts with regard to the appropriate type of Intercompany Funding Transactions to use in certain situations.

Standards: The following section contains information that applies to all Corporate Treasury policies and guidelines

- Corporate Treasury: Corporate Treasury refers to and includes the functions of Cash Management, Corporate Finance, Portfolio Management, Long-Term Investments and Financial Planning and Analysis and is a centralized corporate center servicing and operating on behalf of Duke Energy and its consolidated or controlled subsidiaries and affiliates. All Corporate Departments and Business Units are expected to comply with the contents of this manual. Changes to policies must be approved in accordance with Duke Energy policy. Changes to guidelines wil be made within functions and must be approved by the Corporate Treasurer.
- Delegation of Authority: Only authorized individuals may enter into Corporate Treasury activities. Such activity and limits are covered under the "Approval for Business Transactions" policy. Individuals and their corresponding functions and limits are listed in the Corporate Treasury "Delegation of Authority" ("DOA"). Exceptions may be granted with written approvals by individuals authorized to the required transaction levels consistent with the DOA. Both documents are managed within the Controller's group. No Duke Energy employee shall knowingly personally benefit from any Corporate Treasury transaction. All Corporate Treasury activity will conform to the "Approval of Business Transactions" policy and the Corporate Treasury "Delegation of Authority."
- External Counterparts: External counterpart determination will be made within the Duke Energy Finance organization in coordination with Corporate Treasury and Corporate Risk Management. Credit risk guidelines will be the responsibility of Corporate Risk Management.
- Transactional Controls: Transactional control procedures will comply with documented control procedures.
- Accounting Standards: Accounting treatment for all transactions will be in accordance with GAAP and will be determined, if applicable, in coordination with the Corporate Accounting Research Group in accordance with the "Accounting for Risk Management and Hedging Activities Policy" and "Accounting for Intercompany Transactions", on the portal and managed within the Controller's group.
- Terms, Definitions and Approved Products and Instruments: Financial terms shall have meanings consistent with definitions found in *Barron's Dictionary of Finance and Investment Terms*. A list of approved finance and hedging products and instruments is available from Corporate Treasury. Use of other products or instruments must be approved by the Treasurer and Chief Financial Officer.

Key Terms and Definitions

Corporate Treasurer – the Treasurer for Duke Energy Corporation.

Equity Distributions – cash distributions such as dividends, return of capital, capital reductions, etc., by an entity to its parent companies, or shareholders - excludes repayment of loan principal, or repayment of cash advances.

Funding Node – designated Business Unit(s) used by Corporate Treasury to consolidate cash resources and provide cash resources to other Business Units as needed for appropriately authorized and approved business transactions.

Funding Path – path designated by Corporate Cash Management between a Funding Node and a Business Unit for funding routine Intercompany Cash Advances.

Intercompany Cash Advances – a non-interest bearing cash loan, as evidenced only in the daily bank reports of two Business Units, and accounted for on a net basis in the general ledgers of the Business Units.

Intercompany Equity Investments – includes any kind of equity like investment such as equity infusions/contributions, paid in capital, additional paid in capital, share capital, and common and preferred stock/share purchases.

Intercompany Funding Transaction – an intercompany transaction where cash is sent from one Business Unit to another in order to 1) provide funds for appropriately approved and authorized cash expenditures or 2) consolidate cash at a particular designated Funding Node at the discretion of Corporate Cash Management.

Intercompany Loans – a formal, documented cash loan between two Business Units.

Related Policies, Standards, or Procedures

- Accounting for Intercompany Transactions Policy
- Delegation of Authority

Wire Transfer Policy

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

Effective Date: 08/31/2000
Revision Date: 11/01/2004
Reissue Date: 04/01/2006

Statement of Purpose and Philosophy

The intent of this Policy is to adequately safeguard cash and process wire transfers for authorized amounts. This policy also applies to ACH Payment Requisitions to be processed by Corporate Treasurer's Department – Corporate Cash Management (CCM). This policy excludes prior Cinergy businesses.

Roles and Responsibilities

Corporate Cash Management

- Maintain department procedures to address the following:
  - Segregation of duties,
  - Data security,
  - Authentication of Wire Transfer Requisitions,
  - Signature verification on all requests (an email with attached payment instructions directly from an authorized individual is considered a valid signature),
  - Verification procedure on non-routine requests for external wires $20 million and over,
  - Input and verification of wire transfers,
  - Input and verification/release of all wires by separate individuals,
  - Authorization by management of non-routine external wires $20 million and over that have not been appropriately verified,
  - Balancing and transaction verification on a daily basis, and
  - Review and approval of International wire transfer procedures as submitted by business units.

Business/Corporate Units

- Domestic (United States and Canada)
  - Units must process all wire transfers through CCM.
  - Units must provide CCM with a Wire Transfer Authorization List of individuals authorized to approve outgoing wire transfers and foreign currency payments for their business/corporate unit. The list must be approved by the appropriate officer, either a member of the Executive Committee (EC), Expanded Executive Committee (EEC), or one who reports directly to an EEC member. The business/corporate unit is responsible for maintaining this list and providing CCM with updates. The list format will be established by CCM and will include the name and title for approved individuals. The Wire Transfer Authorization Specimen Signature forms will contain the sample signatures. CCM will use these forms to verify wire approval signatures.
  - The following business/corporate unit officers are authorized to approve any wire transfer request, regardless of dollar amount, that is supported by properly approved documentation:
    - Executive Committee members,
    - Expanded Executive Committee members, and

        - Duke Energy corporate officers in the Finance Group in Corporate.
        - Officers who report directly to an Expanded Executive Committee member may approve wire transfer requests for their business/corporate unit.
    - Authorized individuals in certain corporate groups (i.e., CCM, Tax, Payroll, etc.) may approve wire transfer requests for any business/corporate unit of payments related to their functional responsibility.
    - Units must provide CCM with a properly authorized Wire Transfer Requisition in accordance with format and timing established by CCM. The approval is to be performed by the appropriate authorized individual whose signature(s) indicates they have reviewed the supporting documentation and the payment is authorized. The person(s) signing the wire transfer should be authorized to approve the transaction or should verify the underlying transaction has been appropriately approved in accordance with the Approval of Business Transactions and the Delegation of Authority Policies.
    - Individuals who are authorized to sign wire transfers and their dollar limits should be documented on the Business Unit's Delegation of Authority Form(s).
    - For wire transfer requests $5 million and over, two (2) authorized signatures are required.
- **International**
    - International offices must present their wire transfer procedures to CCM to obtain authorization to execute their own wire transfer. Refer to CCM section for required procedures.
    - *International offices executing their own wire transfers must maintain lists which have been* approved by the appropriate officer (either a member of the EC, EEC, or one who reports directly to an EEC member) of individuals authorized to:
        - Approve wire transfers and
        - Execute wire transfers.
    - *The person(s) signing the wire transfer* should be *authorized to approve* the transaction or should verify the underlying transaction has been appropriately approved in accordance with the Approval of Business Transactions and the Delegation of Authority Policies.
    - Individuals who are authorized to sign wire transfers and their dollar limits should be documented on the Business Unit's Delegation of Authority Form(s).
- *Wire payments from Accounts Payable Systems that Create Electronic Payment Files*
    - For wire payment files created via an accounts payable system, one signature (or electronic approval) of an individual authorized to approve the processing of the electronic payment file is required. Such approval should be on a printout of the wire payment log or through an email from accounts payable management (who are also individuals authorized to approve wire transfers in accordance with this policy) which references the file, the number of payments and the total dollar value of the payments. This approval confirms the electronic payment file consists of payments approved in accordance with the system's proper Delegation of Authority. An approved list of individuals authorized to approve electronic payment files must be provided to CCM. The approver of the wire payment file must be an individual authorized to approve electronic payment files and different from the person who approved the payment(s) in the accounts payable system.
    - The Delegation of Authority within the accounts payable system must be consistent with the Business Unit's approved Delegation of Authority Form(s) for applicable transaction categories.

Check Signing Policy

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

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

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

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

Roles and Responsibilities-

Business/Corporate Unit-

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

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

Footnotes:

(1) "Authorized officer" is defined as:

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

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

Bank Account and Check Disbursement Policy

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

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

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

Roles and Responsibilities-

Corporate Cash Management Department –

- Bank accounts must be established and modifications (including signature card updates) must be processed through Corporate Cash Management.

Business/Corporate Unit –

- ***Requests for establishing and modifying bank accounts must be made through Corporate Cash Management. Each request must include documentation describing the business reason for the request.***
- Bank accounts must be reconciled on a periodic basis. Corrections should be made within one month of identifying a reconciliation difference.
    - The bank statement must be reconciled to the checkbook
    - The bank statement must be reconciled to the general ledger account
    - Reconciliations must be reviewed by management
- Unissued checks and check signature plates must be physically secured.
- Check signers or people having access to check signature plates must not have access to blank checks.
- Checks must be controlled by sequential numbering.
- All checks which are voided must be retained.

Guidelines –

- The following functions should be separated between at least two people. Weaker segregation of duties should be accompanied by additional management review.
    - cash disbursement
    - purchasing
    - contract administration
    - *receiving*
    - bank account reconciliation
    - accounts payable
- Unissued checks and check signature plates should be accounted for periodically by personnel independent of check custody.
- Check custody should be assigned to one person, with back-up access requiring two people to gain access to checks.
- Checks issued should be balanced to the daily payments journal and must be balanced to the monthly payments journal.

Cash Management Guidelines: Short-Term Investment Guidelines

Guideline Objectives

Cash is a critical asset of the Corporation. It is the Policy of Duke Energy that all cash assets of the Corporation be properly safeguarded and then managed to maximize value while assuring appropriate amounts of cash are available for operations. Safety, liquidity and preservation of capital considerations outweigh return considerations. Where currency or country risks are higher than acceptable levels, cash should be invested outside of that country.

Domestic Cash Investments

The primary objective of domestic cash investments is to meet the daily funding needs of Duke Energy Corporation, Duke Power Co. LLC, Duke Capital LLC, Cinergy Corp. and their respective subsidiaries and affiliates.

Authorization:

- Authorized short-term investors for Duke Energy Corporation, Duke Power Co. LLC, Duke Capital LLC, Cinergy Corp. and their respective subsidiaries and affiliates, include the following corporate officers: Chief Financial Officer, Treasurer and Head of Cash Management, or Authorized Agents as designated by one of the aforementioned corporate officers.
- Duke Energy's Corporate Cash Management group is responsible for investing or directing the investment of all cash assets.
- Temporary exceptions to the policy can be made with approval of any two of the following corporate officers:
    - Chief Financial Officer
    - Chief Risk Officer
    - Treasurer
    - Head of Cash Management

All material exceptions should be for non-routine investment opportunities and reported to the Corporate Treasurer.

Acceptable securities, dollar limitations, maturity guidelines and custody requirements are identified in Supplement A.

Cash Investments Outside of the US

This section applies to cash investments for companies within the consolidated Duke Energy Corporation that are domiciled outside the United States, which includes all of Duke's wholly owned subsidiaries and all other entities in which Duke owns more than 50% of the stock or is the managing partner. Whenever possible and practical, cash should be consolidated among similarly owned entities in US dollars. Where currency or country risks are higher than established levels, cash should be invested outside of that country.

Cash includes (I) Working Capital Cash, (II) Inconvertible Cash, and (III) Available Cash. Working Capital Cash is the cash portion of working capital that is necessary to fund the relevant operation for a period of 90 days or up to a US $5 Million equivalent, whichever is greater. Inconvertible Cash is cash that can not be legally removed from the country without a dividend or lengthy governmental registration process. Available Cash is all other cash.

Authorization:

- Authorized short-term investors for Duke Energy Corporation, Duke Power Co. LLC, Duke Capital LLC, Cinergy Corp. and their respective subsidiaries and affiliates, include the following corporate officers: Chief Financial Officer, Treasurer, and Head of Cash Management, or Authorized Agents, as designated by one of the aforementioned corporate officers of Duke Energy Corporation, Duke Capital LLC, or Cinergy Corp. Investors of Working Capital Cash and Inconvertible Cash are designated by local Duke Management.

- Duke Energy's Corporate Cash Management group is responsible for investing or directing the investment of all cash assets.
- Temporary exceptions to the policy can be made with approval of any two of the following corporate officers:
  - Chief Financial Officer
  - Chief Risk Officer
  - Treasurer
  - Head of Cash Management

All exceptions should be for non-routine investment opportunities and reported to the Corporate Treasurer.

Acceptable securities, dollar limitations, maturity guidelines and custody requirements are identified in Supplement B.

Supplement A: Domestic Short-Term Investments

Acceptable Securities (including both physical and book entry):

1. Money Market Securities, including:
   a. Federal Tax Exempt Obligations, including Dailies, Weeklies, and Commercial Paper.
   b. Taxable Commercial Paper
   c. Time Deposits, Certificates of Deposit, and other Bank Investment Products

   Must have commercial paper ratings or comparable short-term ratings of at least one of the following:
   a. Moody's P1 (or VMIG1 or MIG1)
   b. Standard & Poor's A1 (or SP1)

   In the absence of short-term ratings, security must have long-term ratings of at least A2/A from Moody's or Standard & Poor's.

   Investments in securities with ratings less than those above are prohibited.

2. Money Market Funds

3. Preferred Stocks
   Must have preferred stock ratings of at least Single-A from both Moody's and Standard & Poor's and a dividend rate which resets at least once every 50 days.

4. Repurchase Agreements
   Must be collateralized by securities of the U.S. Government, one of its Agencies, or other securities eligible for purchase under this policy. Must be purchased from a financial institution whose money market securities qualify for purchase by Duke Energy.

5. Obligations of the U.S. Government or its Agencies.

Dollar Limitations

1. Investment exposure to any single domestic issuer should not exceed $50 million at any one time. No more than $10 million of that amount being invested in preferred stock, unless the preferred stock is rated Triple-A, in which case the maximum amount is $20 million.
2. Investment exposure to any single foreign issuer should not exceed $25 million at any one time, with no more than $10 million of that being to the issuer's preferred stock.
3. Investment exposure to preferred stocks rated less than Triple-A should not exceed $25 million.
4. Investment exposure to any single money market fund should not exceed $100 million or ten percent of the fund, whichever is less.

5. No investment limit applies to the U.S. Government or any of its Agencies.
6. Investment exposure to any foreign country should not exceed $25 million.

Maturity Guidelines

1. Other than U.S. Government or U.S. Agency debt, maturities can not exceed 60 days.
2. The maturity of the U.S. Government or its Agency debt can not exceed 180 days.
3. A maturity, by definition, shall include puts, announced calls or auctions, allowing for the redemption of the investment at a quantifiable price consistent with safety and preservation of capital.

Custody

1. Leave securities in custodial accounts or funds on deposit with financial institutions whose money market securities qualify for purchase.
2. Require delivery, including book entry delivery to the Depository Trust Corporation, of securities or collateral to a third party custodial account, or
3. Send funds to money market funds for credit to a Duke account.

Supplement B: Short-Term Investments Outside of the US

Acceptable Investments (including both physical and book entry):

1. Intercompany loans or advances

2. Commercial Paper or other Money Market Securities
   Must have commercial paper ratings or comparable short-term ratings of at least one of the following:
   a. Moody's P1 (or VMIG1 or MIG1)
   b. Standard & Poor's A1 (or SP1)
   c. DBRS R1 Mid

   In the absence of short-term ratings, security must have long-term ratings of at least A2/A from Moody's or Standard & Poor's, or equivalent ratings from other prominent rating agencies. Investments in securities with ratings less than those above are prohibited.

3. Money Market Funds
   Must provide daily liquidity. Must seek to maintain a stable $1 per share value. Must have an average maturity of 90 days or less. Must invest at least 95% in obligations or in securities which are rated in the highest rating categories for short-term debt obligations by at least two rating agencies (or one agency if the instrument is rated only by one such organization). The remaining 5% of investment obligations or securities must be rated in one of the two highest rating categories.

4. Bank Investments: Any fixed or variable rate bank risk instrument (e.g. time deposits).
   Eligible Banks are banks whose long-term debt ratings are A3/A- or higher by Moody's and Standard & Poor's. A Relationship Bank is an Eligible Bank that participates in any of Duke Energy's credit facilities.

5. Repurchase Agreements
   Must be collateralized by securities eligible for purchase under this policy and purchased from a financial institution whose money market securities also qualify for purchase under this policy. Must be collateralized by securities of the U.S. Government, one of its Agencies, or other securities eligible for purchase under this policy.

6. Government Obligations
   Obligations of the U.S. Government or its Agencies. Obligations of the Canadian or Australian national or provincial governments (meeting the ratings criteria in II.A.2 above). (Obligations of other governments or agencies may be purchased if approved (including investment limits) by the Duke Energy Corporation Treasurer or Assistant Treasurer.

7. Preferred Stock
   Must have preferred stock ratings of at least Single-A from both Moody's and Standard & Poor's and a dividend rate that resets at least once every 50 days.

If no Acceptable Securities are available in the country and there is Inconvertible Cash, then cash should be invested in the safest instrument available (as determined by Corporate Cash Management) for the shortest time period that anticipates a positive local currency return.

Limitations

1. Intercompany loans, notes or advances must be between Duke controlled subsidiaries. There is no limit to the term or amount.

2. Available Cash investments must be denominated in US Dollars or Canadian Dollars except when an imminent expenditure exists in a local currency.

3. Investment exposure to any single issuer should not exceed US $50 million or the equivalent at any one time. No more than $10 million of that amount should be invested in preferred stock, unless the preferred stock is issued by another Duke controlled subsidiary.

4. Investment exposure to any single money market fund should not exceed $50 million or ten percent of the fund whichever is less.

5. No investment limit applies to short-term debt obligations of the US Government and any of its Agencies, the Canadian Government or the Australian Government. Investment limits for obligations of other governments or government agencies will be included in the specific investment authorization (refer to II A 6).

6. For countries with ratings less than A2/A, working capital cash investment exposure to any non-US country risk should not exceed $10 million.

7. Bank exposure limits for all cash investments are as follows:

Category	Maximum Exposure (US Dollar Equivalent)
Branch of a Relationship Bank	$50 Million
Branch of a Non-Relationship Eligible Bank	$25 Million
Non-Eligible subsidiary of a Relationship Bank	$15 Million
Non-Eligible subsidiary of a Non-Relationship Eligible Bank	$10 Million
Non-Eligible Bank	$5 Million

Corporate Cash Management will identify and communicate lists of acceptable banks and the resulting limits in accordance with these guidelines.

Maturity Guidelines

1. Corporate money market instruments – 90 days or less.
2. Bank Investments – 90 days or less
3. Any government debt instrument - 180 days or less (after appropriate approval).
4. A maturity, by definition, shall include puts, announced calls, or auctions allowing for the redemption of the investment at a quantifiable price consistent with safety and preservation of capital.

Custody

The company may leave securities in custodial accounts or funds on deposit with financial institutions whose money market securities qualify for purchase.

Financing Activity and Financial Risk Management Policy

Applicability:	Applies to Enterprise
Originator:	Corporate Treasury
Approval:	Corporate Chief Financial Officer
Approval Date:	TBD
Effective Date:	April 1, 2006
Revision Date:	April 1, 2006
Reissue Date:	April 1, 2006

Statement of Purpose and Philosophy

Policy Objectives: The scope of this policy covers financing and financial risk management activities within Duke Energy's Corporate Treasury. This policy does not cover other activities managed within Corporate Treasury that include: Cash Management, Long-Term Investment and Financial Planning and Analysis: Policy and guideline information for those activities is managed under separate policies and guidelines within the "Corporate Treasury Policy and Guideline Manual."

The objective of Duke Energy's financing and financial risk management activities within Corporate Finance and Portfolio Management in Corporate Treasury is to provide enterprise-wide services that enhance Duke Energy's, its subsidiaries', affiliates' and each Business' ability to increase revenue, reduce costs and manage risk. This is accomplished through, but is not limited to the following activities:

- Optimize capitalization, including all financing activity
- Optimize liquidity, including access to bank and capital markets
- Position debt portfolios of Duke Energy and its operating companies to minimize cost of capital and optimize maturity profile, consistent with overall risk management goals
- Manage and monitor long-term debt, including administration and compliance
- Optimize credit ratios to maintain desired credit ratings
- Manage and monitor interest rate risk exposure
- Manage and monitor foreign currency risk exposure
- Forecast enterprise financing needs
- Issue and manage credit enhancements
- Oversee transaction review, including establishing cost of capital and hurdle rates

Functions within Corporate Finance and Portfolio Management fall into two categories: Financing Activity and Financial Risk Management.

Policy Expectations and Accountabilities

Financing Activity

Financing activity throughout the corporation is the sole responsibility of Corporate Treasury. With the exception of the short-term and intercompany financing activity within Cash Management, financing activity is the responsibility of Corporate Finance. Financing activity includes, but is not limited to, the following: (A) Security issuances in the public and private placement markets, including long-term and short-term debt, equity, hybrid structures, MLP and

Income Fund units; (B) Repurchases, redemptions or retirements of any debt and equity instruments or units; (C) Lines of credit and borrowing facilities, whether syndicated or bilateral; and (D) Issuances of letters of credit and corporate guarantees.

In connection with this activity, primary financial institution relationships will be managed exclusively out of Corporate Treasury. Specifically, Corporate Finance will be the lead managers of, and primary points of contact to, the financial institutions that serve the corporation. Business Units are prohibited from hiring financial institutions for financing activity.

Under no circumstances will any group or entity, for which Duke Energy has controlling interest, outside of Corporate Treasury, conduct the above actions without prior written approval from the Corporate Chief Financial Officer.

Credit Enhancement Instruments (Guarantees and Letters of Credit)

Corporate credit enhancement instruments will be negotiated, issued and administered within Corporate Treasury. All applications and requests for the issuance of guarantees or letters of credit require review and approval in accordance with this policy and the Approval of Business Transactions Policy.

Credit enhancement instruments should be issued with a stated fixed amount and a fixed term, or with a right of revocation. Uncapped guarantees must be reviewed and approved by the business unit head and then forwarded for review by an Expanded Executive Committee member for the business unit, the Corporate Treasurer and the Corporate CFO. Uncapped guarantees require the approval of the Board of Directors unless a theoretical maximum exposure can be established and is within authorized approval limits of the CFO and CEO. Credit enhancement instruments with a maturity date greater than 10 years from the date of issuance must be approved by the Corporate Treasurer and the Corporate CFO, and for instruments in excess of 20 years, by the CEO.

Credit enhancement instruments issued on behalf of non-wholly owned entities shall be in an amount based on Duke Energy's pro-rata ownership interest in such entity. Credit support in excess of such pro-rata ownership interest requires approval in accordance with the Approval of Business Transactions Policy and the Corporate Treasurer of Corporate CFO.

No credit enhancement instruments should be issued on behalf of unaffiliated third parties.

Credit enhancement instruments issued in support of assets or subsidiaries being divested must be terminated or released at the closing of such divesture, or promptly thereafter. Failure to terminate such credit enhancement instruments at closing must be back-stopped and supported by an indemnity from the purchaser or other credit enhancement instrument acceptable to Credit Risk Management for the limited period that the credit support remains outstanding. Exceptions to this Policy must be approved by the Corporate Treasurer, the Chief Risk Officer and the Corporate CFO.

Contracts requiring the issuance of a credit enhancement instrument must be executed by a person(s) so authorized by the DOA and in accordance with the Approval of Business Transactions Policy. No Contract incorporating language requiring the issuance of a credit enhancement instrument can be executed unless both Corporate Legal and Corporate Treasury have approved such language.

If specifically authorized in writing pursuant to a business unit DOA (signed by the Corporate Treasurer), a business unit may, however, issue its own guarantees in support of its own subsidiaries. Such issuance must be consistent with language and procedures developed by Corporate Legal and Corporate Treasury in accordance with the "Guaranty Documentation Guide", which is available from Corporate Treasury.

The Corporate Treasurer and Head of Corporate Finance are authorized to execute properly approved guarantees. The Corporate Treasurer and Head of Corporate Finance may approve bank applications for letters of credit which have been properly authorized, and may delegate such approval.

Any exceptions to compliance with this section of the policy must be requested by a business unit CEO or CFO, Corporate General Manager or Corporate Vice President and approved by the Corporate Treasurer and Corporate CFO.

Transaction Review

The transaction review process will be executed as is detailed in the "Financial Analysis Manual". This includes involvement of the Transaction Review Committee. Any material changes to approved projects, whether quantitative or qualitative, must re-visit the "Approval of Business Transactions" process. Please review the "Financial Analysis Manual" or contact the Corporate Finance group within Corporate Treasury for further clarity on this issue.

Financial Risk Management

Interest Rate Risk Management

Interest rate risk is defined as the impact on Duke Energy earnings per share and asset returns from interest rate market movements. The goal of the interest rate risk management program is to reduce the cost of funds, manage the mix of fixed and floating rate debt and to position the company for changes in interest rate levels.

Authorization

- Corporate Treasury is authorized to use derivative financial instruments to manage the interest rate risks associated with outstanding debt or to hedge interest rate risk associated with new debt issuances.
- All interest rate trading activity with third parties will be executed solely by/in coordination with Corporate Treasury.
- Speculation in interest rate transactions is prohibited.

Reporting

- Interest rate risk and hedge information will be periodically reported by Corporate Treasury to senior management. Business units will report interest rate risk to Corporate Treasury, as requested.

Foreign Currency Risk Management

Foreign Currency risk is defined as the impact on Duke Energy earnings per share and asset returns from foreign currency market movements. This will include, but is not limited to net investment, earnings and cash flow risk as well as risk arising from planned projects. This policy statement covers the management of foreign currency risk associated with existing asset positions, new and anticipated asset positions or changes as well as physical and financial energy commodity trading positions. The extent to which a business segment is held accountable for foreign currency results for incentive performance evaluation purposes will be determined by its Group President.

Authorization

- Corporate Treasury is authorized to manage foreign currency risk through local currency funding activity as well as by entering into derivative transactions with third parties.
- Business units are authorized only to manage foreign currency risk through commercial contract arrangements with its customers or suppliers or by entering into internal derivative transactions with Corporate Treasury.
- All foreign currency trading activity with third parties will be executed solely by/in coordination with Corporate Treasury. Corporate Treasury may transact in a corporate name and transfer the results to a business unit or may transact in the name of the business unit entities consistent with international laws. Actual results will be fully transferred to the applicable business unit.
- Hedging activity related to intercompany foreign currency exposures will be managed consistent with external exposures and will be managed by Corporate Treasury.
- Speculation in foreign currency transactions is prohibited.

Reporting

- Foreign currency risk and hedge information will be periodically reported by Corporate Treasury to senior management. Business units will report currency risk to Corporate Treasury, as requested.
- Business units will report forecasted Balance Sheet, Income Statement and Cash Flow items by currency to Corporate Treasury, as requested.
- Corporate Treasury will report hedge determination and results to the business units, as needed.

New Projects

- Any business unit that creates foreign currency risk due to a project, expansion, acquisition, or divestiture must develop a foreign currency risk assessment in coordination with Corporate Treasury. If applicable, this assessment must be included in the project's approval recommendation.
- Corporate Treasury will establish a project specific FX Rate Curve. Corporate Treasury will consider input from the business unit in this process. The business unit will use the FX Rate Curve during the approval process.
- Corporate Treasury will provide sovereign-adder guidance for hurdle rates.
- Corporate Treasury will be responsible for creating hedge strategies as well as acquiring or selling currency needed to complete all international investments.

Standards: The following section contains information that applies to all Corporate Treasury policies and guidelines

- Corporate Treasury: Corporate Treasury refers to and includes the functions of Cash Management, Corporate Finance, Portfolio Management, Long-Term Investments and Financial Planning and Analysis and is a centralized corporate center servicing and operating on behalf of Duke Energy and its consolidated or controlled subsidiaries and affiliates. All Corporate Departments and Business Units are expected to comply with the contents of this manual. Changes to policies must be approved in accordance with Duke Energy policy. Changes to guidelines wil be made within functions and must be approved by the Corporate Treasurer.
- Delegation of Authority: Only authorized individuals may enter into Corporate Treasury activities. Such activity and limits are covered under the "Approval for Business Transactions" policy. Individuals and their corresponding functions and limits are listed in the Corporate Treasury "Delegation of Authority" ("DOA"). Exceptions may be granted with written approvals by individuals authorized to the required transaction levels consistent with the DOA. Both documents are managed within the Controller's group. No Duke Energy employee shall knowingly personally benefit from any Corporate Treasury transaction. All Corporate Treasury activity will conform to the "Approval of Business Transactions" policy and the Corporate Treasury "Delegation of Authority."
- External Counterparts: External counterpart determination will be made within the Duke Energy Finance organization in coordination with Corporate Treasury and Corporate Risk Management. Credit risk guidelines will be the responsibility of Corporate Risk Management.
- Transactional Controls: Transactional control procedures will comply with documented control procedures.
- Accounting Standards: Accounting treatment for all transactions will be in accordance with GAAP and will be determined, if applicable, in coordination with the Corporate Accounting Research Group in accordance with the "Accounting for Risk Management and Hedging Activities Policy" and "Accounting for Intercompany Transactions Policy", on the portal and managed within the Controller's group.
- Terms, Definitions and Approved Products and Instruments: Financial terms shall have meanings consistent with definitions found in *Barron's Dictionary of Finance and Investment Terms*. A list of approved finance and hedging products and instruments is available from Corporate Treasury. Use of other products or instruments must be approved by the Treasurer and Chief Financial Officer.

Related Policies, Standards, or Procedures

- Approval of Business Transactions
- Delegation of Authority
- Accounting for Risk Management and Hedging Activities Policy
- Financial Analysis Manual

Financing Activity and Financial Risk Management Guidelines

Guideline Objectives

The scope of this Guideline document covers financing and financial risk management activities within Duke Energy's Corporate Treasury. The purpose of these guidelines is to provide parameters around the activities that encompass financing and financial risk management within Corporate Finance and Portfolio Management in Corporate Treasury. Functions within Corporate Finance and Portfolio Management fall into two broad categories: Financing Activity and Financial Risk Management. Guideline information on both categories is documented in this manual.

For policy and program objectives related to Corporate Finance and Portfolio Management, please refer to the "Financing Activity and Financial Risk Management Policy."

Financing Activity

Financing activity throughout the corporation is the sole responsibility of Corporate Treasury. With the exception of the short-term financing activity within Cash Management, financing activity is the responsibility of Corporate Finance. Financing activity includes, but is not limited to, the following: (A) Security issuances in the public and private placement markets, including long-term and short-term debt, equity, hybrid structures, MLP and Income Fund units; (B) Repurchases, redemptions or retirements of any debt and equity instruments or units; (C) Lines of credit and borrowing facilities, whether syndicated or bilateral; and (D) Issuances of letters of credit and corporate guarantees.

In connection with this activity, primary financial institution relationships will be managed exclusively out of Corporate Treasury. Specifically, Corporate Finance will be the lead managers of, and primary points of contact to, the financial institutions that serve the corporation. Business Units are prohibited from hiring financial institutions for financing activity.

Under no circumstances will any group or entity, for which Duke Energy has controlling interest, outside of Corporate Treasury, conduct the above actions without prior written approval from the Corporate Chief Financial Officer.

Long-term debt issue and facility transaction and compliance information will be input into the Corporate Treasury and Compliance systems. Management of servicing and complying with new issues will be addressed at the time of the issuance. Corporate issue servicing and compliance will be managed centrally by Corporate Treasury. For issues within business units, typically such activities will be managed by the business unit, unless it is determined otherwise, but will be reported to Corporate Treasury.

<u>Credit Enhancement Instruments (Guarantees and Letters of Credit)</u>

<u>General Principles</u>

- A guaranty should not be unconditional or absolute in nature.
- A guaranty should contain the following elements:
  - (i) stated maximum amount
  - (ii) fixed maturity date
  - (iii) revocation and assignment rights exercisable by Issuer
- Requests for the issuance of guarantees and letters of credit for a specific project or to a single entity for a specific transaction should be for the total obligation and not a series of incremental requests.
- Business units, subsidiaries and affiliates should avoid offering credit enhancement instruments when transacting business.
- The substantive language for guarantees is contained in the Guarantee Documentation Guide. Guarantees containing language that does not conform to the standards outlined in the Guide requires the

approval of Corporate Legal and Corporate Treasury as provided for in the Guarantee Documentation Guide.

Reporting
- Corporate Treasury is responsible for maintaining the credit enhancement instrument database.
- Business Units must report all issued and outstanding guarantees to Corporate Treasury and the Corporate Controller's Department on a monthly basis.

Transaction Review

Guidelines and procedures related to the transaction review process are outlined in the Financial Analysis Manual.

Financial Risk Management

Interest Rate Risk Management

Interest rate risk is defined as the impact on Duke Energy earnings per share and asset returns from interest rate market movements. The goal of the interest rate risk management program is to reduce the cost of funds, manage the mix of fixed and floating rate debt and to position the company for changes in interest rate levels.

Authorization
- Corporate Treasury alone is authorized to enter into external derivative financial instruments to hedge interest rate risk.

Exposures
- Existing interest rate exposures
- New and potential debt issuances
- Other exposures as authorized by the Treasurer or Chief Financial Officer, as appropriate

Transaction and Confirmation Guidelines
- Each quarter a Liability Management Plan will be prepared for and approved by the Treasurer. The liability management plan will review portfolio composition and performance, capital market expectations and outline specific hedge recommendations for the plan period. Hedging activity will conform to the details of the active liability management plan. Variances from the current plan will require specific approval from the Treasurer.
- All trades will be input into the Corporate Treasury system.
- Speculation in interest rate derivatives is prohibited.
- The confirmation process is the responsibility of Corporate Treasury. Confirming parties will be unrelated to dealing parties and will ensure that internal deal capture system trade data is consistent with counterpart trade confirmations.
- Any trade or settlement problems must be addressed with urgency.
- No Duke Energy employee shall knowingly fail to report or cause not to be reported promptly and accurately the terms of any derivative transaction.

Mark-to-Markets
- The mark-to-market process will be the responsibility of Corporate Treasury.
- On a monthly basis, Corporate Treasury will provide a detailed mark-to-market report to Corporate Accounting. The mark-to-market reports will be reviewed and validated by Corporate Accounting and any applicable business units.
- No Duke Energy employee shall knowingly cause the fair value of any derivative transaction to be calculated either inaccurately or on a delayed basis.

GAAP Accounting

- It is the general guideline of Duke Energy to employ interest rate derivatives in such a way as to receive either fair value or cash flow hedge accounting treatment as defined by "FASB Statement No. 133 Accounting for Derivative Instruments and Hedging Activities." However, Duke Energy may opt not to seek hedge accounting treatment for a given derivative contract.
- Duke Energy will designate a derivative for hedge accounting at the time it is employed. Determination of accounting treatment will be made by the Corporate Accounting Research Group in accordance with the "Accounting for Risk Management and Hedging Activities Policy" and will be communicated by Corporate Treasury to any applicable business unit.
- Effectiveness testing will be employed on a quarterly basis, if applicable.

Foreign Currency Risk Management

Foreign Currency risk is defined as the impact on Duke Energy earnings per share and asset returns from foreign currency market movements. This will include, but is not limited to net investment, earnings and cash flow risk as well as risk arising from planned projects. These Guidelines cover the management of foreign currency risk associated with existing asset positions, new and anticipated asset positions or changes as well as physical and financial energy commodity trading positions.

Authorization

- Corporate Treasury is authorized to manage foreign currency risk through local currency funding activity as well as by entering into derivative transactions with external and internal third parties.
- Business units are authorized only to manage foreign currency risk through commercial contract arrangements with its customers or suppliers or by entering into internal derivative transactions with Corporate Treasury.
- All foreign currency trading activity with third parties will be executed solely by/in coordination with Corporate Treasury. Corporate Treasury may transact in a corporate name and transfer the results to a business unit or may transact in the name of the business unit entities, consistent with international laws. *Actual results and accounting treatment will be fully transferred to the applicable business unit.*
- Speculation in foreign currency transactions is prohibited.
- The maximum size of hedge positions will be 100% of the underlying position.

Exposures

Net Investment

- Net Investment may be managed, when possible and cost-effective, by borrowing in the local currency to fund the net local investment.
- Net Investment may be managed with financial derivatives. This most likely would occur if local currency borrowings are anticipated in the future or if there is expectation that the investment will be monetized.
- Corporate Treasury is authorized to hedge risk arising from the re-measurement of monetary assets and liabilities that are not in the functional currency.

Earnings

- Local currency earnings that are determined to be material and are in alignment with forecasted cash flows may be hedged externally with financial derivatives by Corporate Treasury.
- Currency risk on the re-measurement of non-functional currency monetary assets and liabilities may be hedged by Corporate Treasury, unless the risk is deemed immaterial, if there is no future cash impact expected, or the currency of the item in question is in natural alignment with the underlying currency of the business.
- Business Units are encouraged through the course of business operations, to enter into contracts that reduce Duke Energy's exposure to movements in exchange rates.
- Business Units are authorized to hedge local currency EBIT targets. Such management must be hedged internally through Corporate Treasury. This may be done via FX contracts or accounting/forecasting adjustments. The maximum maturity for hedging activity by Business Units will be no longer than one exposure year.

- If a Business Unit requests support of Corporate Treasury in determining positions and recommending actions, Corporate Treasury will provide that support.

Cash Flows and Projects

- Cash Flow is defined as planned or declared dividends, operating cash flows, financing cash flows, cross-border payables and receivables, commodity transactions and cash flows related to project, expansion, acquisition or divesture activity.
- Excess cash beyond working capital needs is held in USD, when possible and appropriate.
- Anticipated cash flows may be hedged using financial derivatives.
- Corporate Treasury will manage the local cash positions in compliance with the Cash Management policies.
- Any business unit that creates foreign currency risk due to a project, expansion, acquisition, or divestiture must develop a foreign currency risk assessment in coordination with Corporate Treasury. If applicable, this assessment must be included in the project's approval recommendation.
- Corporate Treasury will establish a project specific FX Rate Curve. Corporate Treasury will consider input from the business unit in this process. The business unit will use the FX Rate Curve during the approval process.
- Corporate Treasury will provide sovereign-adder guidance.
- Corporate Treasury will be responsible for creating hedge strategies as well as acquiring or selling currency needed to complete all international investments.
- All budget and forecast FX Rate Curves will be produced and distributed by Corporate Treasury.

Commodity Trading and Marketing

- Duke Energy commodity traders may enter into internal foreign currency contracts with Corporate Treasury or Corporate Treasury may execute externally on their behalf (or in coordination with them). No individuals outside of Corporate Treasury, including traders in the commodity trading businesses, are authorized to enter into foreign exchange trades externally.
- Corporate Treasury will pass along market prices to such traders.

Transaction and Confirmation Guidelines

- Trade tickets will be written for all foreign currency transactions.
- All foreign currency transactions will be confirmed in oral or written form within 24 hours of execution by an authorized individual different from the individual who entered into the trade, or via an automated electronic confirmation system.
- All trades will be input into the Corporate Treasury system.
- All internal and external trades must be documented by written verification. This may include, but is not limited to a written trade ticket, written confirmation or e-mail. If applicable, trade details will be verified to the business units.
- Speculation in foreign currency derivatives is prohibited.
- Earnings hedges between Business Units and Corporate Treasury will be unwound and any gains or losses will be net settled. Settlement of other transactions will be determined on a case-by-case basis.
- Any trade or settlement problems must be addressed with urgency.
- No Duke Energy employee shall knowingly fail to report or cause not to be reported promptly and accurately the terms of any derivative transaction.

Mark-to-Markets

- The mark-to-market process will be the responsibility of Corporate Treasury and will be performed on a monthly basis, at a minimum. On a monthly basis, Corporate Treasury will provide a detailed mark-to-market report to Corporate Accounting and any applicable business units. The mark-to-market reports will be reviewed and validated by Corporate Accounting.
- No Duke Energy employee shall knowingly cause the fair value of any derivative transaction to be calculated either inaccurately or on a delayed basis.

GAAP Accounting

- Duke Energy will designate a derivative for hedge accounting at the time it is employed. Determination of accounting treatment will be made by the Corporate Accounting Research Group in accordance with the "Accounting for Risk Management and Hedging Activities Policy".
- If a derivative is designated as a hedge, Corporate Treasury will create a hedge designation form. All hedge designation information will be communicated to Corporate Accounting and any applicable business units.
- Effectiveness testing will be employed on a quarterly basis.
- Accounting FX Rates will be compiled and distributed by Corporate Treasury for use enterprise-wide.

Long-Term Investments
Summary Statement

Policies and guidelines pertaining to pension and other long-term investment portfolios are outlined in the Investment Policy Statement for each respective investment portfolio.

Financial Planning and Analysis
Summary Statement

Activity related to enterprise-wide financial planning and analysis will be managed out of Corporate Treasury. Documentation of the process for the preparation of the Annual Financial Plan is available within the Financial Planning and Analysis group.

Appendix A: Delegation of Authority – Corporate Treasury

- TBD

Appendix B: Corporate Treasury Approved Finance Products and Instruments

Note: This list is not intended to be all-inclusive. Please see Cash Management Guideline Supplements for more detailed product and instrument descriptions. Products and instruments, in addition to those listed below and in the supplements, may be approved by the Treasurer and Chief Financial Officer for use by Corporate Treasury within Duke Energy.

Debt and Investments:

- Taxable and Tax-Exempt Money Market Securities/Investments
  - Bankers Acceptances, Commercial Paper, Repurchase Agreements, Time Deposits, Money Market Funds, Etc.
  - Federally Tax-Exempt Securities
- Banker's Acceptances
- Repurchase Agreements
- Credit Facilities
- Unsecured Bonds and Notes
- Secured Bonds and Notes
- Junior Subordinated Notes
- Convertible Debt
- Capital Leases
- US Government and Agency Obligations

Equity:

- Common Equity
- Convertible Preferred Stock
- Preferred Stock
- Trust Preferred Stock

Financial Instruments and Derivatives:

- Fixed for Floating Interest Rate Swaps
- Floating for Fixed Interest Rate Swaps
- Floating for Floating Interest Rate Swaps
- Forward Starting Interest Rate Swaps
- Amortizing Interest Rate Swaps
- Interest Rate Caps
- Interest Rate Floors
- Interest Rate Collars
- Options on Swaps
- Forward Rate Agreements
- Corporate Treasury Locks
- Eurodollar Futures
- Corporate Treasury Futures
- Foreign Exchange Spot Contracts
- Foreign Exchange Forwards
- Foreign Exchange Swaps
- Foreign Exchange Purchase Options
- Foreign Exchange Sale Options - if the notional amounts are less than or equal to the notional amounts of corresponding purchased options
- Cross-Currency Swaps

Credit Enhancements:

- Credit Facilities
- Guarantees

- Letters of Credit
- Bond Insurance Policies

Appendix C: Approval of Business Transactions

TBD

Appendix D: Financial Analysis Manual

Financial Analysis Manual

This manual is a guideline to conducting Financial Analysis and is not Corporate Policy.

Contents

Financial Analysis Manual

What is Financial Analysis?
Financial Analysis is the evaluation of economic opportunities through the creation and analysis of financial models. The process of modeling is important as it allows the discovery, identification, and quantification of the risks and rewards in a transaction. The goal is to capture the complexity of a transaction in as simple a way as possible. This manual should be used as a guideline which outlines expectations for a standard financial analysis. Variations on the methodologies included in the manual are allowed to better reflect the details and scope of a specific transaction or proposal under consideration, review and approval.

Purpose of the Manual
This manual has been put together to share the standardized approach for analyzing acquisition, development and divestiture transactions and other business proposals at Duke Energy. The first section (*Financial Analysis Methodology and Calculation Requirements*) describes effective model structure, lists contacts within the company for information, and describes preferred approaches. The second section *(Project Approval)* outlines the information needed to present a project to the Transaction Review Committee (TRC) including the whitepaper and required financial information. The final section *(Model Best Practice)* includes some suggestions and tips to help make better financial models.

Section 1: Financial Analysis Methodology and Calculation Requirements

Modeling at Duke Energy
A financial model should consist of a complete set of financial statements (Income Statement, Cash Flow Statement, and Balance Sheet). As a U.S. based company, the projects should be modeled according to US GAAP with cash returning to the U.S.

While many criteria are used to evaluate a project, some of the key financial criteria used at Duke Energy include the following:

NPV – Net Present Value ("NPV") is the sum of the discounted cash flows generated by a particular project. The discount rate should always be specified in any presentation (e.g. NPV@10% when a 10% discount rate is used). The discount rates used for Business Units are typically the hurdle rates, but in some cases may be the weighted average cost of capital.

IRR – The Internal Rate of Return ("IRR") is the discount rate that makes the NPV of a project equal to zero. This rate is often compared to the Business Unit hurdle rate as an initial screen to see if a project generates sufficient value to proceed.

Hurdle Rate – The Hurdle Rate is the rate of return targeted to assure value is created for a given business activity. The rate generally consists of the weighted average cost of capital plus a risk-adjusted value adder. Additionally, the rate may be adjusted up or down for other risk assessments. Corporate Finance is responsible for calculating hurdle rates for Business Units.

Standard Models
In analyzing a transaction, use standard models if available. Many Business Units have developed standardized models for looking at recurring transactions. These models have the advantages of being used and looked at by a variety of different people over time. This helps reduce errors common when only one person has worked on a model. These models have also developed other tools that check the reasonableness of the results and present the results in ways in which senior management in the Business Units are comfortable seeing the data.

These standard models allow more time to be spent on analysis and the strategic implications of a proposed transaction rather than model creation and validation.

New Models
If a standard model is not available, or is not appropriate for analyzing a specific transaction, a new model should be created.

Sources for Corporate Assumptions

There are four cash flow components that need to be considered in building a financial model.

Initial Cash Outflows

The first important element in a discounted cash flow model is the initial investment to set up the project. The timing of these cash flows should match, as closely as possible, the timing of the actual cash outflows.

The cash outflow should include actual cash, the value of any contributed assets, the value of any assumed debt, and the value of any guarantees, sureties, collateral or other commitments made to third parties. Any costs that have already been spent or committed should also be included. Sometimes management is interested in seeing the return on projects before and after all development costs have been included.

Annual Cash Inflows and Outflows

The yearly cash flows should be fiscal years rather than project or contract years. This may result in stub periods in the first and last years but that is fine. The project needs to be in fiscal years to match with Business Unit planning and budgeting.

The annual cash flows should be built up from the operational characteristics of the project. This should also include projections on collateral outflows, inflows and appropriate sensitivity. Please include detail on how these assumptions were derived. Price assumptions should be split out separately.

Working Capital

Working Capital can be a significant item depending on the relative timing of receiving revenues and paying costs. If costs are paid before receiving revenues (building inventory, market design) and especially if modeled as a growing business, working capital requirements should be modeled explicitly.

Terminal Value

Assets should be modeled for their remaining useful life. Any terminal value for an asset should reflect the liquidation value or clean up costs for the asset at the end of the asset's useful life.

Ongoing businesses should be modeled until they reach a steady state of operations. A terminal value should then be employed to estimate the value of that business going forward beyond the evaluation period.

Key Contacts

Corporate Treasury	Stephen De May
Corporate Risk Management	Swati Daji
Insurance	George Brown
Tax	
International Tax	Dwight Jeter
Canadian Tax	Dennis Hebert
Federal Tax	Steve Sobell
State Tax	Cooper Monroe
Property Tax	Kelly Voelkel
Corporate Tax Accounting	John Panizza

Simplified Alternative Model

There are some proposals that are comparisons of alternatives rather than a purchase of future cash flows. Deciding whether to buy or lease equipment, evaluating cost savings from software upgrades, or other comparisons can be made using a simple NPV model.

Financial Standards at Duke Energy

There are a number of approaches that are internally consistent regarding the discounting of cash flows, evaluating international projects, and the incorporation of leverage. To promote consistency of project evaluation, Duke Energy and its Business Units should use the following approaches in project analysis:

Base Hurdle Rates / Project Specific Hurdle Rates
Hurdle rates are typically used to discount cash flows for project analysis. (Exceptions are documented in the manual.) These rates are calculated by Corporate Finance periodically for all business lines and corporate. The Base Hurdle Rates include the weighted average cost of capital (WACC) and a value creation adder. Corporate Finance must determine the appropriate hurdle rate to be used by each specific Business Unit. Adjustments are often made to the Base Hurdle Rates for project specific risks and international sovereign risk. These project specific hurdle rates are also calculated by Corporate Finance. Projects may be brought forward that do not meet the required return.

Unlevered Analysis
Duke Energy evaluates projects on an unlevered basis. This allows the TRC to separate out the evaluation of the business and the financing decisions from the approval process. The Hurdle Rates calculated by Corporate Finance are unlevered hurdle rates.

Timing of Cash Flows
For this analysis, the actual timing of cash outflows for acquisitions and mid-period timing of cash outflows for construction projects are recommended to be utilized. Cash outflows are often contractually defined and simple to model specifically.

For cash inflows over the project life, a mid-year convention is used. This can be implemented by using the XNPV and XIRR function in Excel which lets you tie specific dates to specific cash flows when calculating NPV and IRR. By setting the yearly cash flows as of June 30, the net present value will be calculating assuming the cash is received on that date.

For terminal value, or if exit is assumed, the actual date should be modeled.

After Tax Analysis
Hurdle rates are after tax so the cash flows of a project should be modeled after tax as well.

Construction
Construction periods for projects should often be modeled monthly due to the large variations in cash spent over the period. Since Duke evaluates projects on an unlevered basis, cash outflows for construction should be treated as unlevered even if a construction financing facility is used.

Company Acquisitions
Acquiring a company causes two significant modeling issues – retirement of debt and terminal value.

In cases in which, Duke is acquiring a company with existing, assumable debt on its balance sheet, an estimate needs to be made to payoff this debt (Mark to Market) to de-lever the acquisition to complete an unlevered analysis. This estimate may be materially different from the notional amount of the debt if interest rates have moved significantly. Corporate Finance can give guidance on whether the debt can be assumed and provide an estimate of the cost of retiring the debt for the purposes of project analysis.

As an ongoing concern, a company does not have the finite life of a project asset. Some assumptions will need to be made for the ongoing value of the business at the end of the model. There are a number of different methods that can be used. It is helpful to involve the Corporate Finance group early to come up with a proper method for a specific project.

Divestitures
The analysis method for the sale of an asset is similar to the analysis method for the acquisition or development of an asset with the following exceptions:

- The appropriate discount rate to use is the Weighted Average Cost of Capital (WACC) component of the Base Hurdle Rate. The value creation adder or spread required for new investments is not used when evaluating the disposition of an asset.
- Approval levels are determined by the higher of sale price or original cost (or current carrying cost, in the case of impairment), per the <u>Approval of Business Transactions</u> policy.

Non-Revenue and Non-Discretionary Projects

Some investments have no corresponding revenues (or reduced costs) and, therefore, the use of NPV or IRR for project evaluation may not be relevant. Furthermore, in most cases, these investments are non-discretionary and/or support existing revenue-generating investments. Finally, a distinction can be drawn between non-revenue projects in the regulated businesses (Franchised Electric/Gas Transmission) and non-regulated businesses since prudently-incurred investments may be entitled to cost recovery in accordance with the applicable regulated tariff, while there is no associated revenue for non-regulated businesses.

For non-revenue projects generally, discount the relevant after-tax expenditures (including initial investment, working capital and on-going operating costs) to the present using the assigned Business Unit hurdle rate. Economically evaluate each equivalent alternative that provides equal service. The projected costs should be shown as a negative impact on EBIT for the selected least-cost alternative. If the project is considered non-discretionary, indicate this and briefly explain why.

For cost-only projects that support existing revenue-generating investments that increase revenue, reduce cost or both, the use of NPV or IRR would be appropriate. Include in the economic analysis any associated revenue enhancements, operating cost reductions or future life extension benefits. Be sure to only include "incremental" revenues or cost reductions specifically associated with the new project (for life extensions, that might be 100% of the revenues earned after the initial useful life).

International Project Analysis

International projects bring another layer of complexity to building a financial model. There are a number of sensitivities that need to be run to evaluate international projects on a comparable basis with domestic projects. To do this, scenarios are run which assume that the cash is returned to the U.S. under three scenarios.

Base Case
Cash is returned to the U.S. and evaluated on a stand alone basis.
The model should be constructed using US GAAP and local market assumptions with the following adjustment. The higher of the local tax rate and the U.S. tax rate should be inserted as the tax rate on an annual basis.

This analysis does not take into account Duke Energy's current overall Foreign Tax Credit position which prevents Duke from taking advantage of taxes paid in foreign jurisdictions over the short term. The project analysis is on a stand alone basis, only looking at the specific transaction.

Upside Case
Cash is not returned to the U.S.
This case will be the same as the base case but with the local tax rate. While not returning cash to the U.S., the project should model cash going to a Blue Water location where it can be reasonably redeployed to other projects. The Tax Department and Corporate Finance will be able to provide guidance on suitable Blue Water assumptions.

Downside Case
Cash is returned to the U.S and evaluated on a marginal basis.
For the downside case, immediate repatriation and the payment of US tax in addition to local tax is assumed. This is representative of Duke Energy's current tax position. If meaningful, a more accurate model of downside repatriation risk can be prepared with the help of the Tax Department and Corporate Finance.

International Assumptions

Foreign Exchange
International projects should calculate returns in USD. Projects, which use a currency other that the US dollar, need to incorporate a foreign exchange curve and stress case supplied by Portfolio Management within Corporate Treasury. This curve incorporates the risk of an investment in the currency on top of the risk of a particular project. A sensitivity analysis should be added to the project review that incorporates the devaluation stress case scenario. This sensitivity shows the potential impact of local currency changes on the project returns.
Inflation
Inflation assumptions should be made in coordination with foreign exchange rate assumptions. Portfolio Management will provide inflation curves, if requested.

Leverage for Tax Purposes
Project returns are calculated on an unlevered basis for evaluation by the Transaction Review Committee.

On international projects, it is often advantageous to additionally include leverage to minimize the payments of local taxes and to help avoid trapped cash. It is appropriate to model this debt to obtain the tax benefits (minimize the penalty of local restrictions on the movement of cash). It is essential to have Tax Department and Corporate Finance involvement to determine what structures and funding strategies are appropriate.

When calculating Duke's return, this project debt should be treated as equity with repayments and interest treated in a similar fashion as dividends. This will provide the tax benefits of debt while still providing the equivalent unlevered return.

Sovereign Risk Adder
International projects will have an adjustment to the Base Hurdle Rate due to sovereign risk. These adjustments should be obtained from Corporate Finance.

Section 2: Project Approval Process and Project Report Guidelines

Levels of Approval Required for Transactions
Capital commitments, operating expenditures, contracts, or divestitures over a certain dollar amount require review by the Transaction Review Committee. The transaction amount is broadly defined and for acquisitions includes expected expenditures, assumed liabilities, and any future commitments to spend capital. For divestitures, the capital amount, for approval purposes, is the higher of the original cost or sales price. For transactions by entities only partially owned by Duke, these amounts are prorated to reflect only Duke's committed capital rather than the project's committed capital.

For a complete description see **Approval of Business Transactions**.

Transaction Review Committee (TRC)

Role of the Transaction Review Committee
The TRC reviews any business transactions requiring approval by the President and CEO, the Board of Directors or a Board Committee as outlined in Duke Energy's Approval of Business Transactions policy.

Upon the satisfactory completion of the review, a recommendation will be made to the President and CEO to approve the transaction for execution or presentation, if required, to the Board of Directors or the Board Committee. If the TRC does not recommend the transaction be considered for approval by the President and CEO, the appropriate Business Unit or Corporate group will be notified and will have an opportunity to make modifications as appropriate for future review.

Transaction Review Committee Structure

Committee Members
Chief Financial Officer – Chairman of the TRC
Treasurer – Secretary of the TRC
Chief Risk Officer
General Counsel
Chief Development Officer
Vice President of Corporate Tax

Scrub Team
The Business Unit Transaction Sponsors must involve the following functions in its scrub team process:

- Finance
- Tax
- Accounting
- Legal
- Credit/Risk Management

Meeting Dates

- Standing Meetings will be held before or after [EC] meetings
- Ad Hoc Meetings may be arranged on an exception basis by the Secretary of the Committee

Roles and Responsibilities

- Transaction Sponsors are responsible for the accuracy and completeness of information and analysis.
- Business Unit President and Business Unit Chief Financial Officer must approve the transaction before bringing it to the TRC.
- TRC Secretary is responsible for scheduling meetings and keeping minutes as well as making a report to the CEO which includes the TRC recommendation.
- Corporate Finance within Corporate Treasury is responsible for delivering the final whitepaper to the TRC.

Minimum Notice

- Transaction Sponsors must deliver the whitepaper to the Scrub Team not less than 5 business days prior to the TRC meeting.
- Corporate Finance within Corporate Treasury must deliver the final whitepaper to the TRC not less than 2 business days prior to the TRC meeting.

Other Requirements

- Executive Summary
- Project whitepaper not longer than five pages, supported by a presentation and in accordance with guidelines provided later in this manual.

Record Retention
Once a project is approved, the Business Unit should keep a copy of the original model, whitepaper, and presentation for at least three years following the in-service date of the project for future follow-up and review. Any specific items of concern that are raised at the TRC meeting should also be noted and addressed.

Project Report Guideline
Note: The following is a guideline of what should be addressed in the TRC whitepaper (if applicable to the transaction). Since each transaction is unique, this is only a guide and it is the responsibility of the Business Unit to cover all pertinent information. This is a collaborative effort and the Business Unit will need to coordinate its contents with Finance, M&A, Risk Management, Tax and Legal, as appropriate.

Project Report to the
Duke Energy Corp. Transaction Review Committee
"Project Title/Name"
"Date"

Project Overview

A short and concise description of the transaction, the required investment (CAPEX), the anticipated/modeled results (IRR/NPV) and strategic rationale.

Analysis

A) Key Assumptions: (Prices, Volumes, Forecasts, etc.)
For example, an energy deal where pricing and volume are essential the whitepaper should cover:

1) Source of the data
2) Historic versus projected data
3) Comparison of the assumed data to 3rd party projections and indices
4) Volatility/variability of prices

B) Economic Analysis:
- For EPS impact assumptions, please coordinate with the Financial Planning and Analysis group in Corporate Treasury.

1) At least a 3 year history (if applicable) of EBIT, Cash Flow or EBITDA and EPS
2) At least 3 years of projections of EBIT, Cash Flow or EBITDA, ROCE and EPS
3) Provide the assigned hurdle rate
4) Net Present Value (NPV) at the appropriate hurdle rate
5) Internal Rate of Return (IRR) and payback
6) Change in forecasted plan for EBIT/Cash Flow/EPS/CAPEX as a result of the project
7) Funding strategy and other credit support obligations (coordinated with Corporate Finance, Tax and Risk Management)
8) Sensitivity analysis on key value drivers (Tornado diagram, models)
   - Upside and downside scenarios should be shown using a two sigma range. If the Business Unit uses a different sensitivity methodology, then they should explain the reason for using the different methodology.
9) Tax and Accounting issues

Note – For projects that are required or mandated (regulatory, safety etc.), the economic analysis should focus on cost effectiveness rather then net present value or internal rates of returns.

Risks and Mitigation

This section should cover the significant risks associated with the transaction and the steps that are being taken or will be taken to mitigate these risks. Some of the key risks to consider are:

1) Operational
2) Construction
3) Credit/Risk Management
4) Market/Commodity Risk
5) Legal/Regulatory
6) EH&S
7) FX, if international

Legal

1) Key terms of agreements and contracts
2) Environmental risk and litigation
3) Guarantees/Liabilities/Indemnifications
4) Regulatory approvals
5) Legislation
6) Consents
7) Contingencies

Strategic Rationale (Fit/Implications)

1) Explanation of strategic considerations
2) Consistency with corporate goals and direction
3) Consistency with corporate financial plan

Recommendation

The recommendation should clearly state the rationale for recommended action.

Section 3: Model Best Practices

Models can take many shapes and sizes and are often a strong reflection of the thinking process of the particular analyst. The best models, however, exhibit the following characteristics.

Simplicity
A model should move in small, measured steps from the gathering of assumptions to the final output in order to provide for effective review of the model's calculations. While it may initially appear to be efficient to have a formula in Excel extend for several lines, it increases the likelihood of errors, decreases the flexibility of the model for future changes, and complicates any review of the model.

Clarity
Strongly related to simplicity, a model should provide clarity for a complex project. Assumptions and changes in formula should be clearly identified. Assumptions should be made once and all uses of that assumption should come from the one location.

A model should provide insight as well as an answer. The more openly a model shows what is occurring to all interested parties, the more accurate and useful the model can become. Similar assumptions should be grouped together so that groups responsible for a set of assumptions can focus on a smaller part of the overall model. A model that is formatted well for printing allows others to more easily add their input.

Focus
The model should keep the end result in mind. The process is important but everything should eventually build to answer the goals of the model. By focusing on the goal of the model and the processes needed to meet that goal, a lot of additional complexity can be eliminated from the model.

Responsibility of the Financial Analyst
As the creator of the financial analysis that will be used for making business decisions, the financial analyst should keep several responsibilities in mind.

Clearly identify assumptions and sources
A model is only as good as the inputs into the model. These inputs will improve throughout the modeling process as better information is provided and better sources are found. As the model is being built, the analyst should be continuously aware of the differences between solid assumptions and initial estimates. By the end of the analysis, the analyst should be able to attribute all the assumptions in the model to credible sources.

Develop tool/model that efficiently combines the assumptions
The financial model is the base tool that the analyst creates. While the analyst does not make any specific assumptions, the analyst's approach in building the model will have an impact on the outcome.

Understand Sensitivities/Anticipate Changes
A good model will incorporate not only the base case, but also other sensitivities. As the model is developed, keep in mind which assumptions have the largest impact on the end result. Ensure that variations in these inputs are handled well by the model. Anticipating changes and asking questions early that will allow the model to handle those sensitivities are indicative of best practice modeling. Timing delays and changes in scope are two common business proposal changes that can cause significant problems in basic models.

Understand Model Limitations
While the analyst does not create specific assumptions, the act of building a model requires simplification. Deciding what is material is an important assumption that affects what information the model generates for guiding decisions. Make sure that the model can answer the questions that are being asked and make appropriate modification if necessary.