

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of)	
Duke Energy Ohio, Inc., for an)	Case No. 12-1685-GA-AIR
Increase in Gas Rates.)	
 In the Matter of the Application of)	
Duke Energy Ohio, Inc., for Tariff)	Case No. 12-1686-GA-ATA
Approval.)	
 In the Matter of the Application of)	
Duke Energy Ohio, Inc., for Approval)	Case No. 12-1687-GA-ALT
of an Alternative Rate Plan for Gas)	
Distribution Service.)	
 In the Matter of the Application of)	
Duke Energy Ohio, Inc., for Approval)	Case No. 12-1688-GA-AAM
to Change Accounting Methods.)	

DIRECT TESTIMONY OF

DANIEL J. REILLY

ON BEHALF OF

DUKE ENERGY OHIO, INC.

_____	Management policies, practices, and organization
_____	Operating income
_____	Rate base
_____	Allocations
_____	Rate of return
_____	Rates and tariffs
<u> X </u>	Other: Accounting Adjustments

PUCO

2012 JUL 20 PM 3:19

RECEIVED-COCKETING DIV

July 20, 2012

This is to certify that the images appearing are an accurate and complete reproduction of a case file document delivered in the regular course of business.

Technician DP Date Processed 7-20-12

TABLE OF CONTENTS

	<u>PAGE</u>
I. INTRODUCTION AND PURPOSE	1
II. OVERVIEW OF DUKE ENERGY OHIO'S ACCOUNTING RECORDS....	3
III. SCHEDULES AND SUPPLEMENTAL FILING REQUIREMENTS SPONSORED BY WITNESS	4
IV. ACCOUNTING ADJUSTMENTS	6
V. CONCLUSION	7

Attachments:

DJR-1: Service Company/Utility Service Agreement

DJR-2: Operating Company Service Agreement

DJR-3: Operating Company/Non-Utility Companies Service Agreement

I. INTRODUCTION AND PURPOSE

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Daniel J. Reilly, and my business address is 550 South Tryon,
3 Charlotte, North Carolina 28202.

4 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

5 A. I am employed by Duke Energy Business Services LLC (DEBS) as Director, U.S.
6 Franchised Electric and Gas (USFE&G) Accounting. DEBS provides various
7 administrative and other services to Duke Energy Ohio, Inc., (Duke Energy Ohio or
8 Company) and other affiliated companies of Duke Energy Corporation (Duke
9 Energy).

10 **Q. PLEASE BRIEFLY SUMMARIZE YOUR EDUCATIONAL**
11 **BACKGROUND AND PROFESSIONAL EXPERIENCE.**

12 A. I earned a Bachelor of Business Administration degree with a major in accounting
13 from Appalachian State University in 1992 and a Masters in Business
14 Administration from the Babcock School of Business at Wake Forest University in
15 2001. I am a Certified Public Accountant in the state of North Carolina and a
16 member of the American Institute of Certified Public Accountants and the North
17 Carolina Association of Certified Public Accountants.

18 My professional work experience began in 1992 with the public
19 accounting firm of Arthur Andersen and subsequently Gleiberman Spears
20 Shepherd and Menaker, where I provided audit and other attestation services for
21 various clients. In 1998, I joined Coltec Industries (which is now part of Goodrich
22 Corporation) as an Accounting Supervisor and, in 1999, I joined GS Industries as

1 the Manager of Financial Reporting. I began my employment with Duke Energy
2 in 2002 as a senior business analyst in the External Reporting Group of the
3 Corporate Controller's department. While at Duke Energy, I have held various
4 positions of increasing responsibility in the Corporate Controller's department
5 and Risk Management and Insurance. I took my current position as Director of
6 USFE&G Accounting in March 2010.

7 **Q. PLEASE SUMMARIZE YOUR RESPONSIBILITIES AS DIRECTOR,**
8 **USFE&G ACCOUNTING.**

9 A. I am responsible for reporting the financial results and maintaining the books of
10 account for all of Duke Energy's public utility operating companies, including
11 Duke Energy Ohio. I am also responsible for analyzing these financial results,
12 and Duke Energy's underlying accounting methods and policies.

13 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PUBLIC**
14 **UTILITIES COMMISSION OF OHIO?**

15 A. No.

16 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THESE**
17 **PROCEEDINGS?**

18 A. I sponsor information relating to Duke Energy Ohio's financial position and the
19 actual results of the Company's operations as of March 31, 2012, the date certain
20 in these proceedings. In particular, I sponsor Schedules C-10.1 and C-10.2, pages
21 2 and 4 of both Schedule D-5A and Schedule D-5B, and the following
22 Supplemental Filing Requirements: (C)(1), (C)(2), (C)(4), (C)(5), and (C)(6). I
23 also sponsor the following service agreements: Service Company/Utility;

1 Operating Company; and Operating Company/Non-Utility Companies. At Duke
2 Energy Ohio witness Peggy A. Laub's request, I made certain accounting
3 adjustments to Duke Energy Ohio's financial position per the accounting books,
4 which I will discuss in more detail below and as shown on workpaper WPD-1a. I
5 provided this information to Duke Energy Ohio witness Stephen G. De May for
6 his use in determining Duke Energy Ohio's capital structure in these proceedings
7 and in preparing Schedule D.

II. OVERVIEW OF DUKE ENERGY OHIO'S
ACCOUNTING RECORDS

8 **Q. ARE YOU FAMILIAR WITH THE ACCOUNTING PROCEDURES AND**
9 **BOOKS OF ACCOUNT OF DUKE ENERGY OHIO?**

10 A. Yes. The books of account for Duke Energy Ohio's regulated business follow the
11 Uniform System of Accounts prescribed by the Federal Energy Regulatory
12 Commission (FERC).

13 **Q. ARE THE BOOKS OF ACCOUNT FOR THE REGULATED PORTION OF**
14 **DUKE ENERGY OHIO PREPARED AT YOUR DIRECTION AND UNDER**
15 **YOUR SUPERVISION?**

16 A. Yes.

17 **Q. ARE THE CAPITAL AND OPERATING EXPENDITURES**
18 **REPRESENTED ON DUKE ENERGY OHIO'S BOOKS OF ACCOUNT**
19 **ACCURATE AND REASONABLE?**

20 A. Yes. Duke Energy Ohio has various budgeting, planning, and review procedures
21 in place to establish and monitor the capital and operating budgets, as well as
22 actual expenditures. The system of internal accounting controls provides

1 reasonable assurance that all transactions are executed in accordance with
2 management's authorization and are recorded properly.

3 The system of internal accounting controls is annually reviewed, tested,
4 and documented by Duke Energy Ohio to provide reasonable assurance that
5 amounts recorded on the books and records of the Company are accurate and
6 proper. In addition, independent certified public accountants perform an annual
7 audit to provide assurance that internal accounting controls are operating
8 effectively and that Duke Energy Ohio's financial statements are materially
9 accurate.

III. SCHEDULES AND SUPPLEMENTAL FILING
REQUIREMENTS SPONSORED BY WITNESS

10 **Q. PLEASE DESCRIBE SCHEDULES C-10.1 AND C-10.2.**

11 A. Schedules C-10.1 and C-10.2 consist of Duke Energy Ohio's comparative
12 Balance Sheet and Income Statements for the most recent five calendar years.

13 **Q. PLEASE DESCRIBE PAGE 2 OF BOTH SCHEDULE D-5A AND**
14 **SCHEDULE D-5B.**

15 A. Page 2 of Schedule D-5A and Schedule D-5B includes the capital structure,
16 condensed income statement, and data for the test year and the ten prior years.
17 Schedule D-5A presents this information for Duke Energy Ohio and Schedule D-
18 5B presents this same information on a consolidated Duke Energy basis.

19 **Q. PLEASE DESCRIBE PAGE 4 OF BOTH SCHEDULE D-5A AND**
20 **SCHEDULE D-5B.**

21 A. Page 4 of both Schedule D-5A and Schedule D-5B includes the rate of return
22 measures for the test year and the ten prior years. Schedule D-5A presents this

1 information for Duke Energy Ohio and Schedule D-5B presents this same
2 information on a consolidated Duke Energy basis.

3 **Q. PLEASE DESCRIBE SUPPLEMENTAL FILING REQUIREMENT (C)(1).**

4 A. Supplemental Filing Requirement (C)(1) consists of the most recent FERC audit
5 report. The audit report is dated December 10, 1997, and covers the period
6 January 1, 1993, through December 31, 1996.

7 **Q. PLEASE DESCRIBE SUPPLEMENTAL FILING REQUIREMENT (C)(2).**

8 A. Supplemental Filing Requirement (C)(2) is a copy of Duke Energy Ohio's most
9 recent annual statistical report. Duke Energy Ohio no longer prepares annual
10 statistical reports. Consequently, Duke Energy Ohio has provided a copy of the
11 last Cinergy Corp. (Cinergy) Uniform Statistical Report, which was prepared for
12 the year ended December 31, 2000.

13 **Q. PLEASE DESCRIBE SUPPLEMENTAL FILING REQUIREMENT (C)(4).**

14 A. Supplemental Filing Requirement (C)(4) is a copy of Duke Energy Ohio's most
15 recent FERC Form 2, which reports on calendar year 2011 information.

16 **Q. PLEASE DESCRIBE SUPPLEMENTAL FILING REQUIREMENT (C)(5).**

17 A. Supplemental Filing Requirement (C)(5) is a copy of Duke Energy Ohio's
18 ultimate parent company's annual reports to shareholders for the past five years.

19 **Q. PLEASE DESCRIBE SUPPLEMENTAL FILING REQUIREMENT (C)(6).**

20 A. Supplemental Filing Requirement (C)(6) consists of the most recent Securities
21 Exchange Commission Form 10-K, 10-Q, and 8-K for Duke Energy Corporation
22 and Subsidiary Registrants, which includes Duke Energy Ohio consolidated.

23 **Q. PLEASE DESCRIBE THE SERVICE AGREEMENTS.**

1 A. I have attached three service agreements to my testimony, all of which were
2 effective on June 7, 2012, when the Company commenced these proceedings.
3 Attachment DJR-1 is the Service Company/Utility Service Agreement, which
4 governs cost allocations between Duke Energy Ohio and the service companies.
5 Attachment DJR-2 is the Operating Company Service Agreement, which governs
6 cost allocations between or among the operating companies. Attachment DJR-3
7 is the Operating Company/Non-Utility Companies Service Agreement, which
8 governs cost allocations between Duke Energy Ohio and its non-utility affiliates.

IV. ACCOUNTING ADJUSTMENTS

9 **Q. WHAT ACCOUNTING ADJUSTMENTS DID YOU PROVIDE RELATED**
10 **TO DUKE ENERGY OHIO'S CAPITAL STRUCTURE?**

11 A. Duke Energy Ohio witness Laub asked me to make two adjustments to the capital
12 structure contained on Duke Energy Ohio's accounting books relating to the Duke
13 Energy/Cinergy merger. As required under generally accepted accounting
14 principles, the merger caused Duke Energy Ohio to apply purchase accounting to
15 its assets and liabilities. As a result, Duke Energy Ohio wrote up the value of its
16 assets and liabilities to fair market value as of the merger closing date, which
17 caused an increase in the shareholder's equity component of the capital structure.
18 My first adjustment, therefore, was to adjust Duke Energy Ohio's capital structure
19 to eliminate the impact of purchase accounting. Second, I adjusted Duke Energy
20 Ohio's capital structure to eliminate the generation assets contributed to Duke
21 Energy Ohio by Duke Energy North America, LLC. Workpaper WPD-1a shows
22 these two adjustments to Duke Energy Ohio's capital structure. I provided the

1 adjusted capital structure to Duke Energy Ohio witness De May for his use in
2 determining the Company's capital structure and in preparing Schedule D-1 and
3 Schedule D-3.

V. CONCLUSION

4 **Q. WAS THE INFORMATION YOU SPONSORED IN SCHEDULES C-10.1**
5 **AND 10.2, PAGES 2 AND 4 OF BOTH SCHEDULE D-5A AND**
6 **SCHEDULE D-5B, AND SUPPLEMENTAL FILING REQUIREMENTS**
7 **(C)(1), (C)(2), (C)(4), (C)(5), AND (C)(6) PREPARED BY YOU OR UNDER**
8 **YOUR DIRECTION AND SUPERVISION?**

9 A. Yes.

10 **Q. IS THE INFORMATION YOU SPONSORED IN THOSE SCHEDULES**
11 **AND SUPPLEMENTAL FILING REQUIREMENTS, AND IN THE**
12 **SERVICE AGREEMENTS, ACCURATE TO THE BEST OF YOUR**
13 **KNOWLEDGE AND BELIEF?**

14 A. Yes.

15 **Q. DOES THIS CONCLUDE YOUR PRE-FILED DIRECT TESTIMONY?**

16 A. Yes.

**SECOND AMENDED AND RESTATED
SERVICE COMPANY
UTILITY SERVICE AGREEMENT**

This Second Amended and Restated Service Company Utility Service Agreement (this "Second Amended and Restated Service Agreement" or "Agreement")), dated September 1, 2008 (the "Effective Date") by and among Duke Energy Carolinas, LLC ("DE-Carolinas"), a North Carolina limited liability company, Duke Energy Ohio, Inc., an Ohio corporation ("DE-Ohio"), Duke Energy Indiana, Inc., an Indiana corporation ("DE-Indiana"), Duke Energy Kentucky, Inc., a Kentucky corporation ("DE-Kentucky"), Miami Power Corporation, an Indiana corporation ("Miami"), and Duke Energy Business Services LLC, a Delaware limited liability company, on its own behalf and as successor in interest to Duke Energy Shared Services, Inc. (the "Service Company") (DE-Carolinas, DE-Ohio, DE-Indiana, DE-Kentucky and Miami are sometimes hereinafter referred to individually as a "Client Company" and collectively as the "Client Companies"), supersedes and restates in its entirety the Amended and Restated Service Company Utility Service Agreement entered into by the parties dated January 2, 2007 (the "Amended and Restated Service Agreement").

WITNESSETH

WHEREAS, the terms of this Agreement are substantially similar to the Amended and Restated Service Agreement and the purpose of this Second Amended and Restated Service Agreement is to clarify the parties' intentions regarding the scope of services. WHEREAS, each of the Client Companies and the Service Company is a subsidiary of Duke Energy Corporation;

WHEREAS, the Service Company and the Client Companies have entered into this Agreement whereby the Service Company agrees to provide and the Client Companies agree to accept and pay for various services as provided herein at cost, except to the extent otherwise required by Section 482 of the Internal Revenue Code; and

WHEREAS, economies and efficiencies benefiting the Client Companies will result from the performance by the Service Company of services as herein provided;

NOW, THEREFORE, in consideration of the premises and the mutual agreements herein contained, the parties to this Agreement covenant and agree as follows:

ARTICLE I – SERVICES

Section 1.1 The Service Company shall furnish to the Client Companies, upon the terms and conditions hereinafter set forth, such of the services described in Appendix A hereto, at such times, for such periods and in such manner as the Client Companies may from time to time request and which the Service Company concludes it is equipped to perform. The Service Company shall also provide Client Companies with such special services, including without limitation cost management services, in addition to those services described in Appendix A hereto, as may be requested by a Client Company and which the Service Company concludes it is equipped to perform. In supplying such services, the Service Company may (i) arrange, where it deems appropriate, for the services of such experts, consultants, advisers and other persons with necessary qualifications as are required for or pertinent to the rendition of such services, and (ii) tender payments to third parties as agent for and on behalf of Client Companies, with such charges being passed through to the appropriate Client Companies.

Section 1.2 Each of the Client Companies shall take from the Service Company such of the services described in Section 1.1 and such additional general or special services, whether or not now contemplated, as are requested from time to time by the Client Companies and which the Service Company concludes it is equipped to perform.

Section 1.3 The services described herein shall be directly assigned, distributed or allocated by activity, process, project, responsibility center, work order or other appropriate basis. A Client Company shall have the right from time to time to amend, alter or rescind any activity, process, project, responsibility center or work order, provided that (i) any such amendment or alteration which results in a material change in the scope of the services to be performed or equipment to be provided is agreed to by the Service Company, (ii) the cost for the services covered by the activity, process, project, responsibility center or work order shall include any expense incurred by the Service Company as a direct result of such amendment, alteration or rescission of the activity, process, project, responsibility center or work order, and (iii) no amendment, alteration or rescission of an activity, process, project, responsibility center or work order shall release a Client Company from liability for all costs already incurred by or contracted for by the Service Company pursuant to the activity, process, project, responsibility center or work order, regardless of whether the services associated with such costs have been completed.

Section 1.4 The Service Company shall maintain a staff trained and experienced in the design, construction, operation, maintenance and management of public utility properties.

ARTICLE II - COMPENSATION

Section 2.1 Except to the extent otherwise required by Section 482 of the Internal Revenue Code, as compensation for the services to be rendered hereunder, each of the Client Companies shall pay to the Service Company all costs which reasonably can be identified and related to particular services performed by the Service Company for or on its behalf. Where more than one Client Company is involved in or has received benefits from a service performed,

costs will be directly assigned, distributed or allocated, as set forth in Appendix A hereto, between or among such companies on a basis reasonably related to the service performed to the extent reasonably practicable.

Section 2.2 The method of assignment, distribution or allocation of costs described in Appendix A shall be subject to review annually, or more frequently if appropriate. Such method of assignment, distribution or allocation of costs may be modified or changed by the Service Company without the necessity of an amendment to this Agreement, provided that in each instance, all services rendered hereunder shall be at actual cost thereof, fairly and equitably assigned, distributed or allocated, except to the extent otherwise required by Section 482 of the Internal Revenue Code. The Service Company shall promptly advise the Client Companies and the North Carolina Utilities Commission ("NCUC"), the Public Service Commission of South Carolina ("PSCSC"), the Indiana Utility Regulatory Commission ("IURC"), The Public Utilities Commission of Ohio ("PUCO"), the Kentucky Public Service Commission ("KPSC;" and together with the NCUC, the PSCSC, the IURC and the PUCO, the "Affected State Commissions") from time to time of any material changes in such method of assignment, distribution or allocation. Such notice shall be in compliance with the requirements of applicable state law, regulations and regulatory conditions.

Section 2.3 The Service Company shall render a monthly statement to each Client Company which shall reflect the billing information necessary to identify the costs charged for that month. By the last day of each month, each Client Company shall remit to the Service Company all charges billed to it. For avoidance of doubt, the Service Company and each Client Company may satisfy the foregoing requirement by recording billings and payments required hereunder in their common accounting systems without rendering paper or electronic monthly statements or remitting cash payments.

Section 2.4 Subject to Section 482 of the Internal Revenue Code, it is the intent of this Agreement that the payment for services rendered by the

Service Company to the Client Companies shall cover all the costs of its doing business (less the cost of services provided to affiliated companies not a party to this Agreement and to other non-affiliated companies, and credits for any miscellaneous income items), including, but not limited to, salaries and wages, office supplies and expenses, outside services employed, property insurance, injuries and damages, employee pensions and benefits, miscellaneous general expenses, rents, maintenance of structures and equipment, depreciation and amortization and compensation for use of capital. Without limitation of the foregoing, "cost," as used in this Agreement, means fully embedded cost, namely, the sum of (1) direct costs, (2) indirect costs and (3) costs of capital.

ARTICLE III - TERM

Section 3.1 This Agreement is entered into as of the Effective Date and shall continue in force with respect to a Client Company until terminated by the Service Company and Client Company with respect to such Client Company (provided that no such termination with respect to less than all of the Client Companies shall thereby affect the term of this Agreement or any of the provisions hereof) or until terminated by unanimous agreement of all the parties then signatory to this Agreement.

ARTICLE IV – ACCOUNTS AND RECORDS

Section 4.1 The Service Company shall utilize the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission.

Section 4.2 The Service Company shall permit each Affected State Commission and applicable statutory utility consumer representative(s), together with other interested parties as required under applicable law, access to its accounts and records, including the basis and computation of allocations, necessary for each Affected State Commission to review a Client Company's operating results.

ARTICLE V – MISCELLANEOUS

Section 5.1 Counterparts. This Agreement may be executed in one or more counterparts, all of which shall be considered one and the same agreement and shall become effective when one or more counterparts have been signed by each party and delivered to the other parties.

Section 5.2 Entire Agreement; No Third Party Beneficiaries. This Agreement (including Appendix A and any other appendices or other exhibits or schedules hereto) (i) constitutes the entire agreement, and supersedes any prior agreements and understandings, both written and oral, among the parties with respect to the subject matter of this Agreement (including without limitation the Amended and Restated Service Agreement; and (ii) is not intended to confer upon any person other than the parties hereto any rights or remedies.

Section 5.3 Governing Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of New York, regardless of the laws that might otherwise govern under applicable principles of conflict of laws.

Section 5.4 Assignment. Neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned, in whole or in part, by operation of law or otherwise by any of the parties hereto without the prior written consent of each of the other parties. Any attempted or purported assignment in violation of the preceding sentence shall be null and void and of no effect whatsoever. Subject to the preceding two sentences, this Agreement shall be binding upon, inure to the benefit of, and be enforceable by, the parties and their respective successors and assigns.

Section 5.5 Amendments. This Agreement may not be amended except by an instrument in writing signed on behalf of each of the parties. To the extent

that applicable state law or regulation or other binding obligation requires that any such amendment be filed with any Affected State Commission for its review or otherwise, each Client Company shall comply in all respects with any such requirements.

Section 5.6 Interpretation. When a reference is made in this Agreement to an Article, Section or Appendix or other Exhibit, such reference shall be to an Article or Section of, or an Appendix or other Exhibit to, this Agreement unless otherwise indicated. The headings contained in this Agreement are for convenience of reference only and shall not affect in any way the meaning or interpretation of this Agreement. Whenever the words "include", "includes" or "including" are used in this Agreement, they shall be deemed to be followed by the words "without limitation". The words "hereof", "herein" and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement. The definitions contained in this Agreement are applicable to the singular as well as the plural forms of such terms and to the masculine as well as to the feminine and neuter genders of such term. References to a person are also to its permitted successors and assigns.

Section 5.7 DE-Carolinas Conditions. In addition to the terms and conditions set forth herein, with respect to DE-Carolinas, the provisions set out in Appendix B are hereby incorporated herein by reference. In addition, DE-Carolinas' participation in this Agreement is explicitly subject to the Regulatory Conditions and Code of Conduct approved by the NCUC in its Order Approving Merger Subject to Regulatory Conditions and Code of Conduct issued March 24, 2006, in NCUC Docket No. E-7, Sub 795. In the event of any conflict between the provisions of this Agreement and the approved Regulatory Conditions and Code of Conduct provisions, the Regulatory Conditions and Code of Conduct shall govern.


[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto have caused this Second Amended and Restated Service Agreement to be executed as of the date and year first above written.


DUKE ENERGY BUSINESS SERVICES LLC

By: 
Richard G. Beach
Assistant Secretary


DUKE ENERGY CAROLINAS, LLC

By: 
Richard G. Beach
Assistant Secretary

DUKE ENERGY OHIO, INC.

By: 
Richard G. Beach
Assistant Secretary

DUKE ENERGY INDIANA, INC.

By: 
Richard G. Beach
Assistant Secretary

DUKE ENERGY KENTUCKY, INC.

By: 
Richard G. Beach
Assistant Secretary

MIAMI POWER CORPORATION

By 
Richard G. Beach
Assistant Secretary

APPENDIX A

Description of Services and Determination of Charges for Services

I. The Service Company will maintain an accounting system for accumulating all costs on an activity, process, project, responsibility center, work order, or other appropriate basis. To the extent practicable, time records of hours worked by Service Company employees will be kept by activity, process, project, responsibility center or work order. Charges for salaries will be determined from such time records and will be computed on the basis of employees' labor costs, including the cost of fringe benefits, indirect labor costs and payroll taxes. Records of employee-related expenses and other indirect costs will be maintained for each functional group within the Service Company (hereinafter referred to as "Function"). Where identifiable to a particular activity, process, project, responsibility center or work order, such indirect costs will be directly assigned to such activity, process, project, responsibility center or work order. Where not identifiable to a particular activity, process, project, responsibility center or work order, such indirect costs within a Function will be distributed in relationship to the directly assigned costs of the Function. For purposes of this Appendix A, any costs not directly assigned or distributed by the Service Company will be allocated monthly.

II. Service Company costs accumulated for each activity, process, project, responsibility center or work order will be directly assigned, distributed, or allocated to the Client Companies or other Functions within the Service Company as follows:

1. Costs accumulated in an activity, process, project, responsibility center or work order for services specifically performed for a single Client Company or Function will be directly assigned and charged to such Client Company or Function.

2. Costs accumulated in an activity, process, project, responsibility center or work order for services specifically performed for two or more Client Companies or Functions will be distributed among and charged to such Client Companies or Functions. The appropriate method of distribution will be determined by the Service Company on a case-by-case basis consistent with the nature of the work performed and will be based on the application of one or more of the methods described in paragraphs IV and V of this

Appendix A. The distribution method will be provided to each such affected Client Company or Function.

3. Costs accumulated in an activity, process, project, responsibility center or work order for services of a general nature which are applicable to all Client Companies or Functions or to a class or classes of Client Companies or Functions will be allocated among and charged to such Client Companies or Functions by application of one or more of the methods described in paragraphs IV and V of this Appendix A.

III. For purposes of this Appendix A, the following definitions or methodologies shall be utilized:

1. Where applicable, the following will be utilized to convert gas sales to equivalent electric sales: 1 cubic foot of gas sales equals 0.303048 kilowatt-hour of electric sales (based on electricity at 3412 Btu/kWh and natural gas at 1034 Btu/cubic foot).

2. "Domestic utility" refers to a utility which operates in the contiguous United States of America.

3. "Gross margin" refers to revenues as defined by Generally Accepted Accounting Principles, less cost of sales, including but not limited to fuel, purchased power, emission allowances and other cost of sales.

4. "Distribution" means electric distribution and local gas distribution as applicable.

5. "Distribution Lines" mean electric power lines at distribution voltages measured in circuit miles, and gas mains and lines, as applicable.

The weights utilized in the weighted average ratios in paragraph V of this Appendix A shall represent the percentage relationship of the activities associated with the function for which costs are to be allocated. For example, if an expense item is to be allocated on the weighted average of the Gross Margin Ratio, the Labor Dollars Ratio and the Total Property, Plant and Equipment ("PP&E") Ratio, and the activity to be allocated is one-third gross margin related, one-third labor related and one-third PP&E related, 33 percent of the Gross Margin Ratio would be utilized, 33 percent of the Labor Dollars Ratio and 34 percent of the PP&E Ratio would be utilized. To illustrate this application, assuming that

the Gross Margin Ratio were 53.75 percent for Company A and 46.25 percent for Company B, the Labor Dollars Ratio were 25 percent for Company A and 75 percent for Company B, and the Total PP&E Ratio were 60 percent for Company A and 40 percent for Company B, the following weighted average ratio would be computed:

Activity	Weight	Company A		Company B	
		Ratio	Weighted	Ratio	Weighted
Gross Margin Ratio	33%	53.75%	17.74%	46.25%	15.26%
Labor Dollars Ratio	33%	25.00%	8.25%	75.00%	24.75%
Total Property, Plant and Equipment Ratio	<u>34%</u>	60.00%	<u>20.40%</u>	40.00%	<u>13.60%</u>
	100%		46.39%		53.61%

IV. The following allocation methods will be applied, as specified in paragraph V of this Appendix A, to assign costs for services applicable to two or more clients and/or to allocate costs for services of a general nature.

1. Sales Ratio

A ratio, based on the applicable domestic firm kilowatt-hour electric sales (and/or the equivalent cubic feet of gas sales, where applicable), excluding intra-system sales, for a preceding twelve consecutive calendar month period, the numerator of which is for a Client Company and the denominator of which is for all utility Client Companies (and Duke Energy Corporation's non-utility and non-domestic utility affiliates, where applicable), This ratio will be determined annually, or at such time as may be required due to a significant change.

2. Electric Peak Load Ratio

A ratio, based on the sum of the applicable monthly domestic firm electric maximum system demands for a preceding twelve consecutive calendar month period, the numerator of which is for a Client Company and the denominator of which is for all utility Client Companies (and Duke Energy Corporation's non-utility and non-domestic utility affiliates, where

applicable). This ratio will be determined annually, or at such time as may be required due to a significant change.

3. Number of Customers Ratio

A ratio, based on the sum of the applicable domestic firm electric customers (and/or gas customers, where applicable) at the end of a recent month in the preceding twelve consecutive calendar month period, the numerator of which is for a Client Company and the denominator of which is for all domestic utility Client Companies (and Duke Energy Corporation's non-utility and non-domestic utility affiliates, where applicable). This ratio will be determined annually, or at such time as may be required due to a significant change.

4. Number of Employees Ratio

A ratio, based on the applicable number of employees at the end of a recent month in the preceding twelve consecutive month period, the numerator of which is for a Client Company or Service Company Function and the denominator of which is for all Client Companies (and Duke Energy Corporation's non-utility and non-domestic utility affiliates, where applicable) and/or the Service Company. This ratio will be determined annually, or at such time as may be required due to a significant change.

5. Construction-Expenditures Ratio

A ratio, based on the applicable projected construction expenditures for the following twelve consecutive calendar month period, the numerator of which is for a Client Company and the denominator of which is for all Client Companies (and Duke Energy Corporation's non-utility and non-domestic utility affiliates, where applicable). Separate ratios will be computed for total construction expenditures and appropriate functional plant (i.e., production, transmission, Distribution, and general) classifications. This ratio will be

determined annually, or at such time as may be required due to a significant change.

6. Miles of Distribution Lines Ratio

In the case of electric Distribution, a ratio, based on the applicable installed circuit miles of domestic electric Distribution Lines, and in the case of gas Distribution, a ratio, based on the applicable installed miles of domestic gas Distribution Lines, in either case at the end of the preceding calendar year, the numerator of which is for a Client Company and the denominator of which is for all domestic utility Client Companies. This ratio will be determined annually, or at such time as may be required due to a significant change.

7. Circuit Miles of Electric Transmission Lines Ratio

A ratio, based on the applicable installed circuit miles of domestic electric transmission lines at the end of the preceding calendar year; the numerator of which is for a Client Company and the denominator of which is for all domestic utility Client Companies. This ratio will be determined annually, or at such time as may be required due to a significant change.

8. Number of Central Processing Unit Seconds Ratio

A ratio, based on the sum of the applicable number of central processing unit seconds expended to execute mainframe computer software applications for a preceding twelve consecutive calendar month period, the numerator of which is for a Client Company or Service Company Function, and the denominator of which is for all Client Companies, (and Duke Energy Corporation's non-utility and non-domestic utility affiliates, where applicable) and/or the Service Company. This ratio will be determined annually, or at such time as may be required due to a significant change.

9. Revenues Ratio

A ratio, based on the total applicable revenues for a preceding twelve consecutive calendar month period, the numerator of which is for a Client Company and the denominator of which is for all Client Companies (and Duke Energy Corporation's non-utility and non-domestic utility affiliates, where applicable). This ratio will be determined annually or at such time as may be required due to a significant change.

10. Inventory Ratio

A ratio, based on the total applicable inventory balance for the preceding year, the numerator of which is for a Client Company and the denominator of which is for all Client Companies (and Duke Energy Corporation's non-utility and non-domestic utility affiliates, where applicable). Separate ratios will be computed for total inventory and the appropriate functional plant (i.e., production, transmission, Distribution, and general) classifications. This ratio will be determined annually or at such time as may be required due to a significant change.

11. Procurement Spending Ratio

A ratio, based on the total amount of applicable procurement spending for the preceding year, the numerator of which is for a Client Company or Service Company Function and the denominator of which is for all Client Companies (and Duke Energy Corporation's non-utility and non-domestic utility affiliates, where applicable) and/or the Service Company. Separate ratios will be computed for total procurement spending and appropriate functional plant (i.e., production, transmission, Distribution, and general) classifications. This ratio will be determined annually or at such time as may be required due to a significant change.

12. Square Footage Ratio

A ratio, based on the total amount of applicable square footage occupied in a recent month in the preceding twelve consecutive month period, the numerator of which is for a Client Company or Service Company Function

and the denominator of which is for all Client Companies (and Duke Energy Corporation's non-utility and non-domestic utility affiliates, where applicable) and/or the Service Company. This ratio will be determined annually or at such time as may be required due to a significant change.

13. Gross Margin Ratio

A ratio, based on the total applicable gross margin for a preceding twelve consecutive calendar month period, the numerator of which is for a Client Company and the denominator of which is for all Client Companies (and Duke Energy Corporation's non-utility and non-domestic utility affiliates, where applicable). This ratio will be determined annually or at such time as may be required due to a significant change.

14. Labor Dollars Ratio

A ratio, based on the total applicable labor dollars for a preceding twelve consecutive calendar month period, the numerator of which is for a Client Company or Service Company Function and the denominator of which is for all Client Companies (and Duke Energy Corporation's non-utility and non-domestic utility affiliates, where applicable) and/or the Service Company. This ratio will be determined annually or at such time as may be required due to a significant change.

15. Number of Personal Computer Work Stations Ratio

A ratio, based on the total number of applicable personal computer work stations at the end of a recent month in the preceding twelve consecutive month period, the numerator of which is for a Client Company or Service Company Function and the denominator of which is for all Client Companies (and Duke Energy Corporation's non-utility and non-domestic utility affiliates, where applicable) and/or the Service Company. This ratio will be determined annually or at such time as may be required due to a significant change.

16. Number of Information Systems Servers Ratio

A ratio, based on the total number of applicable servers at the end of a recent month in the preceding twelve consecutive month period, the numerator of which is for a Client Company or Service Company Function and the denominator of which is for all Client Companies (and Duke Energy Corporation's non-utility and non-domestic utility affiliates, where applicable) and/or the Service Company. This ratio will be determined annually or at such time as may be required due to a significant change.

17. Total Property, Plant and Equipment Ratio

A ratio, based on the total applicable Property, Plant and Equipment balance (net of accumulated depreciation and amortization) for the preceding year, the numerator of which is for a Client Company and the denominator of which is for all Client Companies (and Duke Energy Corporation's non-utility and non-domestic utility affiliates, where applicable). This ratio will be determined annually or at such time as may be required due to a significant change.

18. Generating Unit MW Capability Ratio

A ratio, based on the total applicable installed megawatt capability for the preceding year, the numerator of which is for a Client Company and the denominator of which is for all Client Companies (and Duke Energy Corporation's non-utility and non-domestic utility affiliates, where applicable). This ratio will be determined annually or at such time as may be required due to a significant change.

19. Number of Meters Ratio

A ratio, based on the number of electric and/or gas meters, as applicable, the numerator of which is for a Client Company and the denominator of which is for all domestic utility Client Companies. Separate ratios will be computed for appropriate meter classifications (e.g., type of metering

technology). This ratio will be determined annually, or at such time as may be required due to a significant change.

20. O&M Expenditures Ratio

A ratio, based on the operation and maintenance (O&M) expenditures for a prior twelve month period, the numerator of which is for a Client Company and the denominator of which is for all Client Companies (and Duke Energy Corporation's non-utility and non-domestic utility affiliates, where applicable). Separate ratios will be computed for total O&M expenditures and appropriate functional plant (i.e., production, transmission, Distribution, and general) classifications. This ratio will be determined annually.

V. A description of each Function's activities, which may be modified from time to time by the Service Company, is set forth below in paragraph "a" under each Function. As described in paragraph II, "1" and "2" of this Appendix A, where identifiable, costs will be directly assigned or distributed to Client Companies or to other Functions of the Service Company. For costs accumulated in activities, processes, projects, responsibility centers, or work orders which are for services of a general nature that cannot be directly assigned or distributed, as described in paragraph II, "3" of this Appendix A, the method or methods of allocation are set forth below in paragraph "b" under each Function. For any of the functions set forth below other than Information Systems, Transportation, Human Resources or Facilities, costs of a general nature to be allocated pursuant to this Agreement shall exclude costs of a general nature which have been allocated to affiliated companies not a party to this Agreement. Substitution or changes may be made in the methods of allocation hereinafter specified, as may be appropriate, and will be provided to state regulatory agencies and to each Client Company. Any such substitution or changes shall be in compliance with the requirements of applicable state law, regulations and regulatory conditions.

1. Information Systems

a. Description of Function

Provides communications and electronic data processing services. The activities of the Function include:

- (1) Development and support of mainframe computer software applications.
- (2) Procurement and support of personal computers and related network and software applications.
- (3) Development and support of distributed computer software applications (e.g., servers).
- (4) Installation and operation of communications systems.
- (5) Information systems management and support services.

b. Method of Allocation

- (1) Development and support of mainframe computer software applications - allocated between the Client Companies and other Functions of the Service Company based on the number of Central Processing Unit Seconds Ratio, or allocated among the Client Companies on a weighted average of the Gross Margin Ratio, the Labor Dollar Ratio and the PP&E Ratio as appropriate.
- (2) Procurement and support of personal computers and related network and software applications - allocated to the Client Companies and to other Functions of the Service Company based on the Number of Personal Computer Work Stations Ratio.
- (3) Development and support of distributed computer software applications - allocated to the Client Companies and to other Functions of the Service Company based on the Number of Information Systems Servers Ratio.
- (4) Installation and operation of communications systems - allocated to the Client Companies and to other Functions of the Service Company based on the Number of Employees Ratio.
- (5) Information systems management and support services - allocated to the Client Companies and to other Functions of the Service Company based

on a weighted average of the Gross Margin Ratio, the Labor Dollar Ratio and the PP&E Ratio.

2. Meters

a. Description of Function

Procures, tests and maintains meters.

b. Method of Allocation

Allocated to the Client Companies based on the Number of Customers Ratio.

3. Transportation

a. Description of Function

(1) Procures and maintains vehicles and equipment.

(2) Procures and maintains aircraft and equipment.

b. Method of Allocation

(1) The costs of maintaining vehicles and equipment are allocated to the Client Companies and to other Functions of the Service Company based on the Number of Employees Ratio.

(2) The costs of maintaining aircraft and equipment are allocated to the Client Companies and to other Functions of the Service Company based on a weighted average of the Gross Margin Ratio, the Labor Dollars Ratio and the PP&E Ratio.

4. System Maintenance

a. Description of Function

Coordinates maintenance and support of electric transmission systems and Distribution systems.

b. Method of Allocation

(1) Services related to electric transmission systems - allocated to the Client Companies based on the Circuit Miles of Electric Transmission Lines Ratio.

- (2) Services related to electric Distribution systems - allocated to the Client Companies based on the Miles of Distribution Lines Ratio.
- (3) Services related to gas Distribution systems - allocated to the Client Companies based on the Labor Dollars Ratio.

5. Marketing and Customer Relations

a. Description of Function

Advises the Client Companies in relations with domestic utility customers.

The activities of the Function include:

- (1) Design and administration of sales and demand-side management programs.
- (2) Customer meter reading, billing and payment processing.
- (3) Customer services including the operation of call center.

b. Method of Allocation

- (1) Design and administration of sales and demand-side management programs - allocated to the Client Companies based on the Sales Ratio.
- (2) Customer billing and payment processing - allocated to the Client Companies based on the Number of Customers Ratio.
- (3) Customer Services - allocated to the Client Companies based on the Number of Customers Ratio.

6. Transmission and Distribution Engineering and Construction

a. Description of Function

Designs and monitors construction of electric transmission and Distribution Lines and associated facilities. Prepares cost and schedule estimates, visits construction sites to ensure that construction activities coincide with plans, and administers construction contracts.

b. Method of Allocation

- (1) Transmission engineering and construction allocated to the Client Companies based on the Electric Transmission Plant's Construction-Expenditures Ratio.

- (2) Distribution engineering and construction allocated to the Client Companies based on the Distribution plant's Construction-Expenditures Ratio.

7. Power Engineering and Construction

a. Description of Function

Designs, monitors and supports the construction and retirement of electric generation facilities. Prepares specifications and administers contracts for construction of new electric generating units, improvements to existing electric generating units, and the retirement of existing electric generating equipment, including developing associated operating processes with operations personnel. Prepares cost and schedule estimates and visits construction sites to ensure that construction and retirement activities meet schedules and plans..

b. Method of Allocation

Allocated to the Client Companies based on the Electric Production Plant's Construction-Expenditures Ratio.

8. Human Resources

a. Description of Function

Establishes and administers policies and supervises compliance with legal requirements in the areas of employment, compensation, benefits and employee health and safety. Processes payroll and employee benefit payments. Supervises contract negotiations and relations with labor unions.

b. Method of Allocation

Allocated to the Client Companies and to other Functions of the Service Company based on the Number of Employees Ratio.

9. Materials Management

a. Description of Function

Provides services in connection with the procurement of materials and contract services, processes payments to vendors, and provides management of material and supplies inventories.

b. Method of Allocation

- (1) Procurement of materials and contract services and vendor payment processing - allocated to the Client Companies and to other Functions of the Service Company based on the Procurement Spending Ratio.
- (2) Management of materials and supplies inventory – allocated to the Client Companies on the Inventory Ratio.

10. Facilities

a. Description of Function

Operates and maintains office and service buildings. Provides security and housekeeping services for such buildings and procures office furniture and equipment.

b. Method of Allocation

Allocated to the Client Companies and to other Functions of the Service Company based on the Square Footage Ratio.

11. Accounting

a. Description of Function

Maintains the books and records of Duke Energy Corporation and its affiliates, prepares financial and statistical reports, prepares tax filings and supervises compliance with the laws and regulations.

b. Method of Allocation

Allocated to the Client Companies based on a weighted average of the Gross Margin Ratio, the Labor Dollar Ratio and the PP&E Ratio.

12. Power and Gas Planning and Operations

a. Description of Function

Coordinate the planning, management and operation of Duke Energy Corporation's power generation, transmission and Distribution systems. The activities of the Function include:

- (1) System Planning - planning of additions and retirements to the electric generation units and transmission and Distribution systems belonging to the regulated utilities owned by Duke Energy Corporation.
- (2) System Operations - coordination of the dispatch and operation of the electric generating units and transmission and Distribution systems belonging to the regulated utilities owned by Duke Energy Corporation.
- (3) Power Operations – provides management and support services for the electric generation units owned or operated by subsidiaries of Duke Energy Corporation.
- (4) Wholesale Power Operations – coordination of Duke Energy Corporation's wholesale power operations.

b. Method of Allocation

- (1) System Planning
 - (a) Generation planning - allocated to the Client Companies based on the Electric Peak Load Ratio.
 - (b) Transmission planning – allocated to the Client Companies based on the Electric Peak Load Ratio.
 - (c) Electric Distribution planning - allocated to the Client Companies based on a weighted average of the Miles of Distribution Lines Ratio and the Electric Peak Load Ratio.
 - (d) Gas Distribution planning – allocated to the Client Companies based on the Construction-Expenditures Ratio.
- (2) System Operations –
 - (a) Generation Dispatch - allocated to the Client Companies based on the Sales Ratio.
 - (b) Transmission Operations - allocated to the Client Companies based on a weighted average of the Circuit Miles of Electric Transmission Lines Ratio and the Electric Peak Load Ratio.

- (c) Electric Distribution Operations - allocated to the Client Companies based on a weighted average of the Miles of Distribution Lines Ratio and the Electric Peak Load Ratio.
 - (d) Gas Distribution Operations - allocated to the Client Companies based on the Construction-Expenditures Ratio.
-
- (3) Power Operations - allocated to the Client Companies based on the Generating Unit MW Capability Ratio.
 - (4) Wholesale Power Operations - allocated to the Client Companies based on the Sales Ratio.

13. Public Affairs

a. Description of Function

Prepares and disseminates information to employees, customers, government officials, communities and the media. Provides graphics, reproduction lithography, photography and video services.

b. Method of Allocation

- (1) Services related to corporate governance, public policy, management and support services - allocated to the Client Companies based on a weighted average of the Gross Margin Ratio, the Labor Dollar Ratio and the PP&E Ratio.
- (2) Services related to utility specific activities - allocated to the Client Companies based on a weighted average of the Number of Customers Ratio and the Number of Employees Ratio.

14. Legal

a. Description of Function

Renders services relating to labor and employment law, litigation, contracts, rates and regulatory affairs, environmental matters, financing, financial reporting, real estate and other legal matters.

b. Method of Allocation

Allocated to the Client Companies based on a weighted average of the Gross Margin Ratio, the Labor Dollar Ratio and the PP&E Ratio.

15. Rates

a. Description of Function

Determines the Client Companies' revenue requirements and rates to electric and gas requirements customers. Administers interconnection and joint ownership agreements. Researches and forecasts customers' usage.

b. Method of Allocation

Allocated to the Client Companies based on the Sales Ratio.

16. Finance

a. Description of Function

Renders services to Client Companies with respect to investments, financing, cash management, risk management, claims and fire prevention. Prepares budgets, financial forecasts and economic analyses.

b. Method of Allocation

Allocated to the Client Companies based on a weighted average of the Gross Margin Ratio, the Labor Dollar Ratio and the PP&E Ratio.

17. Rights of Way

a. Description of Function

Purchases, surveys, records, and sells real estate interests for Client Companies.

b. Method of Allocation

- (1) Services related to Distribution system - allocated to the Client Companies based on the Miles of Distribution Lines Ratio.
- (2) Services related to electric generation system- allocated to the Client Companies based on the Electric Peak Load Ratio.
- (3) Services related to electric transmission system – allocated to the Client Companies based on the Circuit Miles of Electric Transmission Lines Ratio.

18. Internal Auditing

a. Description of Function

Reviews internal controls and procedures to ensure that assets are safeguarded and that transactions are properly authorized and recorded.

b. Method of Allocation

Allocated to the Client Companies based on a weighted average of the Gross Margin Ratio, the Labor Dollar Ratio and the PP&E Ratio.

19. Environmental, Health and Safety

a. Description of Function

Establishes policies and procedures and governance framework for compliance with environmental, health and safety ("EHS") issues, monitors compliance with EHS requirements and provides EHS compliance support to the Client Companies' personnel.

b. Method of Allocation

(1) Services related to corporate governance, environmental policy, management and support services - allocated to the Client Companies based on a weighted average of the Gross Margin Ratio, the Labor Dollar Ratio and the PP&E Ratio.

(2) Services related to utility specific activities – allocated to the Client Companies based on the Sales Ratio

20. Fuels

a. Description of Function

Procures coal, gas and oil for the Client Companies. Ensures compliance with price and quality provisions of fuel contracts and arranges for transportation of the fuel to the generating stations.

b. Method of Allocation

Allocated to the Client Companies based on the Sales Ratio.

21. Investor Relations

a. Description of Function

Provides communications to investors and the financial community, performs transfer agent and shareholder record keeping functions, administers stock plans and performs stock-related regulatory reporting.

b. Method of Allocation

Allocated to the Client Companies based on a weighted average of the Gross Margin Ratio, the Labor Dollars Ratio and the PP&E Ratio.

22. Planning

a. Description of Function

Facilitates preparation of strategic and operating plans, monitors trends and evaluates business opportunities.

b. Method of Allocation

Allocated to the Client Companies based on a weighted average of the Gross Margin Ratio, the Labor Dollars Ratio and the PP&E Ratio.

23. Executive

a. Description of Function

Provides general administrative and executive management services.

b. Method of Allocation

Allocated to the Client Companies based on a weighted average of the Gross Margin Ratio, the Labor Dollars Ratio and the PP&E Ratio.

APPENDIX B

DE-CAROLINAS CONDITIONS

1. In connection with the NCUC approval the Merger in NCUC Docket No. E-7, Sub 795, the NCUC adopted certain Regulatory Conditions and a revised Code of Conduct governing transactions between DE-Carolinas and its affiliates. Pursuant to the Regulatory Conditions, the following provisions are applicable to DE-Carolinas:

(a) DE-Carolinas' participation in this Agreement is voluntary. DE-Carolinas is not obligated to take or provide services or make any purchases or sales pursuant to this Agreement, and DE-Carolinas may elect to discontinue its participation in this Agreement at its election after giving notice under Section 3.1 of the Agreement.

(b) DE-Carolinas may not make or incur a charge under this Agreement except in accordance with North Carolina law and the rules, regulations and orders of the NCUC promulgated thereunder.

(c) DE-Carolinas may not seek to reflect in rates any (i) costs incurred under this Agreement exceeding the amount allowed by the NCUC or (ii) revenue level earned under this Agreement less than the amount imputed by the NCUC; and

(d) Except to the extent that requesting FERC review and authorization pursuant to Section 1275(b) of Subtitle F in Title XII of PUHCA 2005, as provided in Regulatory Condition No. 21, may be determined to have preemptive effect under the law, DE-Carolinas will not assert in any forum that the NCUC's authority to assign, allocate, make pro-forma adjustments to or disallow revenues and costs for retail ratemaking and regulatory accounting and reporting purposes is preempted and will bear the full risk of any preemptive effects of federal law with respect to this Agreement.

2. With respect to the transfer by DE-Carolinas under this Agreement of the control of, operational responsibility for, or ownership of any DE-Carolinas assets used for the generation, transmission or distribution of electric power to its North Carolina retail customers with a gross book value in excess of ten million dollars (\$10 million), the following shall apply:

(a) DE-Carolinas may not commit to or carry out the transfer except in accordance with all applicable law, and the rules, regulations and orders of the NCUC promulgated thereunder, and

(b) DE-Carolinas may not include in its North Carolina cost of service or rates the value of the transfer, whether or not subject to federal law, except as allowed by the NCUC in accordance with North Carolina law.

THIRD AMENDED AND RESTATED OPERATING COMPANIES SERVICE AGREEMENT

This Third Amended and Restated Operating Companies Service Agreement (this "Agreement"), dated May 18, 2010 (the "Effective Date"), by and among Duke Energy Carolinas, LLC, a North Carolina limited liability company ("DE-Carolinas"), Duke Energy Ohio, Inc., an Ohio corporation ("DE-Ohio"), Duke Energy Indiana, Inc., an Indiana corporation ("DE-Indiana"), Duke Energy Kentucky, Inc., a Kentucky corporation ("DE-Kentucky"), and Miami Power Corporation, an Indiana corporation ("Miami;" and collectively with DE-Carolinas, DE-Ohio, DE-Indiana and DE-Kentucky, the "Operating Companies" and, individually, an "Operating Company") supersedes and restates in its entirety the Second Amended and Restated Operating Companies Service Agreement entered into by the Operating Companies dated September 1, 2008.

WITNESSETH:

WHEREAS, Duke Energy Corporation ("Duke Energy") is a Delaware corporation;

WHEREAS, each Operating Company is a subsidiary of Duke Energy and a public utility company;

WHEREAS, in the ordinary course of their businesses, Operating Companies maintain organizations of employees with technical expertise in matters affecting public utility companies and related businesses and own or acquire related equipment, facilities, properties and other resources; and

WHEREAS, subject to the terms and conditions herein set forth, and taking into consideration the parties' utility responsibilities or primary business operations, as the case may be, the parties hereto are willing, upon request from time to time, to perform such services, and in connection therewith to make available such equipment, facilities, properties and other resources, as they shall request from each other;

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, the parties agree as follows:

ARTICLE I. PROVISION OF SERVICES; LOANED EMPLOYEES

Section I.1 Provision of Services.

(a) Upon receipt by a party hereto (in such capacity, a "Service Provider") of a written request in substantially the form attached hereto as Exhibit A (a "Service Request") from another party hereto (in such capacity, a "Client Company") for the provision to such Client Company of such services as are specified therein, including if applicable use of any related equipment, facilities, properties or other resources (collectively, "Services"), the Service Provider, if in its sole discretion it has available the personnel or other resources needed to perform the Service Request without impairment of its utility responsibilities or business operations, as the case may be, shall furnish such Services to the Client Company at such times, for such periods and in such manner as the Client Company shall have so requested and otherwise in accordance with the provisions hereof.

(b) For purposes of this Agreement, "Services" may include, but shall not be limited to, services in such areas as engineering and construction; operations and maintenance; installation services; equipment testing; generation technical support; environmental, health and safety; and procurement services.

(c) "Services" may also include the use of assets, equipment and facilities, provided the Client Company compensates the Service Provider for such use in accordance with Article 3.

(d) For the avoidance of doubt, affiliate transactions involving sales or other transfers of assets, goods, energy commodities (including electricity, natural gas, coal and other combustible fuels) or thermal energy products are outside the scope of this Agreement.

Section 1.2 Loaned Employees.

(a) If specifically requested in connection with the provision of Services, Service Provider shall loan one or more of its employees to such Client Company, provided that such loan shall not, in the sole discretion of Service Provider, interfere with or impair Service Provider's utility responsibilities or business operations, as the case may be. After the commencement thereof, any such loaned employees may be withdrawn by Service Provider from tasks duly assigned by Client Company, prior to completion thereof as contemplated in the associated Service Request, only with the consent of Client Company (which shall not be unreasonably withheld or delayed), except in the event of a demonstrable emergency requiring the use of any such employees in another capacity for Service Provider.

(b) While performing work on behalf of Client Company, any such loaned employees shall be under its supervision and control, and Client Company shall be responsible for their actions to the same extent as though such persons were its employees (it being understood that such persons shall nevertheless remain employees of Service Provider and nothing herein shall be construed as creating an employer-employee relationship between any Client Company and any loaned employees). Accordingly, for the duration of any such loan, Service Provider shall continue to provide its loaned employees with the same payroll, pension, savings, tax withholding, unemployment, bookkeeping and other personnel support services then being provided by Service Provider to its other employees.

ARTICLE 2. SERVICE REQUESTS

Section 2.1 Procedure. All Services (including any loans of employees) (i) shall be performed in accordance with Service Requests issued by or on behalf of Client Company and accepted by Service Provider and (ii) shall be assigned to applicable activities, processes, projects, responsibility centers or on other appropriate bases to enable specific work to be properly assigned. Service Requests shall be as specific as practicable in defining the Services requested. Client Company shall have the right from time to time to amend or rescind any Service Request, *provided* that (a) Service Provider consents to any amendment that results in a material change in the scope of Services to be provided, (b) the costs associated with an amended or rescinded Service Request shall include the costs incurred by Service Provider as a result of such amendment or rescission, and (c) no amendment or rescission of a Service Request shall release Client Company from any liability for costs already incurred or contracted for by Service Provider pursuant to the original Service Request,

regardless of whether any labor or the furnishing of any property or other resources has been commenced or completed.

ARTICLE 3. COMPENSATION FOR SERVICES

Section 3.1 Cost of Services. As compensation for any Services rendered to it pursuant to this Agreement, Client Company shall pay to Service Provider the Cost thereof, except to the extent otherwise required by Section 482 of the Internal Revenue Code; provided, however, that Services provided to or by DE-Carolinas shall be priced in accordance with DE-Carolinas's North Carolina Code of Conduct approved by the North Carolina Utilities Commission; and further provided that with respect to Services relating to wholesale merchant or electric generation functions, such Services provided by DE Carolinas, DE Indiana, or DE Kentucky to DE Ohio shall be priced at the greater of Cost or market, and such Services provided by DE Ohio to DE Carolinas, DE Indiana, or DE Kentucky shall be priced at no more than market. "Costs" means the sum of (i) direct costs, (ii) indirect costs and (iii) costs of capital. As soon as practicable after the close of each month, Service Provider shall render to each Client Company a statement reflecting the billing information necessary to identify the costs charged for that month. By the last day of each month, Client Company shall remit to Service Provider all charges billed to it. For avoidance of doubt, the Service Provider and each Client Company may satisfy the foregoing requirement by recording billings and payments required hereunder in their common accounting systems without rendering paper or electronic monthly statements or remitting cash payments.

Section 3.2 Exception. In the event any Services to be rendered under this Agreement are to be provided to or from DE-Carolinas in accordance with DE-Carolinas's North Carolina Code of Conduct at anything other than fully embedded cost as described above, then prior to entering into the transaction, DE-Indiana, DE-Kentucky or DE-Ohio, whichever is applicable, shall provide 30 days written notice to the respective state commission staffs and state consumer representatives explaining the proposed transaction, including the benefits of the transaction. If no objection is received within 30 days, then the transaction may proceed. If one or more third parties object to the transaction in writing within 30 days, then DE-Indiana, DE-Kentucky or DE-Ohio, whichever is applicable, must seek specific state commission approval of the transaction prior to entering into the transaction.

ARTICLE 4. LIMITATION OF LIABILITY; INDEMNIFICATION

Section 4.1 Limitation of Liability/Services. In performing Services pursuant to Section 1.1 hereof, Service Provider will exercise due care to assure that the Services are performed in a workmanlike manner in accordance with the specifications set forth in the applicable Service Request and consistent with any applicable legal standards. The sole and exclusive responsibility of Service Provider for any deficiency therein shall be promptly to correct or repair such deficiency or to re-perform such Services, in either case at no additional cost to Client Company, so that the Services fully conform to the standards described in the first sentence of this Section 4.1. No Service Provider makes any other warranty with respect to the provision of Services, and each Client Company agrees to accept any Services without further warranty of any nature.

Section 4.2 Limitation of Liability/Loaned Employees. In furnishing Services under Section 1.2 hereof (i.e., involving loaned employees), neither the Service Provider, nor any officer, director, employee or agent thereof, shall have any responsibility whatever to any Client Company receiving such Services, and Client Company specifically releases Service Provider and such persons, on account of any claims, liabilities, injuries, damages or other consequences arising in connection with the provision of such Services under any theory of liability, whether in contract, tort (including negligence or strict liability) or otherwise, it being understood and agreed that any such loaned employees are made available without warranty as to their suitability or expertise.

Section 4.3 Disclaimer. WITH RESPECT TO ANY SERVICES PROVIDED UNDER THIS AGREEMENT, THE SERVICE PROVIDER THEREOF MAKES NO WARRANTY OR REPRESENTATION OTHER THAN AS SET FORTH IN SECTION 4.1, AND THE PARTIES HERETO HEREBY AGREE THAT NO OTHER WARRANTY, WHETHER STATUTORY, EXPRESS OR IMPLIED (INCLUDING BUT NOT LIMITED TO ALL WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE AND WARRANTIES ARISING FROM COURSE OF DEALING OR USAGE OF TRADE), SHALL BE APPLICABLE TO THE PROVISION OF ANY SUCH SERVICES. THE PARTIES FURTHER AGREE THAT THE REMEDIES STATED HEREIN ARE EXCLUSIVE AND SHALL CONSTITUTE THE SOLE AND EXCLUSIVE REMEDY OF ANY PARTY HERETO FOR A FAILURE BY ANY OTHER PARTY HERETO TO COMPLY WITH ITS WARRANTY OBLIGATIONS.

Section 4.4 Indemnification.

(a) Subject to subparagraph (b) of this Section 4.4, Service Provider shall release, defend, indemnify and hold harmless each Client Company, including any officer, director, employee or agent thereof, from and against, and shall pay the full amount of, any loss, liability, claim, damage, expense (including costs of investigation and defense and reasonable attorneys' fees), whether or not involving a third-party claim, incurred or sustained by or against any such Client Company arising, directly or indirectly, from or in connection with Service Provider's negligence or willful misconduct in the performance of the Services.

(b) Notwithstanding any other provision hereof, Service Provider's total liability hereunder with respect to any specific Services shall be limited to the amount actually paid to Service Provider for its performance of the specific Services for which the liability arises, and under no circumstances shall Service Provider be liable for consequential, incidental, punitive, exemplary or indirect damages, lost profits or other business interruption damages, by statute, in tort or contract, under any indemnity provision or otherwise (it being the intent of the parties that the indemnification obligations in this Agreement shall cover only actual damages and accordingly, without limitation of the foregoing, shall be net of any insurance proceeds actually received in respect of any such damages).

Section 4.5 Procedure for Indemnification. Within 15 business days after receipt by any Client Company of notice of any claim or the commencement of any action, suit, litigation or other proceeding against it (a "Proceeding") with respect to which it is eligible for indemnification hereunder, such Client Company shall notify Service Provider thereof in writing (it being understood that failure so to notify Service Provider shall not relieve the latter of its indemnification obligation).

unless Service Provider establishes that defense thereof has been prejudiced by such failure). Thereafter, Service Provider shall be entitled to participate in such Proceeding and, at its election upon notice to such Client Company and at its expense, to assume the defense of such Proceeding. Without the prior written consent of such Client Company, Service Provider shall not enter into any settlement of any third-party claim that would lead to liability or create any financial or other obligation on the part of such Client Company for which it such Client Company is not entitled to indemnification hereunder. If such Client Company has given timely notice to Service Provider of the commencement of such Proceeding, but Service Provider has not, within 15 business days after receipt of such notice, given notice to Client Company of its election to assume the defense thereof, Service Provider shall be bound by any determination made in such Proceeding or any compromise or settlement made by Client Company. A claim for indemnification for any matter not involving a third-party claim may be asserted by notice from the applicable Client Company to Service Provider.

ARTICLE 5. MISCELLANEOUS

Section 5.1 Amendments. Any amendments to this Agreement shall be in writing executed by each of the parties hereto. To the extent that applicable state law or regulation or other binding obligation requires that any such amendment be filed with any affected state public utility commission for its review or otherwise, each Operating Company shall comply in all respects with any such requirements.

Section 5.2 Effective Date; Term. This Agreement shall become effective on the Effective Date and shall continue in full force and effect as to each party until terminated by any party, as to itself only, upon not less than 30 days prior written notice to the other parties hereto. Any such termination of parties shall not be deemed an amendment hereto. This Agreement may be terminated and thereafter be of no further force and effect upon the mutual consent of all of the parties hereto.

Section 5.3 Entire Agreement. This Agreement contains the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes any prior or contemporaneous contracts, agreements, understandings or arrangements, whether written or oral, with respect thereto. Any oral or written statements, representations, promises, negotiations or agreements, whether prior hereto or concurrently herewith, are superseded by and merged into this Agreement.

Section 5.4 Severability. If any provision of this Agreement or any application thereof shall be determined to be invalid or unenforceable, the remainder of this Agreement and any other application thereof shall not be affected thereby.

Section 5.5 Assignment. Neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned, in whole or in part, by operation of law or otherwise by any of the parties hereto without the prior written consent of each of the other parties. Any attempted or purported assignment in violation of the preceding sentence shall be null and void and of no effect whatsoever. Subject to the preceding two sentences, this Agreement shall be binding upon, inure to the benefit of, and be enforceable by, the parties and their respective successors and assigns.

Section 5.6 Governing Law. This Agreement shall be construed and enforced under and in accordance with the laws of the State of New York, without regard to conflicts of laws principles.

Section 5.7 Captions, etc. The captions and headings used in this Agreement are for convenience of reference only and shall not affect the construction to be accorded any of the provisions hereof. As used in this Agreement, "hereof," "hereunder," "herein," "hereto," and words of like import refer to this Agreement as a whole and not to any particular section or other paragraph or subparagraph thereof.

Section 5.8 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed a duplicate original hereof, but all of which shall be deemed one and the same Agreement.

Section 5.9 DE-Carolinas Conditions. In addition to the terms and conditions set forth herein, with respect to DE-Carolinas, the provisions set out in Appendix B are hereby incorporated herein by reference. In addition, except with respect to the pricing of Services as set forth herein, DE-Carolinas' participation in this Agreement is explicitly subject to the Regulatory Conditions and Code of Conduct approved by the NCU in its Order Approving Merger Subject to Regulatory Conditions and Code of Conduct issued March 24, 2006, in Docket No. E-7, Sub 795, as such Regulatory Conditions and Code of Conduct may be amended from time to time.

IN WITNESS WHEREOF, each of the parties hereto has caused this Agreement to be executed on its behalf by an appropriate officer thereunto duly authorized.

Duke Energy Carolinas, LLC

By: 

Richard G. Beach
Assistant Secretary

Duke Energy Ohio, Inc.

By: 

Richard G. Beach
Assistant Secretary

Duke Energy Indiana, Inc.

By: 

Richard G. Beach
Assistant Secretary

Duke Energy Kentucky, Inc.

By: 
Richard O. Beach
Assistant Secretary

Miami Power Corporation

By: 
Richard O. Beach
Assistant Secretary

Exhibit A**eForms**Folder Name 201401-000001Date 1/1/14**Service Request for Affiliates**

* Read instructions and attach required forms

Service Provider

• Service Provider

• Legal Approval Representative

Proposed Service

• Description of Proposed Service

Please Provide Details for Estimated Costs, Include # of employees requested and numbers of days requested.

--

• Estimated Costs

previous only, no current or upcoming

• Scheduled Start Date

• Scheduled Completion Date

Client Company

• Client Company

PeopleSoft Accounting Codes for the Services Provided

Process OR Project & Activities OR GL Account for Client Company must be entered

• Client Company Operating Unit

• Service Provider Resp. Center

• Process

• Project

• Activity

• GL Account

Confirmation of Service Provider Utility Responsibility by Service Provider Approval
☒ Check this box to confirm that this Service Request will not result in impairment of Service Provider's utility responsibility or business operations.
Miscellaneous Comments

Comments

Comments Log

Exhibit B

DE-CAROLINAS CONDITIONS

1. In connection with the North Carolina Utilities Commission ("NCUC") approval of the Merger in NCUC Docket No. E-7, Sub 795, the NCUC adopted certain Regulatory Conditions ("Regulatory Conditions") and a revised Code of Conduct governing transactions between DE-Carolinas and its affiliates ("Code of Conduct"). Pursuant to the Regulatory Conditions and Code of Conduct, the following provisions are applicable to DE-Carolinas:

(a) DE-Carolinas's participation in this Agreement is voluntary. DE-Carolinas is not obligated to take or provide services or make any purchases or sales pursuant to this Agreement, and DE-Carolinas may elect to discontinue its participation in this Agreement at its election after giving notice under Section 6.2 of the Agreement.

(b) DE-Carolinas may not make or incur a charge under this Agreement except in accordance with North Carolina law and the rules, regulations and orders of the NCUC promulgated thereunder.

(c) DE-Carolinas may not seek to reflect in rates any (i) costs incurred under this Agreement exceeding the amount allowed by the NCUC or (ii) revenue level earned under this Agreement less than the amount imputed by the NCUC; and

(d) Except to the extent that requesting FERC review and authorization pursuant to 1275(b) of Subtitle F in Title XII of PUHCA 2005, as provided in Regulatory Condition 21, may be determined to have preemptive effect under the law, DE-Carolinas will not assert in any forum that the NCUC's authority to assign, allocate, make pro-forma adjustments to or disallow revenues and costs for retail ratemaking and regulatory accounting and reporting purposes is preempted and will bear the full risk of any preemptive effects of federal law with respect to this Agreement.

2. Transfers by DE-Carolinas. With respect to the transfer by DE-Carolinas under this Agreement of the control of, operational responsibility for, or ownership of any DE-Carolinas assets used for the generation, transmission or distribution of electric power to its North Carolina retail customers with a gross book value in excess of ten million dollars, the following shall apply: (a) DE-Carolinas may not commit to or carry out the transfer except in accordance with all applicable law, and the rules, regulations and orders of the NCUC promulgated thereunder; and (b) DE-Carolinas may not include in its North Carolina cost of service or rates the value of the transfer, whether or not subject to federal law, except as allowed by the NCUC in accordance with North Carolina law.

3. Access to DE-Carolinas Information. Any Operating Company providing Services to DE-Carolinas pursuant to this Agreement, including any loaned employees under Section 1.2 of the Agreement, shall be permitted to have access to DE-Carolinas Customer Information and Confidential Systems Operation Information, as those terms are defined in the Code of Conduct, to the extent necessary for the performance of such Services; provided that such Operating Company shall take reasonable steps to protect the confidentiality of such Information.

OPERATING COMPANY/NONUTILITY COMPANIES SERVICE AGREEMENT

This Operating Company/Nonutility Companies Service Agreement (this "Agreement") is made and entered into as of July 1, 2009 (the "Effective Date") by and among Duke Energy Ohio, Inc., an Ohio corporation ("Operating Company"), and the respective associate nonutility companies listed on the signature pages hereto (each, a "Nonutility Company").

WITNESSETH:

WHEREAS, Duke Energy Corporation ("Duke Energy") is a Delaware corporation;

WHEREAS, Operating Company is a subsidiary of Duke Energy and a public utility company;

WHEREAS, each Nonutility Company is a subsidiary of Duke Energy that is or was formed to engage in any one or more non-regulated businesses;

WHEREAS, in the ordinary course of their businesses, Operating Company and each Nonutility Company maintain organizations of employees with technical expertise in matters affecting public utility companies and related businesses and own or acquire related equipment, facilities, properties and other resources; and

WHEREAS, subject to the terms and conditions herein set forth, and taking into consideration the parties' utility responsibilities or primary business operations, as the case may be, the parties hereto are willing, upon request from time to time, to perform such services, and in connection therewith to make available such equipment, facilities, properties and other resources, as they shall request from each other;

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, the parties agree as follows:

ARTICLE 1. PROVISION OF SERVICES; LOANED EMPLOYEES

Section 1.1 Provision of Services.

(a) Upon receipt by a party hereto (in such capacity, a "Service Provider") of a written request in substantially the form attached hereto as Exhibit A (a "Service Request") from another party hereto (in such capacity, a "Client Company") for the provision to such Client Company of such services as are specified therein, including if applicable use of any related equipment, facilities, properties or other resources (collectively, "Services"), the Service Provider, if in its sole discretion it has available the personnel or other resources needed to perform the Service Request without impairment of its utility responsibilities or business operations, as the case may be, shall furnish such Services to the Client Company at such times, for such periods and in such manner as the Client Company shall have so requested and otherwise in accordance with the provisions hereof.

(b) For purposes of this Agreement, "Services" may include, but shall not be limited to: (i) in the case of Services that may be provided by Operating Company hereunder, services in such areas as engineering and construction; operations and maintenance; installation services; equipment testing; generation technical support; environmental, health and safety; and procurement services; and (ii) in the case of Services that may be provided by Nonutility Companies hereunder, services in such areas as information technology services; monitoring, surveying, inspecting, constructing, locating and marking of overhead and underground utility facilities; meter reading; materials management; vegetation management; and marketing and customer relations.

(c) For the avoidance of doubt, affiliate transactions involving sales or other transfers of assets, goods, energy commodities (including electricity, natural gas, coal and other combustible fuels) or thermal energy products are outside the scope of this Agreement.

Section 1.2 Loaned Employees.

(a) If specifically requested in connection with the provision of Services, Service Provider shall loan one or more of its employees to such Client Company, provided that such loan shall not, in the sole discretion of Service Provider, interfere with or impair Service Provider's utility responsibilities or business operations, as the case may be. After the commencement thereof, any such loaned employees may be withdrawn by Service Provider from tasks duly assigned by Client Company, prior to completion thereof as contemplated in the associated Service Request, only with the consent of Client Company (which shall not be unreasonably withheld or delayed), except in the event of a demonstrable emergency requiring the use of any such employees in another capacity for Service Provider.

(b) While performing work on behalf of Client Company, any such loaned employees shall be under its supervision and control, and Client Company shall be responsible for their actions to the same extent as though such persons were its employees (it being understood that such persons shall nevertheless remain employees of Service Provider and nothing herein shall be construed as creating an employer-employee relationship between any Client Company and any loaned employees). Accordingly, for the duration of any such loan, Service Provider shall continue to provide its loaned employees with the same payroll, pension, savings, tax withholding, unemployment, bookkeeping and other personnel support services then being provided by Service Provider to its other employees.

ARTICLE 2. SERVICE REQUESTS

Section 2.1 Procedure. All Services (including any loans of employees) (i) shall be performed in accordance with Service Requests issued by or on behalf of Client Company and accepted by Service Provider and (ii) shall be assigned to applicable activities, processes, projects, responsibility centers or on other appropriate bases to enable specific work to be properly assigned. Service Requests shall be as specific as practicable in defining the Services requested. Client Company shall have the right from time to time to amend or rescind any Service Request, *provided* that (a) Service Provider consents to any amendment that results in a material change in the scope of Services to be provided, (b) the costs associated with an amended or rescinded Service Request shall include the costs incurred by Service Provider as a result of such amendment or rescission, and (c) no

amendment or rescission of a Service Request shall release Client Company from any liability for costs already incurred or contracted for by Service Provider pursuant to the original Service Request, regardless of whether any labor or the furnishing of any property or other resources has been commenced or completed.

ARTICLE 3. COMPENSATION FOR SERVICES

Section 3.1 Cost of Services. Except to the extent otherwise required by Section 482 of the Internal Revenue Code or analogous state tax law, Client Company shall compensate Service Provider for any Services rendered to it pursuant to this Agreement in accordance with the Federal Energy Regulatory Commission's ("FERC") affiliate transaction pricing requirements. Accordingly (i) Services provided by the Operating Company to a Nonutility Company shall be priced at the greater of Cost or market, and (ii) Services provided by a Nonutility Company to the Operating Company shall be priced at no more than market. "Cost" means the sum of (i) direct costs, (ii) indirect costs and (iii) costs of capital. As soon as practicable after the close of each month, Service Provider shall render to each Client Company a statement reflecting the billing information necessary to identify the costs charged for that month. By the last day of each month, Client Company shall remit to Service Provider all charges billed to it. For avoidance of doubt, the Service Provider and each Client Company may satisfy the foregoing requirement by recording billings and payments required hereunder in their common accounting systems without rendering paper or electronic monthly statements or remitting cash payments.

ARTICLE 4. LIMITATION OF LIABILITY; INDEMNIFICATION

Section 4.1 Limitation of Liability/Services. In performing Services pursuant to Section 1.1 hereof, Service Provider will exercise due care to assure that the Services are performed in a workmanlike manner in accordance with the specifications set forth in the applicable Service Request and consistent with any applicable legal standards. The sole and exclusive responsibility of Service Provider for any deficiency therein shall be promptly to correct or repair such deficiency or to re-perform such Services, in either case at no additional cost to Client Company, so that the Services fully conform to the standards described in the first sentence of this Section 4.1. No Service Provider makes any other warranty with respect to the provision of Services, and each Client Company agrees to accept any Services without further warranty of any nature.

Section 4.2 Limitation of Liability/Loaned Employees. In furnishing Services under Section 1.2 hereof (i.e., involving loaned employees), neither the Service Provider, nor any officer, director, employee or agent thereof, shall have any responsibility whatever to any Client Company receiving such Services, and Client Company specifically releases Service Provider and such persons, on account of any claims, liabilities, injuries, damages or other consequences arising in connection with the provision of such Services under any theory of liability, whether in contract, tort (including negligence or strict liability) or otherwise, it being understood and agreed that any such loaned employees are made available without warranty as to their suitability or expertise.

Section 4.3 Disclaimer. WITH RESPECT TO ANY SERVICES PROVIDED UNDER THIS AGREEMENT, THE SERVICE PROVIDER THEREOF MAKES NO WARRANTY OR REPRESENTATION OTHER THAN AS SET FORTH IN SECTION 4.1, AND THE PARTIES

HERETO HEREBY AGREE THAT NO OTHER WARRANTY, WHETHER STATUTORY, EXPRESS OR IMPLIED (INCLUDING BUT NOT LIMITED TO ALL WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE AND WARRANTIES ARISING FROM COURSE OF DEALING OR USAGE OF TRADE), SHALL BE APPLICABLE TO THE PROVISION OF ANY SUCH SERVICES. THE PARTIES FURTHER AGREE THAT THE REMEDIES STATED HEREIN ARE EXCLUSIVE AND SHALL CONSTITUTE THE SOLE AND EXCLUSIVE REMEDY OF ANY PARTY HERETO FOR A FAILURE BY ANY OTHER PARTY HERETO TO COMPLY WITH ITS WARRANTY OBLIGATIONS.

Section 4.4 Indemnification.

(a) Indemnification In Respect of Services Provided by Operating Company.

(i) In circumstances where Operating Company is a Service Provider: (x) subject to subparagraph (ii) of this Section 4.4(a), Service Provider shall release, defend, indemnify and hold harmless each Client Company, including any officer, director, employee or agent thereof, from and against, and shall pay the full amount of, any loss, liability, claim, damage, expense (including costs of investigation and defense and reasonable attorneys' fees), whether or not involving a third-party claim (collectively, "Damages"), incurred or sustained by or against Service Provider or any such Client Company arising, directly or indirectly, from or in connection with Service Provider's negligence or willful misconduct in the performance of the Services, and (y) each Nonutility Company that is a Client Company with respect to such Services shall release, defend, indemnify and hold harmless Service Provider, including any officer, director, employee or agent thereof, from and against, and shall pay the full amount of, any Damages incurred or sustained by or against Service Provider or any such Client Company arising, directly or indirectly, from or in connection with Service Provider's negligence or willful misconduct in the performance of the Services, to the extent such Damages are not covered by Service Provider's indemnification obligation as provided in the preceding clause (x) or exceed the liability limits provided in subparagraph (ii) of this Section 4.4(a).

(ii) Notwithstanding any other provision hereof, in circumstances where Operating Company is a Service Provider: (x) Service Provider's total liability hereunder with respect to any specific Services shall be limited to the amount actually paid to Service Provider for its performance of the specific Services for which the liability arises, and (y) under no circumstances shall Service Provider be liable for consequential, incidental, punitive, exemplary or indirect damages, lost profits or other business interruption damages, by statute, in tort or contract, under any indemnity provision or otherwise (it being the intent of the parties that the indemnification obligations in this Agreement shall cover only actual damages and accordingly, without limitation of the foregoing, shall be net of any insurance proceeds actually received in respect of any such damages).

(b) Indemnification In Respect of Services Provided by Any Nonutility Company.

(i) In circumstances where a Nonutility Company is a Service Provider (*i.e.*, where Operating Company is the Client Company): (x) subject to subparagraph (ii) of this Section 4.4(b), Service Provider shall release, defend, indemnify and hold harmless the Client Company, including any officer, director, employee or agent thereof, from and against, and shall pay the full amount of, any Damages incurred or sustained by or against Client Company arising, directly or indirectly, from

or in connection with Service Provider's negligence or willful misconduct in the performance of the Services.

(ii) Notwithstanding any other provision hereof, in circumstances where a Nonutility Company is a Service Provider (*i.e.*, where Operating Company is the Client Company), under no circumstances shall Service Provider be liable for consequential, incidental, punitive, exemplary or indirect damages, lost profits or other business interruption damages, by statute, in tort or contract, under any indemnity provision or otherwise (it being the intent of the parties that the indemnification obligations in this Agreement shall cover only actual damages and accordingly, without limitation of the foregoing, shall be net of any insurance proceeds actually received in respect of any such damages).

Section 4.5 Procedure for Indemnification. Within 15 business days after receipt by any Client Company of notice of any claim or the commencement of any action, suit, litigation or other proceeding against it (a "Proceeding") with respect to which it is eligible for indemnification hereunder, such Client Company shall notify Service Provider thereof in writing (it being understood that failure so to notify Service Provider shall not relieve the latter of its indemnification obligation, unless Service Provider establishes that defense thereof has been prejudiced by such failure). Thereafter, Service Provider shall be entitled to participate in such Proceeding and, at its election upon notice to such Client Company and at its expense, to assume the defense of such Proceeding. Without the prior written consent of such Client Company, Service Provider shall not enter into any settlement of any third-party claim that would lead to liability or create any financial or other obligation on the part of such Client Company for which it such Client Company is not entitled to indemnification hereunder. If such Client Company has given timely notice to Service Provider of the commencement of such Proceeding, but Service Provider has not, within 15 business days after receipt of such notice, given notice to Client Company of its election to assume the defense thereof, Service Provider shall be bound by any determination made in such Proceeding or any compromise or settlement made by Client Company. A claim for indemnification for any matter not involving a third-party claim may be asserted by notice from the applicable Client Company to Service Provider.

ARTICLE 5. MISCELLANEOUS

Section 5.1 Amendments. Any amendments to this Agreement shall be in writing executed by each of the parties hereto. To the extent that applicable state law or regulation or other binding obligation requires that any such amendment be filed with the Public Utilities Commission of Ohio for its review or otherwise, Operating Company shall comply in all respects with any such requirements.

Section 5.2 Effective Date; Term. This Agreement shall become effective on the Effective Date and shall continue in full force and effect as to each party until terminated by any party, as to itself only, upon not less than 30 days prior written notice to the other parties hereto. Any such termination of parties shall not be deemed an amendment hereto. This Agreement may be terminated and thereafter be of no further force and effect upon the mutual consent of all of the parties hereto.

Section 5.3 Additional Parties. After the Effective Date of this Agreement, additional Nonutility Companies may become parties to this Agreement by executing appropriate signature pages, whereupon any such additional signatory shall be deemed a "party" hereto all purposes hereof and shall thereupon become bound by the terms and conditions of this Agreement as if an original party hereto. The addition of any such further signatories, in the absence of any changes to the terms of this Agreement, shall not be deemed an amendment hereto.

Section 5.4 Entire Agreement. This Agreement contains the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes any prior or contemporaneous contracts, agreements, understandings or arrangements, whether written or oral, with respect thereto. Any oral or written statements, representations, promises, negotiations or agreements, whether prior hereto or concurrently herewith, are superseded by and merged into this Agreement.

Section 5.5 Severability. If any provision of this Agreement or any application thereof shall be determined to be invalid or unenforceable, the remainder of this Agreement and any other application thereof shall not be affected thereby.

Section 5.6 Assignment. Neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned, in whole or in part, by operation of law or otherwise by any of the parties hereto without the prior written consent of each of the other parties. Any attempted or purported assignment in violation of the preceding sentence shall be null and void and of no effect whatsoever. Subject to the preceding two sentences, this Agreement shall be binding upon, inure to the benefit of, and be enforceable by, the parties and their respective successors and assigns.

Section 5.7 Governing Law. This Agreement shall be construed and enforced under and in accordance with the laws of the State of Ohio, without regard to conflicts of laws principles.

Section 5.8 Captions, etc. The captions and headings used in this Agreement are for convenience of reference only and shall not affect the construction to be accorded any of the provisions hereof. As used in this Agreement, "hereof," "hereunder," "herein," "hereto," and words of like import refer to this Agreement as a whole and not to any particular section or other paragraph or subparagraph thereof.

Section 5.9 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed a duplicate original hereof, but all of which shall be deemed one and the same Agreement.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, each of the parties hereto has caused this Agreement to be executed on its behalf by an appropriate officer thereunto duly authorized.

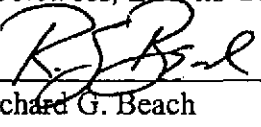
DUKE ENERGY OHIO, INC.

By: _____


Richard G. Beach
Assistant Secretary

NOTREES WINDPOWER, LP
(by TE Notrees, LLC its General Partner)

By: _____


Richard G. Beach
Assistant Secretary

OCOTILLO WINDPOWER, LP
(by TE Ocotillo, LLC its General Partner)

By: _____

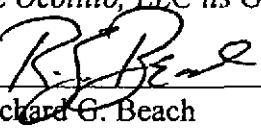

Richard G. Beach
Assistant Secretary

EXHIBIT A

Page 1 of 2

Service Request Form

Please use this form for all service requests. All data fields are required.

**Facilitator/Contact
Information:**

First Name:
Last Name:
Phone:
Email:

Service Provider:- Pull Down List to Select -

Or Other:

- Pull Down List to Select - **Service Provider
Contact Information:**

First
Name:
Last
Name:
Phone:

**email Address of
Service Provider
Approver:**

The approver should be appropriate
according to the Expenditures,
Divestitures & Terminations Category of
the Delegation of Authority (DOA) matrix.

**Description of
Proposed Service and
Please Provide Basis
for Estimated Costs:****Client Company:**- Pull Down List to Select -

Or Other:

- Pull Down List to Select - **Client Company
Contact Information:**

First
Name:
Last
Name:
Phone:

*(this e-mail address must be filled in properly for form to send
automatically to the Client Approver)*

**email Address of
Client Company**

The approver should be appropriate

EXHIBIT A**Page 2 of 2**

Approver: according to the Expenditures,
Divestitures & Terminations Category of
the Delegation of Authority (DOA) matrix.

Estimated Costs: \$
Format Numbers Only - do not include commas or periods

Scheduled Start Date:
MM/DD/YYYY

Scheduled
Completion Date:
MM/DD/YYYY

Legal Approval
Representative:

**Accounting codes (FMIS / BDMS) of Duke Energy
Company receiving the services:**

Process / Work Code(s):

n/h / Corp. Number:

RCTo / Line of Business:


RCFrom / Center:

Project:

Activity:


☐ © Duke Energy Corporation

DEGS BIOMASS, LLC

By: 
Richard G. Beach
Assistant Secretary


Date: 1-22-10

DEGS WIND I, LLC

By: 
Richard G. Beach
Assistant Secretary

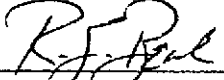
Date: 1-22-10

DEGS WIND SUPPLY II, LLC

By: 
Richard G. Beach
Assistant Secretary


Date: 1-22-10

DUKE ENERGY INDUSTRIAL SALES, LLC

By: 
Richard G. Beach
Assistant Secretary

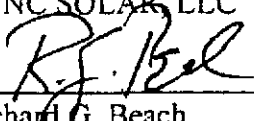
Date: 1-22-10

DUKE VENTURES REAL ESTATE, LLC

By: 
Richard G. Beach
Assistant Secretary


Date: 1-22-10

DEGS NC SOLAR, LLC

By: 
Richard G. Beach
Assistant Secretary


Date: 5-10-10

TX SOLAR I

By: 
Richard G. Beach
Assistant Secretary

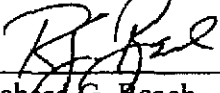
Date: 5-10-10

ADAGE GADSEN LLC

By: 
Richard G. Beach
Secretary

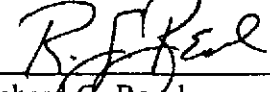
Date: 5-10-10

ADAGE JASPER LLC

By: 
Richard G. Beach
Secretary


Date: 5-10-10

ADAGE MASON LLC

By: 
Richard G. Beach
Secretary

Date: 5-10-10

DUKE ENERGY FAYETTE II, LLC

By: 
Richard G. Beach
Assistant Secretary


Date: 12-2-10

DUKE ENERGY HANGING ROCK II, LLC

By: 
Richard G. Beach
Assistant Secretary


Date: 12-2-10

DUKE ENERGY LEE II, LLC

By: 
Richard G. Beach
Assistant Secretary


Date: 12-2-10

DUKE ENERGY VERMILLION II, LLC

By: 
Richard G. Beach
Assistant Secretary

Date: 12-2-10

DUKE ENERGY WASHINGTON II, LLC

By: 
Richard G. Beach
Assistant Secretary

Date: 12-2-10