FORM 8-K

Duke Energy Ohio, Inc. - N/A

Filed: March 18, 2009 (period: March 18, 2009)

Report of unscheduled material events or corporate changes.

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): March 18, 2009

DUKE ENERGY OHIO, INC.
(Exact Name of Registrant as Specified in its Charter)

Delaware	**001-1232**	**31-0240030**
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

139 East Fourth Street, Cincinnati, Ohio 45202
(Address of Principal Executive Offices, including Zip code)

(704) 594-6200
(Registrant's telephone number, including area code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240. 13e-4(c))

Item 8.01. Other Events.

In connection with the offering of its First Mortgage Bonds due April 1, 2019 (the "New Bonds"), as further described in a preliminary prospectus supplement dated the date hereof to its prospectus dated October 3, 2007, Duke Energy Ohio, Inc. (the "Company") is filing herewith, as Exhibit 99.1, the form of a Fortieth Supplemental Indenture to its First Mortgage, dated as of August 1, 1936, between the Company and The Bank of New York Mellon Trust Company, N.A., as successor trustee, as supplemented and amended from time to time. As further described in the prospectus supplement, the Fortieth Supplemental Indenture will amend and restate the First Mortgage in its entirety. The Company plans to enter into the Fortieth Supplemental Indenture upon consummation of the offering and sale of the New Bonds.

Item 9.01. Financial Statements and Exhibits

(d) *Exhibits*.

99.1	Form of Fortieth Supplemental Indenture to the First Mortgage, dated as of August 1, 1936, between Duke Energy Ohio, Inc. and The Bank of New York Mellon Trust Company, N.A., as successor trustee, as supplemented and amended from time to time

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

DUKE ENERGY OHIO, INC.

Date: March 18, 2009

By: /s/ M. Allen Carrick
Name: M. Allen Carrick
Title: Assistant Treasurer

EXHIBIT INDEX

Exhibit	Description
99.1	Form of Fortieth Supplemental Indenture to the First Mortgage, dated as of August 1, 1936, between Duke Energy Ohio, Inc. and The Bank of New York Mellon Trust Company, N.A., as successor trustee, as supplemented and amended from time to time.

Exhibit 99.1

This instrument is the Fortieth Supplemental Indenture to, and an amendment and restatement in its entirety of, the First Mortgage, dated as of August 1, 1936, between The Cincinnati Gas & Electric Company (predecessor to Duke Energy Ohio, Inc.) and Irving Trust Company, as trustee (a predecessor to the trustee herein), as heretofore amended and supplemented.

DUKE ENERGY OHIO, INC.

(FORMERLY NAMED "THE CINCINNATI GAS & ELECTRIC COMPANY")

TO

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A.,
AS TRUSTEE

(SUCCESSOR TRUSTEE TO THE BANK OF NEW YORK MELLON
AND TO IRVING TRUST COMPANY)

FIRST MORTGAGE

DATED AS OF AUGUST 1, 1936

FORTIETH SUPPLEMENTAL INDENTURE

DATED AS OF MARCH , 2009

Constituting an Amendment and Restatement in its Entirety of the aforesaid First Mortgage, as heretofore amended

and

Creating First Mortgage Bonds, % Series, Due April 1, 2019

DUKE ENERGY OHIO, INC.
Reconciliation and tie between Trust Indenture Act of 1939 and Indenture, dated as of August 1, 1936, as amended and restated in its entirety on March , 2009

Trust Indenture Act Section		Indenture Section
310	(a)(1)	10.09
	(a)(2)	10.09
	(a)(3)	10.14
	(a)(4)	Not Applicable
	(b)	10.08, 10.10
311	(a)	10.13
	(b)	10.13
	(c)	Not Applicable
312	(a)	11.01
	(b)	11.01
	(c)	11.01
313	(a)	11.02
	(b)(1)	Not Applicable
	(b)(2)	11.02
	(c)	11.02
	(d)	11.02
314	(a)	11.02
	(a)(4)	7.05
	(b)	Not Applicable
	(c)(1)	1.04
	(c)(2)	1.04
	(c)(3)	Not Applicable
	(d)	Not Applicable
	(e)	1.04
315	(a)	10.01(a)
	(b)	10.02
	(c)	10.01(b)
	(d)	10.01(c)
	(d)(1)	10.01(a)(1), 10.01(c)(1)
	(d)(2)	10.01(c)(2)
	(d)(3)	10.01(c)(3)
	(e)	9.14
316	(a)	9.12, 9.13
	(a)(1)(A)	9.02, 9.12
	(a)(1)(B)	9.13
	(a)(2)	Not Applicable
	(b)	9.08
317	(a)(1)	9.03
	(a)(2)	9.04
	(b)	7.03
318	(a)	1.09

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FORTIETH SUPPLEMENTAL INDENTURE, dated as of March , 2009 (the "Execution Date"), between **DUKE ENERGY OHIO, INC.** (hereinafter sometimes referred to as the "Company"), a corporation organized and existing under the laws of the State of Ohio, formerly named The Cincinnati Gas & Electric Company, and **THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A.**, a national banking association, and the successor trustee to The Bank of New York Mellon and Irving Trust Company (hereinafter sometimes referred to as the "Trustee"), whose mailing address is 900 Ashwood Parkway, Suite 425, Atlanta, Georgia 30338, this Fortieth Supplemental Indenture being an amendment and restatement in its entirety of the Indenture, dated as of August 1, 1936 (the "Original Indenture"), between the Company and the Trustee, as heretofore from time to time amended.

RECITALS OF THE COMPANY

The Original Indenture was authorized, executed and delivered by the Company to provide for the issuance from time to time of its bonds (herein called the "Securities"), to be issued in one or more series as contemplated therein, and to provide security for the payment of the principal of and premium, if any, and interest, if any, on the Securities.

The Company has heretofore executed and delivered to the Trustee thirty-nine supplemental indentures for the purposes recited therein, including creating series of Securities and otherwise supplementing and amending the Original Indenture. There are no Securities now outstanding under the Original Indenture, as so amended and supplemented.

Effective upon the execution and delivery of this Fortieth Supplemental Indenture:

(a) The Bank of New York Mellon shall be deemed to have resigned as Trustee, Bond registrar and paying agent under the Indenture;

(b) the Company shall be deemed to have accepted such resignations and appointed The Bank of New York Mellon Trust Company, N.A. as successor Trustee, Security Registrar and Paying Agent (each as hereinafter defined) under the Indenture;

(c) The Bank of New York Mellon Trust Company, N.A. shall be deemed to have accepted such appointments and to be vested with all the estates, properties, rights, powers, trusts, duties and obligations of The Bank of New York Mellon, as Trustee, Security Registrar and Paying Agent under the Indenture;

(d) such resignations, appointments and acceptances thereof shall be deemed to be effective, notwithstanding anything to the contrary contained in Section 2 or 4 of Article Sixteen of the Original Indenture, as heretofore amended and supplemented, including any provision therein for notice of such resignations, appointments and acceptances; and

(e) the Company shall be deemed to have requested the release, and the Trustee shall be deemed to have released, from the Lien of the Original Indenture, as heretofore amended, any mortgaged property (as defined in the Original Indenture, as heretofore amended) not otherwise set forth in the granting clauses below, to the extent such mortgaged property has not been previously released, including, without limitation, the following:

(i)Electric Generating Plants. All electric generating plants and stations of the Company owned by it as of the Execution Date, including all buildings, structures and works, and the land on which the same are situated, and all other lands and easements, rights of way, permits, privileges, towers, poles, wires, machinery, equipment, appliances, appurtenances and supplies forming a part of such plants and stations;

(ii)Water Systems. All water systems of the Company owned by it as of the Execution Date, including pumping and purification equipment, wells, structures, rights of way, tanks, mains, fire hydrants, services and meters and all other property, real or personal, forming a part of or appertaining to, or used, occupied or enjoyed in connection with such water systems, together with permits, privileges, franchises and rights in or relating to the construction, maintenance or operation thereof, through, under or upon any private property or any public streets or highways within as well as without the corporate limits of any municipal corporation; and

(iii)Gas Transmission and Distribution Systems. All gas plants, compressor stations, gas measuring, regulating, and mixing stations, gas transmission lines and gas distribution systems, including, but not limited to, all water sets, benches and retorts, gas holders, boilers, purification apparatus, exhausters and pumps, meters and meter installations, gauges, regulators and regulator installations, governors, calorimetric devices, valves, fuel handling apparatus, safety tanks, valves, pipes and piping, couplings, gates, drips, lighting and heating apparatus, machinery, equipment, appliances, and all accessory equipment, appurtenances and supplies forming a part of such gas plants, stations, transmission lines and distribution systems.

The Company now desires to amend and restate the Indenture as now in effect (comprised of the Original Indenture as heretofore from time to time amended) and has requested the Trustee to join in the execution and delivery of this Fortieth Supplemental Indenture in order to effectuate such amendment and restatement; it being understood, acknowledged and agreed, however, that, anything herein or in the Original Indenture or any supplemental indenture to the contrary notwithstanding, (a) the execution and delivery of this Fortieth Supplemental Indenture and the amendment and restatement of the Original Indenture as heretofore amended, as aforesaid, shall not affect the Lien granted and/or created in the granting clauses of the Original Indenture with respect to the mortgaged property, and confirmed in the granting clauses of supplemental indentures heretofore executed and delivered, or the priority of such Lien and (b) such Lien shall continue in effect from the date of the original grant or creation thereof (except to the extent hereby or heretofore released).

The Company duly authorized the execution and delivery of the Original Indenture and of each supplemental indenture heretofore executed and delivered. The Company has further duly authorized the execution and delivery of this Fortieth Supplemental Indenture to amend and restate the Original Indenture as heretofore amended, as contemplated above; and all acts and things necessary to make each of this Fortieth Supplemental Indenture and the Indenture a valid agreement of the Company have been performed.

For all purposes of this Indenture, except as otherwise expressly provided or unless the context otherwise requires, capitalized terms used herein shall have the meanings assigned to them in Article One of this Indenture.

GRANTING CLAUSES

NOW, THEREFORE, THIS INDENTURE WITNESSETH, that, the Company has granted, bargained, sold, conveyed, assigned, transferred, mortgaged, pledged, set over and confirmed, and in consideration of the premises and of the purchase of the Securities by the Holders thereof, and in order to secure the payment of the principal of and premium, if any, and interest, if any, on all Securities from time to time Outstanding and the performance of the covenants therein and herein contained, and to declare the terms and conditions on which such Securities are secured, the Company hereby grants, bargains, sells, conveys, assigns, transfers, mortgages, pledges, sets over and confirms to the Trustee, in trust, and grants to the Trustee a security interest in and lien on, the following (subject, however, to the terms and conditions set forth in this Indenture):

FIRST GRANTING CLAUSE

All right, title and interest of the Company, as of the Execution Date, in and to all property, real, personal and mixed, wherever located (other than Excepted Property), in any case used or to be used in or in connection with the transmission and distribution of electric energy by the Company (whether or not such use is the sole use of such property), including without limitation, all right, title and interest of the Company in and to the following:

(a) all real property owned in fee, easements and other interests in real property which are specifically described or referred to in the Original Indenture and in supplemental indentures thereto, recording information with respect to which is set forth in Exhibit A hereto, and the real property acquired by the Company between December 1, 1985, the date of the Twenty-Fifth Supplemental Indenture, and the date of this Fortieth Supplemental Indenture, and owned by it at the latter date, which is described on Exhibit B hereto, except real property owned in fee, easements and other interests in real property which have been specifically released from such Lien from time to time (without limiting the generality of the foregoing, a listing of the Company's principal real estate holdings (by address and county) encumbered by the Original Indenture or supplements thereto, and intended to be encumbered by this Indenture is set forth on Exhibit C hereto);

(b) without limiting the generality of the foregoing, all recorded easements or rights of way on, upon, over, under and through real property located in the State of Ohio, used or useful in the Company's transmission or distribution of electric energy and acquired by the Company in the ordinary course of its business, whether acquired by deed, grant of easement, dedication by plat or otherwise, and whether acquired in the name of the Company or any of

its predecessor companies and including the Company's right to the joint use of any easement or right of way acquired by any other utility company;

(c) all facilities, machinery, equipment and fixtures for the transmission and distribution of electric energy including, but not limited to, all switchyards, towers, substations, transformers, poles, lines, cables, conduits, ducts, conductors, meters, regulators and all other property used or to be used for any or all of such purposes;

(d) all buildings, offices, warehouses, structures or improvements in addition to those referred to or otherwise included in clauses (a) and (c) above;

(e) all franchises, licenses, permits, grants, immunities, privileges and rights of the Company used or useful in the operation of its electric transmission and distribution businesses, including all franchises, licenses, permits, grants, immunities, privileges and rights of the Company granted by any municipalities or political subdivisions, and all right, title and interest therein owned by the Company on the Execution Date, and all renewals, extensions and modifications of said franchises, grants, privileges and rights, or any of them;

(f) all computers, data processing, data storage, data transmission and/or telecommunications facilities, equipment and apparatus necessary for the operation or maintenance of any facilities, machinery, equipment or fixtures described or referred to in clause (c) above; and

(g) all of the foregoing property in the process of construction;

SECOND GRANTING CLAUSE

Subject to the applicable exceptions permitted by Section 17.09(d), Section 12.03 and Section 12.05, all right, title and interest of the Company in all property, real, personal and mixed, wherever located (other than Excepted Property) which may be hereafter acquired by the Company, it being the intention of the Company that all such property acquired by the Company after the Execution Date shall be as fully embraced within and subjected to the Lien hereof as if such property were owned by the Company as of the Execution Date; and

THIRD GRANTING CLAUSE

Any Excepted Property, which may, from time to time after the Execution Date, by delivery or by an instrument supplemental hereto, be subjected to the Lien hereof by the Company, the Trustee being hereby authorized to receive the same at any time as additional security hereunder; it being understood that any such subjection to the Lien hereof of any Excepted Property as additional security may be made subject to such reservations, limitations or conditions respecting the use and disposition of such property or the proceeds thereof as shall be set forth in such instrument;

EXCEPTED PROPERTY

Expressly excepting and excluding, however, from the Lien of this Indenture all right, title and interest of the Company in and to the following property, whether now owned or hereafter acquired (herein sometimes called "Excepted Property"):

(a) all cash on hand or in banks or other financial institutions, deposit accounts, securities accounts, shares of stock, interests in business or statutory trusts, general or limited partnerships or limited liability companies, bonds, notes, other evidences of indebtedness and other securities, security entitlements, commodities accounts and other investment property and policies of insurance on lives of officers of the Company, of whatsoever kind and nature, not hereafter paid or delivered to, deposited with or held by the Trustee hereunder or required so to be;

(b) all contracts, leases, operating agreements and other agreements of whatsoever kind and nature and rights thereunder (other than the Company's franchises, permits and licenses that are used or useful in the operation of its electric transmission and distribution businesses); all bills, notes and other instruments and chattel paper (except to the extent that any of the same constitute securities, security entitlements or investment property, in which case they are separately excepted from the Lien of this Indenture under clause (a) above); all revenues, income and earnings, all accounts, accounts receivable, rights to payment, payment intangibles and unbilled revenues, rights or property consisting of rights granted by statute or governmental action to bill and collect revenues or other amounts from customers or others, including rate stabilization charges and other special charges, and all rents, tolls, issues, product and profits, dividends, income, claims, credits, demands and judgments; all governmental and other licenses, permits and franchises (other than the Company's franchises, permits and licenses that are used or useful in the operation of its electric transmission and distribution businesses); all unrecorded easements and rights of way; all consents and allowances, including emission allowances and regulatory assets; all documents, including warehouse receipts; all cooperative interests; and all patents, patent licenses and other patent rights, patent applications, trade names, trademarks, copyrights and other intellectual property; and all claims, credits, choses in action, commercial tort claims, tax credits and other intangible property and general intangibles including, but not limited to, computer software;

(c) all automobiles, buses, trucks, truck cranes, tractors, trailers and similar vehicles and movable equipment; all rolling stock, rail cars and other railroad equipment; all vessels, boats, barges, and other marine equipment; all airplanes, helicopters, aircraft engines and other flight equipment; all parts, accessories and supplies used in connection with any of the foregoing; and all personal property of such character that the perfection of a security interest therein or other Lien thereon is not governed by the Uniform Commercial Code as in effect in the jurisdiction in which such property is located;

(d) all goods, stock in trade, wares, merchandise and inventory held for the purpose of sale or lease in the ordinary course of business; all materials, supplies, inventory and other items of personal property which are consumable (otherwise than by ordinary wear and tear) in their use in the operation of the Mortgaged Property; all fuel, whether or not any such fuel is in a form consumable in the operation of the Mortgaged Property, including separate components of any fuel in the forms in which such components exist at any time before, during or after the period of the use thereof as fuel; all hand and other portable tools and equipment; all furniture and furnishings; and computers and data processing, data storage, data transmission, telecommunications and other facilities, equipment and apparatus, which, in any case, are used primarily for administrative or clerical purposes or are otherwise not necessary for the operation or maintenance of the facilities, machinery, equipment or fixtures described or referred to in clauses (c), (d), (f) or (g) of the First Granting Clause of this Indenture;

(e) all coal, lignite, ore, gas, oil and other minerals and all timber, and all rights and interests in any of the foregoing, whether or not such minerals or timber shall have been mined or extracted or otherwise separated from the land; and all electric energy and capacity, gas (natural or artificial), steam, water and other products generated, produced, manufactured, purchased or otherwise acquired by the Company;

(f) all property which is the subject of a lease agreement designating the Company as lessee and all right, title and interest of the Company in and to such property and in, to and under such lease agreement, whether or not such lease agreement is intended as security;

(g) all property, real, personal and mixed, which has been released from the Lien of this Indenture and any improvements, extensions and additions to such properties and renewals, replacements and substitutions of or for any parts thereof;

(h) all property located outside of the State of Ohio;

(i) any and all property, stations and plants used by the Company in the generation of electricity, including all buildings, structures and works, and the land on which the same are situated, and all other lands and easements, rights of way, permits, privileges, towers, poles, wires, machinery, equipment, appliances, appurtenances and supplies forming a part of such plants and stations;

(j) any and all water systems of the Company, including pumping and purification equipment, wells, structures, rights of way, tanks, mains, fire hydrants, services and meters and all other property, real or personal, forming a part of or appertaining to, or used, occupied or enjoyed in connection with such water systems, together with permits, privileges, franchises and rights in or relating to the construction, maintenance or operation thereof, through, under or

upon any private property or any public streets, or highways within as well as without the corporate limits of any municipal corporation;

(k) any and all gas plants, compressor stations, gas measuring, regulating, and mixing stations, gas transmission lines and gas distribution systems, including, but not limited to, all water sets, benches and retorts, gas holders, boilers, purification apparatus, exhausters and pumps, meters and meter installations, gauges, regulators and regulator installations, governors, calorimetric devices, valves, fuel handling apparatus, safety tanks, valves, pipes and piping, couplings, gates, drips, lighting and heating apparatus, machinery, equipment, appliances, and all accessory equipment, appurtenances and supplies forming a part of such gas plants, stations, transmission lines and distribution systems; and

(l) all property not acquired or constructed by the Company for use in its electric transmission and distribution businesses;

provided, however, that, subject to the provisions of Section 12.03, (x) if, at any time after the occurrence of an Event of Default, the Trustee, or any separate trustee or co-trustee appointed under Section 10.14 or any receiver appointed pursuant to Section 9.16 or otherwise, shall have entered into possession of all or substantially all the Mortgaged Property, to the extent permitted by law, all the Excepted Property described or referred to in the foregoing clauses (b), (c) and (d) then owned or held or thereafter acquired by the Company, to the extent that the same is used in connection with, or otherwise relates or is attributable to, the Mortgaged Property, shall immediately, and, in the case of any Excepted Property described or referred to in clause (f), to the extent that the same is used in connection with, or otherwise relates or is attributable to, the Mortgaged Property, upon demand of the Trustee or such other trustee or receiver, become subject to the Lien of this Indenture, junior and subordinate to any Liens at that time existing on such Excepted Property, and the Trustee or such other trustee or receiver may, to the extent permitted by law or by the terms of any such other Lien (and subject to the rights of the holders of all such other Liens), at the same time likewise take possession thereof, and (y) whenever all Events of Default shall have been cured and the possession of all or substantially all of the Mortgaged Property shall have been restored to the Company, such Excepted Property shall again be excepted and excluded from the Lien hereof to the extent set forth above; it being understood that the Company may, however, pursuant to the Third Granting Clause, subject any Excepted Property to the Lien of this Indenture whereupon the same shall cease to be Excepted Property;

TO HAVE AND TO HOLD all such property, real, personal and mixed, unto the Trustee, its successors in trust and their assigns forever;

SUBJECT, HOWEVER, to Permitted Liens;

IN TRUST, NEVERTHELESS, for the equal and ratable benefit and security of the Holders from time to time of all Outstanding Securities without any priority of any such Security over any other such Security;

PROVIDED, HOWEVER, that if the right, title and interest of the Trustee in and to the Mortgaged Property shall cease, terminate and become void in accordance with, and subject to the conditions set forth in, Article Eight hereof, and if the principal of and premium and interest, if any, on the Securities shall have been paid to the Holders thereof, or shall have been paid to the Company pursuant to Section 7.03 hereof or to the appropriate Governmental Authority pursuant to applicable law after the Maturity thereof, then and in that case this Indenture shall cease, terminate and become void in accordance with, and subject to the conditions set forth in, Article Eight hereof, and the Trustee shall execute and deliver to the Company such instruments as the Company shall require to evidence such termination; otherwise this Indenture, and the estate and rights hereby granted, shall be and remain in full force and effect; and

IT IS HEREBY COVENANTED AND AGREED by and between the Company and the Trustee that all the Securities are to be authenticated and delivered, and that the Mortgaged Property is to be held, subject to the further covenants, conditions and trusts hereinafter set forth, and the Company hereby covenants and agrees to and with the Trustee, for the equal and ratable benefit of all holders of the Securities, as follows:

[THE REMAINDER OF THIS PAGE HAS BEEN LEFT BLANK INTENTIONALLY.]

ARTICLE ONE.

DEFINITIONS AND OTHER PROVISIONS OF GENERAL APPLICATION

SECTION 1.01. DEFINITIONS.

For all purposes of this Indenture, except as otherwise expressly provided or unless the context otherwise requires:

(a) the terms defined in this Article have the meanings assigned to them in this Article and include the plural as well as the singular;

(b) all terms used herein without definition which are defined in the Trust Indenture Act as in effect on the Execution Date, either directly or by reference therein, have the meanings assigned to them therein;

(c) all terms used herein without definition which are defined in the Uniform Commercial Code of Ohio as in effect on the Execution Date shall have the meanings assigned to them therein;

(d) all accounting terms not otherwise defined herein have the meanings assigned to them in accordance with generally accepted accounting principles in the United States, and, except as otherwise herein expressly provided, the term "generally accepted accounting principles" with respect to any computation required or permitted hereunder shall mean such accounting principles as are generally accepted in the United States at the date of such computation or, at the election of the Company from time to time, at the Execution Date; provided, however, that in determining generally accepted accounting principles applicable to the Company, effect shall be given, to the extent required, to any order, rule or regulation of any administrative agency, regulatory authority or other governmental body having jurisdiction over the Company;

(e) any reference to an "Article" or a "Section" refers to an Article or a Section, as the case may be, of this Indenture; and

(f) the words "herein", "hereof" and "hereunder" and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or other subdivision.

"Accountant" means a person engaged in the accounting profession or otherwise qualified to pass on accounting matters (including, but not limited to, a Person certified or licensed as a public accountant, whether or not then engaged in the public accounting profession), which Person, unless required to be Independent, may be an employee or Affiliate of the Company.

"Act", when used with respect to any Holder of a Security, has the meaning specified in Section 1.06.

"Affiliate" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified

Person. For the purposes of this definition, **"Control"** when used with respect to any specified Person means the power to direct generally the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms **"Controlling"** and **"Controlled"** have meanings correlative to the foregoing.

"Authenticating Agent" means any Person or Persons (other than the Company or an Affiliate of the Company) authorized by the Trustee to act on behalf of the Trustee to authenticate the Securities of one or more series.

"Authorized Officer" means the Chairman of the Board, the Vice Chairman, the President, any Vice President, the Treasurer, any Assistant Treasurer, or any other officer, manager or agent of the Company duly authorized pursuant to a Board Resolution to act in respect of matters relating to this Indenture.

"Authorized Publication" means a newspaper or financial journal of general circulation, printed in the English language and customarily published on each Business Day, whether or not published on Saturdays, Sundays or holidays; or, in the alternative, shall mean such form of communication as may have come into general use for the dissemination of information of similar import. In the event that successive weekly publications in an Authorized Publication are required hereunder they may be made (unless otherwise expressly provided herein) on the same or different days of the week and in the same or in different Authorized Publications. In case, by reason of the suspension of publication of any Authorized Publication, or by reason of any other cause, it shall be impractical without extraordinary expense to make publication of any notice in an Authorized Publication as required by this Indenture, then such method of publication or notification as shall be made with the approval of the Trustee shall be deemed the equivalent of the required publication of such notice in an Authorized Publication.

"Authorized Purposes" means the authentication and delivery of Securities, the release of property and/or the withdrawal of cash under any of the provisions of this Indenture.

"Board of Directors" means either the board of directors, board of managers or similar governing body of the Company or any committee thereof duly authorized to act in respect of matters relating to this Indenture.

"Board Resolution" means a copy of a resolution certified by the Secretary, an Assistant Secretary or an Authorized Officer of the Company to have been duly adopted by the Board of Directors and to be in full force and effect on the date of such certification, and delivered to the Trustee.

"Bonds of Series Due 2019" has the meaning specified in Section 4.01.

"Business Day", when used with respect to a Place of Payment or any other particular location specified in the Securities or this Indenture, means any day, other than a Saturday or Sunday, which is not a day on which banking institutions or trust companies in such Place of Payment or other location are generally authorized or required by law, regulation or executive order to remain closed, except as may be otherwise specified as contemplated by Section 3.01.

"Commission" means the Securities and Exchange Commission, as from time to time constituted, created under the Exchange Act, or, if at any time after the Execution Date such Commission is not existing and performing the duties now assigned to it under the Trust Indenture Act, then the body, if any, performing such duties at such time.

"Company" means the Person named as the "Company" in the first paragraph of this instrument until a successor Person shall have become such pursuant to the applicable provisions of this Indenture, and thereafter "Company" shall mean such successor Person.

"Company Order" or **"Company Request"** mean, respectively, a written order or request, as the case may be, signed in the name of the Company by an Authorized Officer and delivered to the Trustee.

"Corporate Trust Office" means the designated office of the Trustee at which at any particular time its corporate trust business shall be administered, which office at the Execution Date is located at 900 Ashwood Parkway, Suite 425, Atlanta, Georgia 30338.

"corporation" means a corporation, association, company, limited liability company, partnership, limited partnership, joint stock company, or business or statutory trust, and references to "corporate" and other derivations of "corporation" herein shall be deemed to include appropriate derivations of such entities.

"Cost", with respect to Property Additions, has the meaning specified in Section 1.03.

"Defaulted Interest" has the meaning specified in Section 3.07.

"Discount Security" means any Security which provides for an amount less than the principal amount thereof to be due and payable upon a declaration of acceleration of the Maturity thereof pursuant to Section 9.02. "Interest" with respect to a Discount Security means interest, if any, borne by such Security at a Stated Interest Rate.

"Dollar" or **"$"** means a dollar or other equivalent unit in such coin or currency of the United States of America as at the time shall be legal tender for the payment of public and private debts.

"Eligible Obligations" means:

(a) with respect to Securities denominated in Dollars, Government Obligations or, if specified pursuant to Section 3.01 with respect to any Securities, other Investment Securities; or

(b) with respect to Securities denominated in a currency other than Dollars or in a composite currency, such other obligations or instruments as shall be specified with respect to such Securities, as contemplated by Section 3.01.

"Event of Default" has the meaning specified in Section 9.01.

"Excepted Property" has the meaning specified in the granting clauses of this instrument.

"Exchange Act" means, as of any time, the Securities Exchange Act of 1934, as amended, as in effect at such time.

"Execution Date" has the meaning specified in the first paragraph of this instrument.

"Expert" means a Person which is an engineer, appraiser or other expert and which, with respect to any certificate to be signed by such Person and delivered to the Trustee, is qualified to pass upon the matters set forth in such certificate. For purposes of this definition, (a) "engineer" means a Person engaged in the engineering profession or otherwise qualified to pass upon engineering matters (including, but not limited to, a Person licensed as a professional engineer, whether or not then engaged in the engineering profession) and (b) "appraiser" means a Person engaged in the business of appraising property or otherwise qualified to pass upon the Fair Value or fair market value of property.

"Expert's Certificate" means a certificate signed by an Authorized Officer and by an Expert (which Expert (a) shall be selected either by the Board of Directors or by an Authorized Officer, the execution of such certificate by such Authorized Officer to be conclusive evidence of such selection, and (b) except as otherwise required in Sections 12.06, 16.02 or 17.09, may be an employee or Affiliate of the Company) and delivered to the Trustee. The amount stated in any Expert's Certificate as to the Cost, Fair Value or fair market value of property shall be conclusive and binding upon the Company, the Trustee and the Holders of the Securities.

"Fair Value", with respect to property, means the fair value of such property as may be determined by reference to (a) the amount which would be likely to be obtained in an arm's-length transaction with respect to such property between an informed and willing buyer and an informed and willing seller, under no compulsion, respectively, to buy or sell, (b) the amount of investment with respect to such property which, together with a reasonable return thereon, would be likely to be recovered through ordinary business operations or otherwise, (c) the Cost, accumulated depreciation, and replacement cost with respect to such property and/or (d) any other relevant factors; provided, however, that (x) the Fair Value of property shall be determined without deduction for any Liens on such property prior to the Lien of this Indenture (except as otherwise provided in Section 17.03) and (y) the Fair Value to the Company of Property Additions may be of less value to a Person which is not the owner or operator of the Mortgaged Property or any portion thereof than to a Person which is such owner or operator. Fair Value may be determined, without physical inspection, by the use of accounting and engineering records and other data maintained by the Company or otherwise available to the Expert certifying the same.

"Funded Cash" has the meaning specified in Section 1.02.

"Funded Property" has the meaning specified in Section 1.02.

"Governmental Authority" means the government of the United States or of any State or Territory thereof or of the District of Columbia or of any county, municipality or other

political subdivision of any thereof, or any department, agency, authority or other instrumentality of any of the foregoing.

"Government Obligations" means securities which are (a) (i) direct obligations of the United States where the payment or payments thereunder are supported by the full faith and credit of the United States or (ii) obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the United States where the timely payment or payments thereunder are unconditionally guaranteed as a full faith and credit obligation by the United States or (b) depository receipts issued by a bank (as defined in Section 3(a)(2) of the Securities Act, which may include the Trustee or any Paying Agent) as custodian with respect to any such Government Obligation or a specific payment of interest on or principal of or other amount with respect to any such Government Obligation held by such custodian for the account of the holder of a depository receipt, provided that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depository receipt from any amount received by the custodian in respect of the Government Obligation or the specific payment of interest on or principal of or other amount with respect to the Government Obligation evidenced by such depository receipt.

"Holder" means a Person in whose name a Security is registered in the Security Register.

"Indenture" means this instrument as originally executed and as it may from time to time be supplemented or amended by one or more indentures supplemental hereto entered into pursuant to the applicable provisions hereof, including, for all purposes of this instrument and any such supplemental indenture, the provisions of the Trust Indenture Act that are deemed to be a part of and govern this Indenture and any such supplemental indenture, respectively. The term "Indenture" shall also include the provisions or terms of particular series of Securities established in any Officer's Certificate, Board Resolution or Company Order delivered pursuant to Sections 2.01, 3.01, 3.03 and 13.07.

"Independent", when applied to any Accountant or Expert, means such a Person who (a) is in fact independent, (b) does not have any direct material financial interest in the Company or in any other obligor upon the Securities or in any Affiliate of the Company or of such other obligor, and (c) is not connected with the Company or such other obligor as an officer, employee, promoter, underwriter, trustee, partner, director or any person performing similar functions.

"Independent Expert's Certificate" means a certificate signed by an Expert who is Independent and delivered to the Trustee.

"interest" with respect to a Discount Security means interest, if any, borne by such Security at a Stated Interest Rate rather than interest calculated at any imputed rate.

"Interest Payment Date", when used with respect to any Security, means the Stated Maturity of an installment of interest on such Security.

"Investment Securities" means any of the following obligations or securities on which neither the Company, any other obligor on the Securities nor any Affiliate of either is the

obligor: (a) Government Obligations; (b) interest bearing deposit accounts (which may be represented by certificates of deposit) in any national or state bank (which may include the Trustee or any Paying Agent) or savings and loan association which has outstanding securities rated by a nationally recognized rating organization in either of the two (2) highest rating categories (without regard to modifiers) for short term securities or in any of the three (3) highest rating categories (without regard to modifiers) for long term securities; (c) bankers' acceptances drawn on and accepted by any commercial bank (which may include the Trustee or any Paying Agent) which has outstanding securities rated by a nationally recognized rating organization in either of the two (2) highest rating categories (without regard to modifiers) for short term securities or in any of the three (3) highest rating categories (without regard to modifiers) for long term securities; (d) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, any State or Territory of the United States or the District of Columbia, or any political subdivision of any of the foregoing, which are rated by a nationally recognized rating organization in either of the two (2) highest rating categories (without regard to modifiers) for short term securities or in any of the three (3) highest rating categories (without regard to modifiers) for long term securities; (e) bonds or other obligations of any agency or instrumentality of the United States; (f) corporate debt securities which are rated by a nationally recognized rating organization in either of the two (2) highest rating categories (without regard to modifiers) for short term securities or in any of the three (3) highest rating categories (without regard to modifiers) for long term securities; (g) repurchase agreements with respect to any of the foregoing obligations or securities with any banking or financial institution (which may include the Trustee or any Paying Agent) which has outstanding securities rated by a nationally recognized rating organization in either of the two (2) highest rating categories (without regard to modifiers) for short term securities or in any of the three (3) highest rating categories (without regard to modifiers) for long term securities; (h) securities issued by any regulated investment company (including any investment company for which the Trustee or any Paying Agent is the advisor), as defined in Section 851 of the Internal Revenue Code of 1986, as amended, or any successor section of such Code or successor federal statute, provided that the portfolio of such investment company is limited to obligations or securities of the character and investment quality contemplated in clauses (a) through (f) above and repurchase agreements which are fully collateralized by any of such obligations or securities; and (i) any other obligations or securities which may lawfully be purchased by the Trustee in its capacity as such.

"Lien" means any mortgage, deed of trust, pledge, security interest, encumbrance, easement, lease, reservation, restriction, servitude, charge or similar right and any other lien of any kind, including, without limitation, any conditional sale or other title retention agreement, any lease in the nature thereof, and any defect, irregularity, exception or limitation in record title.

"Maturity", when used with respect to any Security, means the date on which the principal of such Security or an installment of principal becomes due and payable as provided in such Security or in this Indenture, whether at the Stated Maturity, by declaration of acceleration, upon call for redemption or otherwise.

"Mortgaged Property" means, as of any particular time, all property which at such time is subject to the Lien of this Indenture (which, for the avoidance of doubt, includes, without limitation, Funded Cash, Investment Securities and obligations secured by Purchase Money Liens to the extent held by the Trustee as part of the Mortgaged Property as set forth herein).

"Notice of Default" means a written notice of the kind specified in Section 9.01(c).

"Officer's Certificate" means a certificate signed by an Authorized Officer of the Company and delivered to the Trustee.

"Opinion of Counsel" means a written opinion of counsel, who may be counsel for the Company, or an individual who is an employee of the Company or an Affiliate of the Company, and who shall be acceptable to the Trustee.

"Original Indenture" has the meaning specified in the first paragraph of this instrument.

"Outstanding", when used with respect to Securities, means, as of the date of determination, all Securities theretofore authenticated and delivered under this Indenture, except:

(a) Securities theretofore canceled or delivered to the Security Registrar for cancellation;

(b) Securities deemed to have been paid for all purposes of this Indenture in accordance with Section 8.01 (whether or not the Company's indebtedness in respect thereof shall be satisfied and discharged for any other purpose), or deemed to have been paid in accordance with the terms of the Securities; and

(c) Securities, the principal, premium, if any, and interest, if any, which have been fully paid pursuant to the third paragraph of Section 3.06 or in exchange for or in lieu of which other Securities have been authenticated and delivered pursuant to this Indenture, other than any such Securities in respect of which there shall have been presented to the Trustee proof satisfactory to it and the Company that such Securities are held by a bona fide purchaser or purchasers in whose hands such Securities are valid obligations of the Company;

provided, however, that in determining whether or not the Holders of the requisite principal amount of the Securities Outstanding under this Indenture, or the Outstanding Securities of any series or Tranche, have given any request, demand, authorization, direction, notice, consent or waiver hereunder or whether or not a quorum is present at a meeting of Holders of Securities,

(x) Securities owned by the Company or any other obligor upon the Securities or any Affiliate of the Company or of such other obligor (unless the Company, such Affiliate or such obligor owns all Securities Outstanding under this Indenture, or (except for the purposes of actions to be taken by Holders of more than one series or more than one Tranche, as the case may be, voting as a class under Section 13.02) all Outstanding Securities of each such series and each such Tranche, as the case may be, determined without regard to this clause (x)) shall be disregarded and deemed not to be Outstanding, except that, in determining whether the Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver or upon any such determination as to the presence of a quorum, only Securities which a Responsible Officer of the Trustee actually knows to be so owned shall be so disregarded; provided, however, that Securities so owned which have been pledged in good faith may be regarded as Outstanding if it is established to the

reasonable satisfaction of the Trustee that the pledgee, and not the Company, or any such other obligor or Affiliate of either thereof, has the right so to act with respect to such Securities and that the pledgee is not the Company or any other obligor upon the Securities or any Affiliate of the Company or of such other obligor; and provided, further, that in no event shall any Security which shall have been delivered to evidence or secure, in whole or in part, the Company's obligations in respect of other indebtedness be deemed to be owned by the Company if the principal of such Security is payable, whether at Stated Maturity or upon mandatory redemption or acceleration, at the same time as the principal of such other indebtedness is payable, whether at Stated Maturity or upon mandatory redemption or acceleration, but only to the extent of such portion of the principal amount of such Security as does not exceed the principal amount of such other indebtedness, and

(y) the principal amount of a Discount Security that shall be deemed to be Outstanding for such purposes shall be the amount of the principal thereof that would be due and payable as of the date of such determination upon a declaration of acceleration of the Maturity thereof pursuant to Section 902; and

(z) the principal amount of any Security which is denominated in a currency other than Dollars or in a composite currency that shall be deemed to be Outstanding for such purposes shall be the amount of Dollars which could have been purchased by the principal amount (or, in the case of a Discount Security, the Dollar equivalent on the date determined as set forth below of the amount determined as provided in (y) above) of such currency or composite currency evidenced by such Security, in each such case certified to the Trustee in an Officer's Certificate, based (i) on the average of the mean of the buying and selling spot rates quoted by three banks which are members of the New York Clearing House Association selected by the Company in effect at 11:00 A.M. (New York time) in The City of New York on the fifth Business Day preceding any such determination or (ii) if on such fifth Business Day it shall not be possible or practicable to obtain such quotations from such three banks, on such other quotations or alternative methods of determination which shall be as consistent as practicable with the method set forth in (i) above;

provided, further, that in the case of any Security the principal of which is payable from time to time without presentment or surrender, the principal amount of such Security that shall be deemed to be Outstanding at any time for all purposes of this Indenture shall be the original principal amount thereof less the aggregate amount of principal thereof theretofore paid.

"Paying Agent" means any Person, including the Company, authorized by the Company to pay the principal of, and premium, if any, or interest, if any, on any Securities on behalf of the Company; provided, however, that unless otherwise provided as contemplated by Section 3.01, the Trustee shall be the Paying Agent for all series of Securities.

"Periodic Offering" means an offering of Securities of a series from time to time any or all of the specific terms of which Securities, including without limitation the rate or rates of

interest, if any, thereon, the Stated Maturity or Maturities thereof and the redemption provisions, if any, with respect thereto, are to be determined by the Company or its agents from time to time subsequent to the initial request for the authentication and delivery of such Securities by the Trustee, as contemplated in Section 3.01 and clause (b) of Section 3.03.

"Permitted Liens" means, as of any particular time, any of the following:

(a) Liens existing at the date of execution and delivery of the Original Indenture;

(b) as to property acquired by the Company after the date of execution and delivery of the Original Indenture, Liens existing or placed thereon at the time of the acquisition thereof and any Purchase Money Liens;

(c) Liens for taxes, assessments and other governmental charges or requirements which are not delinquent or which are being contested in good faith by appropriate proceedings or of which at least ten (10) Business Days notice has not been given to the general counsel of the Company or to such other Person designated by the Company to receive such notices;

(d) Mechanics', workmen's, repairmen's, materialmen's, warehousemen's, and carriers' Liens, other Liens incident to construction, Liens or privileges of any employees of the Company for salary or wages earned, but not yet payable, and other Liens, including without limitation Liens for worker's compensation awards, arising in the ordinary course of business for charges or requirements which are not delinquent or which are being contested in good faith and by appropriate proceedings or of which at least ten (10) Business Days notice has not been given to the general counsel of the Company or to such other Person designated by the Company to receive such notices;

(e) Liens in respect of attachments, judgments or awards arising out of judicial or administrative proceedings (i) in an amount not exceeding the greater of (A) Fifty Million Dollars ($50,000,000) and (B) three percent (3%) of the principal amount of the Securities then Outstanding or (ii) with respect to which the Company shall (X) in good faith be prosecuting an appeal or other proceeding for review and with respect to which the Company shall have secured a stay of execution pending such appeal or other proceeding or (Y) have the right to prosecute an appeal or other proceeding for review or (Z) have not received at least ten (10) Business Days notice given to the general counsel of the Company or to such other Person designated by the Company to receive such notices;

(f) easements, leases, reservations or other rights of others in, on, over and/or across, and laws, regulations and restrictions affecting, and defects, irregularities, exceptions and limitations in title to, the Mortgaged Property or any part thereof; provided, however, that such easements, leases, reservations, rights, laws, regulations, restrictions, defects, irregularities, exceptions and limitations do not in the aggregate materially impair the use by the Company of the Mortgaged Property considered as a whole for the purposes for which it is held by the Company;

(g) Liens, defects, irregularities, exceptions and limitations in (i) title to real property subject to rights-of-way in favor of the Company or otherwise or used or to be used by the Company primarily for right-of-way purposes; (ii) real property held under lease, easement,

license or similar right; or (iii) the rights-of-way, leases, easements, licenses or similar rights in favor of the Company; provided, however, that (A) the Company shall have obtained from the apparent owner or owners of such real property a sufficient right, by the terms of the instrument granting such right-of-way, lease, easement, license or similar right, to the use thereof for the purposes for which the Company acquired the same; (B) the Company has power under eminent domain or similar statutes to remove or subordinate such Liens, defects, irregularities, exceptions or limitations or (C) such defects, irregularities, exceptions and limitations may be otherwise remedied without undue effort or expense; and defects, irregularities, exceptions and limitations in title to flood lands, flooding rights and/or water rights;

(h) Liens securing indebtedness or other obligations neither created, assumed nor guaranteed by the Company nor on account of which it customarily pays interest upon real property or rights in or relating to real property acquired by the Company for the purpose of the transmission or distribution of electric energy, gas or water, for the purpose of telephonic, telegraphic, radio, wireless or other electronic communication or otherwise for the purpose of obtaining rights-of-way;

(i) leases existing at the date of execution and delivery of the Original Indenture affecting properties owned by the Company at said date and renewals and extensions thereof; and leases affecting such properties entered into after such date or affecting properties acquired by the Company after such date which, in either case, (i) have respective terms of not more than ten (10) years (including extensions or renewals at the option of the tenant) or (ii) do not materially impair the use by the Company of such properties for the respective purposes for which they are held by the Company;

(j) Liens vested in lessors, licensors, franchisors or permitters for rent or other amounts to become due or for other obligations or acts to be performed, the payment of which rent or the performance of which other obligations or acts is required under leases, subleases, licenses, franchises or permits, so long as the payment of such rent or other amounts or the performance of such other obligations or acts is not delinquent or is being contested in good faith and by appropriate proceedings;

(k) controls, restrictions, obligations, duties and/or other burdens imposed by federal, state, municipal or other law, or by rules, regulations or orders of Governmental Authorities, upon the Mortgaged Property or any part thereof or the operation or use thereof or upon the Company with respect to the Mortgaged Property or any part thereof or the operation or use thereof or with respect to any franchise, grant, license, permit or public purpose requirement, or any rights reserved to or otherwise vested in Governmental Authorities to impose any such controls, restrictions, obligations, duties and/or other burdens;

(l) rights which Governmental Authorities may have by virtue of franchises, grants, licenses, permits or contracts, or by virtue of law, to purchase, recapture or designate a purchaser of or order the sale of the Mortgaged Property or any part thereof, to terminate franchises, grants, licenses, permits, contracts or other rights or to regulate the property and business of the Company; and any and all obligations of the Company correlative to any such rights;

(m) Liens required by law or governmental regulations (i) as a condition to the transaction of any business or the exercise of any privilege or license, (ii) to enable the Company to maintain self-insurance or to participate in any funds established to cover any insurance risks, (iii) in connection with workmen's compensation, unemployment insurance, social security, any pension or welfare benefit plan or (iv) to share in the privileges or benefits required for companies participating in one or more of the arrangements described in clauses (ii) and (iii) above;

(n) Liens on the Mortgaged Property or any part thereof which are granted by the Company to secure duties or public or statutory obligations or to secure, or serve in lieu of, surety, stay or appeal bonds;

(o) rights reserved to or vested in others to take or receive any part of any coal, ore, gas, oil and other minerals, any timber and/or any electric capacity or energy, gas, water, steam and any other products, developed, produced, manufactured, generated, purchased or otherwise acquired by the Company or by others on property of the Company;

(p) (i) rights and interests of Persons other than the Company arising out of contracts, agreements and other instruments to which the Company is a party and which relate to the common ownership or joint use of property; and (ii) all Liens on the interests of Persons other than the Company in property owned in common by such Persons and the Company if and to the extent that the enforcement of such Liens would not adversely affect the interests of the Company in such property in any material respect;

(q) any restrictions on assignment and/or requirements of any assignee to qualify as a permitted assignee and/or public utility or public service corporation;

(r) any Liens which have been bonded for the full amount in dispute or for the payment of which other adequate security arrangements have been made;

(s) rights and interests granted pursuant to Section 17.02(c);

(t) Prepaid Liens and Purchase Money Liens; and

(u) any Lien of the Trustee granted pursuant to Section 10.07.

"Person" means any individual, corporation, joint venture, trust or unincorporated organization or any Governmental Authority.

"Place of Payment", when used with respect to the Securities of any series, or Tranche thereof, means the place or places, specified as contemplated by Section 3.01 or specified in Section 4.06 with respect to the Bonds of Series Due 2019, at which, subject to Section 7.02, principal of and premium, if any, and interest, if any, on the Securities of such series or Tranche are payable.

"Predecessor Security" of any particular Security means every previous Security evidencing all or a portion of the same debt as that evidenced by such particular Security; and, for the purposes of this definition, any Security authenticated and delivered under Section 3.06 in

exchange for or in lieu of a mutilated, destroyed, lost or stolen Security shall be deemed to evidence the same debt as the mutilated, destroyed, lost or stolen Security.

"Prepaid Lien" means any Lien securing indebtedness for the payment of which money in the necessary amount shall have been irrevocably deposited in trust with the trustee or other holder of such Lien; provided, however, that if such indebtedness is to be redeemed or otherwise prepaid prior to the Stated Maturity thereof, any notice requisite to such redemption or prepayment shall have been given in accordance with the mortgage or other instrument creating such Lien or irrevocable instructions to give such notice shall have been given to such trustee or other holder.

"Property Additions" has the meaning specified in Section 1.03.

"Purchase Money Lien" means, with respect to any property being acquired or disposed of by the Company or being released from the Lien of this Indenture, a Lien on such property which

(a) is taken or retained by the transferor of such property to secure all or part of the purchase price thereof;

(b) is granted to one or more Persons other than the transferor which, by making advances or incurring an obligation, give value to enable the grantor of such Lien to acquire rights in or the use of such property;

(c) is granted to any other Person in connection with the release of such property from the Lien of this Indenture on the basis of the deposit with the Trustee or the trustee or other holder of a Lien prior to the Lien of this Indenture of obligations secured by such Lien on such property (as well as any other property subject thereto);

(d) is held by a trustee or agent for the benefit of one or more Persons described in clause (a), (b) and/or (c) above, provided that such Lien may be held, in addition, for the benefit of one or more other Persons which shall have theretofore given, or may thereafter give, value to or for the benefit or account of the grantor of such Lien for one or more other purposes; or

(e) otherwise constitutes a purchase money mortgage or a purchase money security interest under applicable law;

and, without limiting the generality of the foregoing, for purposes of this Indenture, the term Purchase Money Lien shall be deemed to include any Lien described above whether or not such Lien (x) shall permit the issuance or other incurrence of additional indebtedness secured by such Lien on such property, (y) shall permit the subjection to such Lien of additional property and the issuance or other incurrence of additional indebtedness on the basis thereof and/or (z) shall have been granted prior to the acquisition, disposition or release of such property, shall attach to or otherwise cover property other than the property being acquired, disposed of or released and/or shall secure obligations issued prior and/or subsequent to the issuance of the obligations delivered in connection with such acquisition, disposition or release.

"Redemption Date", when used with respect to any Security to be redeemed, means the date fixed for such redemption by or pursuant to this Indenture.

"Redemption Price", when used with respect to any Security to be redeemed, means the price at which it is to be redeemed pursuant to this Indenture, exclusive of accrued and unpaid interest.

"Regular Record Date" for the interest payable on any Interest Payment Date on the Securities of any series means the date specified for that purpose as contemplated by Section 3.01 or specified for that purpose in Section 4.10 with respect to the Bonds of Series Due 2019.

"Required Currency" has the meaning specified in Section 3.11.

"Responsible Officer", when used with respect to the Trustee, means any Vice President, Assistant Vice President, Trust Officer or other officer of the Trustee who, in the case of each of the foregoing, is assigned by the Trustee to its corporate trust department responsible for the administration of this Indenture that is located in the Corporate Trust Office.

"Retired Securities" means any Securities authenticated and delivered under this Indenture on or after the Execution Date, which (a) no longer remain Outstanding by reason of the applicability of clause (a) or (b) in the definition of "Outstanding" (other than any Predecessor Security of any Security), (b) have not been made the basis under any of the provisions of this Indenture of one or more Authorized Purposes or (c) have not been paid, redeemed, purchased or otherwise retired by the application thereto of Funded Cash.

"Securities" has the meaning stated in the first recital of this Indenture and more particularly means any securities authenticated and delivered under this Indenture.

"Securities Act" means, as of any time, the Securities Act of 1933, as amended, as in effect at such time.

"Security Register" and **"Security Registrar"** have the respective meanings specified in Section 3.05.

"Special Record Date" for the payment of any Defaulted Interest on the Securities of any series means a date fixed by the Trustee pursuant to Section 3.07.

"Stated Interest Rate" means a rate (whether fixed or variable) at which an obligation by its terms is stated to bear simple interest. Any calculation or other determination to be made under this Indenture by reference to the Stated Interest Rate on a Security shall be made without regard to the effective interest cost to the Company of such Security and without regard to the Stated Interest Rate on, or the effective cost to the Company of, any other indebtedness the Company's obligations in respect of which are evidenced or secured in whole or in part by such Security.

"Stated Maturity", when used with respect to any Security or any obligation or any installment of principal thereof or interest thereon, means the date on which the principal of such

obligation or such installment of principal or interest is stated to be due and payable (without regard to any provisions for redemption, prepayment, acceleration, purchase or extension).

"Successor Company" has the meaning set forth in Section 12.01.

"supplemental indenture" or **"indenture supplemental hereto"** means an instrument supplementing or amending this Indenture executed and delivered pursuant to Article Thirteen.

"Tranche" means a group of Securities which (a) are of the same series and (b) have identical terms except as to principal amount and/or date of issuance.

"Trustee" means the Person named as the "Trustee" in the first paragraph of this instrument until a successor Trustee shall have been appointed by the Company pursuant to Section 10.10 or otherwise have become such with respect to one or more series of Securities pursuant to the applicable provisions of this Indenture, and thereafter "Trustee" shall mean or include each Person who is then a Trustee hereunder, and if at any time there is more than one such Person, "Trustee" as used with respect to the Securities of any series shall mean the Trustee with respect to Securities of that series.

"Trust Indenture Act" means, as of any time, the Trust Indenture Act of 1939, as amended, as in effect at such time.

"United States" means the United States of America, its territories, its possessions and other areas subject to its jurisdiction.

SECTION 1.02. FUNDED PROPERTY; FUNDED CASH.

"Funded Property" means:

(a) all Property Additions to the extent that the same shall have been made the basis of the authentication and delivery of Securities under this Indenture pursuant to Section 16.02;

(b) all Property Additions to the extent that the same shall have been made the basis of the release of Funded Property from the Lien of this Indenture pursuant to Section 17.03;

(c) all Property Additions to the extent that the same shall have been substituted for Funded Property retired pursuant to Section 1.03;

(d) all Property Additions to the extent that the same shall have been made the basis of the withdrawal of cash held by the Trustee pursuant to Section 16.04 or 17.06; and

(e) all Property Additions to the extent that the same shall have been used as the basis of a credit against, or otherwise in satisfaction of, the requirements of any sinking, improvement, maintenance, replacement or similar fund or analogous provision established with respect to the Securities of any series, or any Tranche thereof, as contemplated by Section 3.01; provided, however, that any such Property Additions shall cease to be Funded Property when all of the Securities of such series or Tranche shall cease to be Outstanding.

In the event that in any certificate filed with the Trustee in connection with any of the Property Additions referred to in clauses (a), (b), (d) and (e) of this Section, only a part of the Cost or Fair Value of the Property Additions described in such certificate shall be required for the purposes of such certificate, then such Property Additions shall be deemed to be Funded Property only to the extent so required for the purpose of such certificate.

All Funded Property that shall be abandoned, destroyed, released or otherwise disposed of shall for the purpose of Section 1.03 hereof be deemed Funded Property retired and for other purposes of this Indenture shall thereupon cease to be Funded Property but as in this Indenture provided may at any time thereafter again become Funded Property. Neither any reduction in the Cost or book value of property recorded in the plant account of the Company, nor the transfer of any amount appearing in such account to intangible and/or adjustment accounts, otherwise than in connection with actual retirements of physical property abandoned, destroyed, released or disposed of, and otherwise than in connection with the removal of such property in its entirety from plant account, shall be deemed to constitute a retirement of Funded Property.

The Company may make allocations, on a pro-rata or other reasonable basis (including, but not limited to, the designation of specific properties or the designation of all or a specified portion of the properties reflected in one or more generic accounts or subaccounts in the Company's books of account), for the purpose of determining the extent to which fungible properties, or other properties not otherwise identified, reflected in the same generic account or subaccount in the Company's books of account constitute Funded Property or Funded Property retired.

"Funded Cash" means:

(a) cash, held by the Trustee hereunder, to the extent that it represents the proceeds of insurance on Funded Property (except as otherwise provided in Section 17.13), or cash deposited in connection with the release of Funded Property pursuant to Article Seventeen, or the payment of the principal of, or the proceeds of the release of, obligations secured by Purchase Money Lien and delivered to the Trustee pursuant to Article Seventeen, all subject, however, to the provisions of Section 17.13 and Section 17.06; and

(b) any cash deposited with the Trustee under Section 16.04.

SECTION 1.03. PROPERTY ADDITIONS; COST.

(a) **"Property Additions"** means, as of any particular time, any item, unit or element of property which at such time is owned by the Company and is Mortgaged Property.

(b) When any Property Additions are certified to the Trustee as the basis of any Authorized Purpose (except as otherwise provided in Section 17.03 and Section 17.06),

(i) there shall be deducted from the Cost or Fair Value to the Company thereof, as the case may be (as of the date so certified), an amount equal to the Cost (or as to Property Additions of which the Fair Value to the Company at the time the same became Funded Property was certified to be an amount less than the Cost as determined pursuant to this Section, then such Fair Value, as so certified, in lieu of Cost) of all

Funded Property of the Company retired to the date of such certification (other than the Funded Property, if any, in connection with the application for the release of which such certificate is filed) and not theretofore deducted from the Cost or Fair Value to the Company of Property Additions theretofore certified to the Trustee, and

(ii) there may, at the option of the Company, be added to such Cost or Fair Value, as the case may be, the sum of

(1) the principal amount of any obligations secured by Purchase Money Lien, not theretofore so added and which the Company then elects so to add, which shall theretofore have been delivered to the Trustee or the trustee or other holder of a Lien prior to the Lien of this Indenture as the basis of the release of Funded Property retired from the Lien of this Indenture or such prior Lien, as the case may be;

(2) the amount of any cash, not theretofore so added and which the Company then elects so to add, which shall theretofore have been delivered to the Trustee or the trustee or other holder of a Lien prior to the Lien of this Indenture as the proceeds of insurance on Funded Property retired (to the extent of the portion thereof deemed to be Funded Cash) or as the basis of the release of Funded Property retired from the Lien of this Indenture or from such prior Lien, as the case may be;

(3) the principal amount of any Security or Securities, or portion of such principal amount, not theretofore so added and which the Company then elects so to add, (I) which shall theretofore have been delivered to the Trustee as the basis of the release of Funded Property retired or (II) the right to the authentication and delivery of which under the provisions of Section 16.03 shall at any time theretofore have been waived under Section 17.03(d)(iii) as the basis of the release of Funded Property retired;

(4) the Cost or Fair Value to the Company (whichever shall be less) of any Property Additions, not theretofore so added and which the Company then elects so to add, which shall theretofore have been made the basis of the release of Funded Property retired (such Fair Value to be the amount shown in the Expert's Certificate delivered to the Trustee in connection with such release); and

(5) the Cost to the Company of any Property Additions not theretofore so added and which the Company then elects so to add, to the extent that the same shall have been substituted for Funded Property retired;

provided, however, that the aggregate of the amounts added under clause (ii) above shall in no event exceed the amounts deducted under clause (i) above.

(c) Except as otherwise provided in Section 17.03, the term **"Cost"** with respect to Property Additions shall mean the sum of (i) any cash delivered in payment therefor or for the acquisition thereof, (ii) an amount equivalent to the fair market value in cash (as of the date of delivery) of any securities or other property delivered in payment therefor or for the acquisition

thereof, (iii) the principal amount of any obligations secured by prior Lien upon such Property Additions outstanding at the time of the acquisition thereof, (iv) the principal amount of any other obligations incurred or assumed in connection with the payment for such Property Additions or for the acquisition thereof and (v) any other amounts which, in accordance with generally accepted accounting principles, are properly charged or chargeable to the plant or other property accounts of the Company with respect to such Property Additions as part of the cost of construction or acquisition thereof, including, but not limited to, any allowance for funds used during construction or any similar or analogous amount; provided, however, that, notwithstanding any other provision of this Indenture,

(i) with respect to Property Additions owned by a successor corporation immediately prior to the time it shall have become such by consolidation or merger or acquired by a successor corporation in or as a result of a consolidation or merger (excluding, in any case, Property Additions owned by the Company immediately prior to such time), Cost shall mean the amount or amounts at which such Property Additions are recorded in the plant or other property accounts of such successor corporation, or the predecessor corporation from which such Property Additions are acquired, as the case may be, immediately prior to such consolidation or merger;

(ii) with respect to Property Additions which shall have been acquired (otherwise than by construction) by the Company without any consideration consisting of cash, securities or other property or the incurring or assumption of indebtedness, no determination of Cost shall be required, and, wherever in this Indenture provision is made for Cost or Fair Value, Cost with respect to such Property Additions shall mean an amount equal to the Fair Value to the Company thereof or, if greater, the aggregate amount reflected in the Company's books of account with respect thereto upon the acquisition thereof; and

(iii) in no event shall the Cost of Property Additions be required to reflect any depreciation or amortization in respect of such Property Additions, or any adjustment to the amount or amounts at which such Property Additions are recorded in plant or other property accounts due to the non-recoverability of investment or otherwise. If any Property Additions are shown by the Expert's Certificate provided for in Section 16.02(b)(ii) to include property which has been used or operated by others than the Company in a business similar to that in which it has been or is to be used or operated by the Company, the Cost thereof need not be reduced by any amount in respect of any goodwill, going concern value rights and/or intangible property simultaneously acquired for which no separate or distinct consideration shall have been paid or apportioned, and in such case the term Property Additions as defined herein may include such goodwill, going concern value rights and intangible property.

SECTION 1.04. COMPLIANCE CERTIFICATES AND OPINIONS.

Except as otherwise expressly provided in this Indenture, upon any application or request by the Company to the Trustee to take any action under any provision of this Indenture, the Company shall furnish to the Trustee an Officer's Certificate stating that in the opinion of the Authorized Officer executing such Officer's Certificate all conditions precedent, if any, provided

for in this Indenture relating to the proposed action (including any covenants compliance with which constitutes a condition precedent) have been complied with and an Opinion of Counsel stating that in the opinion of such counsel all such conditions precedent, if any, have been complied with, except that in the case of any such application or request as to which the furnishing of such documents is specifically required by any provision of this Indenture relating to such particular application or request, no additional certificate or opinion need be furnished.

Every certificate or opinion with respect to compliance with a condition or covenant provided for in this Indenture shall include:

(a) a statement that each Person signing such certificate or opinion has read such covenant or condition and the definitions herein relating thereto;

(b) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based;

(c) a statement that, in the opinion of each such Person, such Person has made such examination or investigation as is necessary to enable such Person to express an informed opinion as to whether or not such covenant or condition has been complied with; and

(d) a statement as to whether, in the opinion of each such Person, such condition or covenant has been complied with.

SECTION 1.05. FORM OF DOCUMENTS DELIVERED TO TRUSTEE.

(a) Any Officer's Certificate may be based (without further examination or investigation), insofar as it relates to or is dependent upon legal matters, upon an opinion of, or representations by, counsel, and, insofar as it relates to or is dependent upon matters which are subject to verification by Accountants, upon a certificate or opinion of, or representations by, an Accountant, and insofar as it relates to or is dependent upon matters which are required in this Indenture to be covered by a certificate or opinion of, or representations by, an Expert, upon the certificate or opinion of, or representations by, an Expert, unless, in any case, such officer has actual knowledge that the certificate or opinion or representations with respect to the matters upon which such Officer's Certificate may be based as aforesaid are erroneous.

Any Expert's Certificate may be based (without further examination or investigation), insofar as it relates to or is dependent upon legal matters, upon an opinion of, or representations by, counsel, and insofar as it relates to or is dependent upon factual matters, information with respect to which is in the possession of the Company and which are not subject to verification by Experts, upon a certificate or opinion of, or representations by, an officer or officers of the Company, unless such expert has actual knowledge that the certificate or opinion or representations with respect to the matters upon which his certificate or opinion may be based as aforesaid are erroneous.

Any certificate of an Accountant may be based (without further examination or investigation), insofar as it relates to or is dependent upon legal matters, upon an opinion of, or representations by, counsel, and insofar as it relates to or is dependent upon factual matters, information with respect to which is in the possession of the Company and which are not subject

to verification by Accountants, upon a certificate of, or representations by, an officer or officers of the Company, unless such Accountant has actual knowledge that the certificate or opinion or representations with respect to the matters upon which his certificate or opinion may be based as aforesaid are erroneous.

Any Opinion of Counsel may be based (without further examination or investigation), insofar as it relates to or is dependent upon factual matters, information with respect to which is in the possession of the Company, upon a certificate of, or representations by, an officer or officers of the Company, and, insofar as it relates to or is dependent upon matters which are subject to verification by Accountants upon a certificate or opinion of, or representations by, an Accountant, and, insofar as it relates to or is dependent upon matters required in this Indenture to be covered by a certificate or opinion of, or representations by, an Expert, upon the certificate or opinion of, or representations by, an Expert, unless such counsel has actual knowledge that the certificate or opinion or representations with respect to the matters upon which his opinion may be based as aforesaid are erroneous. In addition, any Opinion of Counsel may be based (without further examination or investigation), insofar as it relates to or is dependent upon matters covered in an Opinion of Counsel rendered by other counsel, upon such other Opinion of Counsel, unless such counsel has actual knowledge that the Opinion of Counsel rendered by such other counsel with respect to the matters upon which his Opinion of Counsel may be based as aforesaid are erroneous. Further, any Opinion of Counsel with respect to the status of title to or the sufficiency of descriptions of property, and/or the existence of Liens thereon, and/or the recording or filing of documents, and/or any similar matters, may be based (without further examination or investigation) upon (i) title insurance policies or commitments and reports, abstracts of title, lien search certificates and other similar documents or (ii) certificates of, or representations by, officers, employees, agents and/or other representatives of the Company or (iii) any combination of the documents referred to in (i) and (ii), unless, in any case, such counsel has actual knowledge that the document or documents with respect to the matters upon which his opinion may be based as aforesaid are erroneous. If, in order to render any Opinion of Counsel provided for herein, the signer thereof shall deem it necessary that additional facts or matters be stated in any Officer's Certificate, certificate of an Accountant or Expert's Certificate provided for herein, then such certificate may state all such additional facts or matters as the signer of such Opinion of Counsel may request.

(b) In any case where several matters are required to be certified by, or covered by an opinion of, any specified Person, it is not necessary that all such matters be certified by, or covered by the opinion of, only one such Person, or that they be so certified or covered by only one document, but one such Person may certify or give an opinion with respect to some matters and one or more other such Persons as to other matters, and any such Person may certify or give an opinion as to such matters in one or several documents. Where (i) any Person is required to make, give or execute two or more applications, requests, consents, certificates, statements, opinions or other instruments under this Indenture, or (ii) two or more Persons are each required to make, give or execute any such application, request, consent, certificate, statement, opinion or other instrument, any such applications, requests, consents, certificates, statements, opinions or other instruments may, but need not, be consolidated and form one instrument.

(c) Whenever, subsequent to the receipt by the Trustee of any Board Resolution, Officer's Certificate, Expert's Certificate, Opinion of Counsel or other document or instrument, a

clerical, typographical or other inadvertent or unintentional error or omission shall be discovered therein, a new document or instrument may be substituted therefor in corrected form with the same force and effect as if originally filed in the corrected form and, irrespective of the date or dates of the actual execution and/or delivery thereof, such substitute document or instrument shall be deemed to have been executed and/or delivered as of the date or dates required with respect to the document or instrument for which it is substituted. Anything in this Indenture to the contrary notwithstanding, if any such corrective document or instrument indicates that action has been taken by or at the request of the Company which could not have been taken had the original document or instrument not contained such error or omission, the action so taken shall not be invalidated or otherwise rendered ineffective but shall be and remain in full force and effect, except to the extent that such action was a result of willful misconduct or bad faith. Without limiting the generality of the foregoing, any Securities issued under the authority of such defective document or instrument shall nevertheless be the valid obligations of the Company entitled to the benefits of this Indenture equally and ratably with all other Outstanding Securities, except as aforesaid.

SECTION 1.06. ACTS OF HOLDERS.

(a) Any request, demand, authorization, direction, notice, consent, election, waiver or other action provided by this Indenture to be made, given or taken by Holders may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Holders in person or by an agent duly appointed in writing or, alternatively, may be embodied in and evidenced by the record of Holders voting in favor thereof, either in person or by proxies duly appointed in writing, at any meeting of Holders duly called and held in accordance with the provisions of Article Fourteen, or a combination of such instruments and any such record. Except as herein otherwise expressly provided, such action shall become effective when such instrument or instruments or record or both are delivered to the Trustee and, where it is hereby expressly required, to the Company. Such instrument or instruments and any such record (and the action embodied therein and evidenced thereby) are herein sometimes referred to as the "Act" of the Holders signing such instrument or instruments and so voting at any such meeting. Proof of execution of any such instrument or of a writing appointing any such agent, or of the holding by any Person of a Security, shall be sufficient for any purpose of this Indenture and (subject to Section 10.01) conclusive in favor of the Trustee and the Company, if made in the manner provided in this Section. The record of any meeting of Holders shall be proved in the manner provided in Section 14.06.

(b) The fact and date of the execution by any Person of any such instrument or writing may be proved by the affidavit of a witness of such execution or by a certificate of a notary public or other officer authorized by law to take acknowledgments of deeds, certifying that the individual signing such instrument or writing acknowledged to him the execution thereof or may be proved in any other manner which the Trustee and the Company deem sufficient. Where such execution is by a signer acting in a capacity other than his individual capacity, such certificate or affidavit shall also constitute sufficient proof of his authority.

(c) The ownership, principal amount (except as otherwise contemplated in clause (y) of the first proviso to the definition of Outstanding) and serial numbers of Securities held by any Person, and the date of holding the same, shall be proved by the Security Register.

(d) Any request, demand, authorization, direction, notice, consent, election, waiver or other Act of a Holder shall bind every future Holder of the same Security and the Holder of every Security issued upon the registration of transfer thereof or in exchange therefor or in lieu thereof in respect of anything done, omitted or suffered to be done by the Trustee or the Company in reliance thereon, whether or not notation of such action is made upon such Security.

(e) Until such time as written instruments shall have been delivered to the Trustee with respect to the requisite percentage of principal amount of Securities for the action contemplated by such instruments, any such instrument executed and delivered by or on behalf of a Holder may be revoked with respect to any or all of such Securities by written notice by such Holder or any subsequent Holder, proven in the manner in which such instrument was proven.

(f) Securities of any series, or any Tranche thereof, authenticated and delivered after any Act of Holders may, and shall, if required by the Trustee, bear a notation in form approved by the Company as to any action taken by such Act of Holders. If the Company shall so determine, new Securities of any series, or any Tranche thereof, so modified as to conform, in the opinion of the Trustee and the Company, to such action may be prepared and executed by the Company and authenticated and delivered by the Trustee in exchange for Outstanding Securities of such series or Tranche.

(g) If the Company shall solicit from Holders any request, demand, authorization, direction, notice, consent, waiver or other Act, the Company may, at its option, fix in advance a record date for the determination of Holders entitled to give such request, demand, authorization, direction, notice, consent, waiver or other Act, but the Company shall have no obligation to do so. If such a record date is fixed, such request, demand, authorization, direction, notice, consent, waiver or other Act may be given before or after such record date, but only the Holders of record at the close of business on the record date shall be deemed to be Holders for the purposes of determining whether Holders of the requisite proportion of the Outstanding Securities have authorized or agreed or consented to such request, demand, authorization, direction, notice, consent, waiver or other Act, and for that purpose the Outstanding Securities shall be computed as of the record date.

SECTION 1.07. NOTICES, ETC. TO TRUSTEE OR COMPANY.

Except as otherwise provided herein, any request, demand, authorization, direction, notice, consent, election, waiver or Act of Holders or other document provided or permitted by this Indenture to be made upon, given or furnished to, or filed with, the Trustee by any Holder or by the Company, or the Company by the Trustee or by any Holder, shall be sufficient for every purpose hereunder (unless otherwise expressly provided herein) if in writing and delivered personally to an officer or other responsible employee of the addressee, or transmitted by facsimile transmission or other direct written electronic means (such means of delivery being acceptable to the Trustee) to such telephone number or other electronic communications address set forth for such party below or such other address as the parties hereto shall from time to time designate, or delivered by registered or certified mail or reputable overnight courier, charges prepaid, to the applicable address set forth for such party below or to such other address as either party hereto may from time to time designate:

If to the Trustee, to:

The Bank of New York Mellon Trust Company, N.A.
Corporate Trust Administration
900 Ashwood Parkway, Suite 425
Atlanta, Georgia 30338
Attention: Vice President
Telecopy: (770) 698-5195

If to the Company, to:

Duke Energy Ohio, Inc.
526 South Church Street
Charlotte, North Carolina 28202
Attention: Treasurer
Telecopy: (980) 373-3699

Any communication contemplated herein shall be deemed to have been made, given, furnished and filed if personally delivered, on the date of delivery, if transmitted by facsimile transmission or other direct written electronic means, on the date of transmission, and if transmitted by registered or certified mail or reputable overnight courier, on the date of receipt.

SECTION 1.08. NOTICE TO HOLDERS OF SECURITIES; WAIVER.

Except as otherwise expressly provided herein, where this Indenture provides for notice to Holders of any event, such notice shall be sufficiently given, and shall be deemed given, to Holders if in writing and mailed, first-class postage prepaid, to each Holder affected by such event, at the address of such Holder as it appears in the Security Register, not later than the latest date, and not earlier than the earliest date, if any, prescribed for the giving of such notice.

In case by reason of the suspension of regular mail service or by reason of any other cause it shall be impracticable to give such notice to Holders by mail, then such notification as shall be made with the approval of the Trustee shall constitute a sufficient notification for every purpose hereunder. In any case where notice to Holders is given by mail, neither the failure to mail such notice, nor any defect in any notice so mailed, to any particular Holder shall affect the sufficiency of such notice with respect to other Holders.

Any notice required by this Indenture may be waived in writing by the Person entitled to receive such notice, either before or after the event otherwise to be specified therein, and such waiver shall be the equivalent of such notice. Waivers of notice by Holders shall be filed with the Trustee, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

SECTION 1.09. CONFLICT WITH TRUST INDENTURE ACT.

If any provision of this Indenture limits, qualifies or conflicts with another provision hereof which is required or deemed to be included in this Indenture by, or is otherwise governed

by, any provision of the Trust Indenture Act, such other provision shall control; and if any provision hereof otherwise conflicts with the Trust Indenture Act, the Trust Indenture Act shall control unless otherwise provided as contemplated by Section 3.01 with respect to any series of Securities.

SECTION 1.10. EFFECT OF HEADINGS AND TABLE OF CONTENTS.

The Article and Section headings in this Indenture and the Table of Contents are for convenience only and shall not affect the construction hereof.

SECTION 1.11. SUCCESSORS AND ASSIGNS.

All covenants and agreements in this Indenture by the Company and Trustee shall bind their respective successors and assigns, whether so expressed or not.

SECTION 1.12. SEPARABILITY CLAUSE.

In case any provision in this Indenture or the Securities shall be held to be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

SECTION 1.13. BENEFITS OF INDENTURE.

Nothing in this Indenture or the Securities, express or implied, shall give to any Person, other than the parties hereto, their successors hereunder and the Holders of any Outstanding Securities, any benefit or any legal or equitable right, remedy or claim under this Indenture.

SECTION 1.14. GOVERNING LAW.

This Indenture and the Securities shall be governed by and construed in accordance with the laws of the State of Ohio, except (a) to the extent that the Trust Indenture Act shall be applicable, and (b) that the rights, duties, obligations, privileges, immunities and standard of care of the Trustee shall be governed by the laws of the State of New York.

SECTION 1.15. LEGAL HOLIDAYS.

In any case where any Interest Payment Date, Redemption Date or Stated Maturity of any Security shall not be a Business Day at any Place of Payment, then (notwithstanding any other provision of this Indenture or of the Securities other than a provision in Securities of any series, or any Tranche thereof, or in the indenture supplemental hereto, Board Resolution or Officer's Certificate which establishes the terms of the Securities of such series or Tranche, which specifically states that such provision shall apply in lieu of this Section) payment of interest or principal and premium, if any, need not be made at such Place of Payment on such date, but may be made on the next succeeding Business Day at such Place of Payment with the same force and effect as if made on the Interest Payment Date, Redemption Date, or Stated Maturity, and, if such payment is made or duly provided for on such Business Day, no interest shall accrue on the amount so payable for the period from and after such Interest Payment Date, Redemption Date or Stated Maturity, as the case may be, to such Business Day.

SECTION 1.16. INVESTMENT OF CASH HELD BY TRUSTEE.

Any cash held by the Trustee or any Paying Agent under any provision of this Indenture shall, except as otherwise provided in Section 17.06 or in Article Eight, at the request of the Company evidenced by Company Order, be invested or reinvested in Investment Securities designated by the Company (such Company Order to contain a representation to the effect that the securities designated therein constitute Investment Securities), and any interest on such Investment Securities shall be promptly paid over to the Company as received free and clear of any Lien. Such Investment Securities shall be held subject to the same provisions hereof as the cash used to purchase the same, but upon a like request of the Company shall be sold, in whole or in designated part, and the proceeds of such sale shall be held subject to the same provisions hereof as the cash used to purchase the Investment Securities so sold. If the cash used to purchase such Investment Securities was being held as part of the Mortgaged Property, then such Investment Securities and proceeds shall also be held as part of the Mortgaged Property. If such sale shall produce a net sum less than the cost of the Investment Securities so sold, the Company shall pay to the Trustee or any such Paying Agent, as the case may be, such amount in cash as, together with the net proceeds from such sale, shall equal the cost of the Investment Securities so sold, and if such sale shall produce a net sum greater than the cost of the Investment Securities so sold, the Trustee or any such Paying Agent, as the case may be, shall promptly pay over to the Company an amount in cash equal to such excess, free and clear of any Lien. In no event shall the Trustee be liable for any loss incurred in connection with the sale of any Investment Security pursuant to this Section.

Notwithstanding the foregoing, if an Event of Default shall have occurred and be continuing, interest on Investment Securities and any gain upon the sale thereof shall be held as part of the Mortgaged Property until such Event of Default shall have been cured or waived, whereupon such interest and gain shall be promptly paid over to the Company free and clear of any Lien.

SECTION 1.17. FORCE MAJEURE.

In no event shall the Trustee be responsible or liable for any failure or delay in the performance of its obligations hereunder arising out of or caused by, directly or indirectly, forces beyond its control, including, without limitation, strikes, work stoppages, accidents, acts of war or terrorism, civil or military disturbances, nuclear or natural catastrophes or acts of God, and interruptions, loss or malfunctions of utilities, communications or computer (software and hardware) services; it being understood that the Trustee shall use reasonable efforts which are consistent with accepted practices in the banking industry to resume performance as soon as practicable under the circumstances.

SECTION 1.18. WAIVER OF JURY TRIAL.

EACH OF THE COMPANY AND THE TRUSTEE HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS INDENTURE, THE SECURITIES OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY.

[END OF ARTICLE ONE]

ARTICLE TWO.

SECURITY FORMS

SECTION 2.01. FORMS GENERALLY.

The definitive Securities of each series shall be in substantially the form or forms thereof established in the indenture supplemental hereto establishing such series or in a Board Resolution establishing such series, or in an Officer's Certificate pursuant to such a supplemental indenture or Board Resolution, or with respect to the Bonds of Series Due 2019, in substantially the form set forth in Section 4.10, in each case with such appropriate insertions, omissions, substitutions and other variations as are required or permitted by this Indenture, and may have such letters, numbers or other marks of identification and such notations, legends or endorsements placed thereon as may be required to comply with applicable law, the rules of any securities exchange or depository, including The Depository Trust Company, or other clearing corporation or securities intermediary, automated quotation system, agreements to which the Company is subject, or usage, or as may, consistently herewith, be determined by the officers executing such Securities, as evidenced by their execution thereof. If the form or forms of Securities of any series are established in a Board Resolution or in an Officer's Certificate pursuant to a supplemental indenture or a Board Resolution, such Board Resolution and Officer's Certificate, if any, shall be delivered to the Trustee at or prior to the delivery of the Company Order contemplated by Section 3.03 for the authentication and delivery of such Securities.

Unless otherwise specified as contemplated by Section 3.01, the Securities of each series shall be issuable in registered form without coupons. The definitive Securities shall be produced in such manner as shall be determined by the officers executing such Securities, as evidenced by their execution thereof.

SECTION 2.02. FORM OF TRUSTEE'S CERTIFICATE OF AUTHENTICATION.

The Trustee's certificate of authentication shall be in substantially the form set forth below:

This is one of the Securities of the series designated therein referred to in the within-mentioned Indenture.

THE BANK OF NEW YORK MELLON TRUST
COMPANY, N.A., as Trustee

By: _____
Authorized Signatory

[END OF ARTICLE TWO]

ARTICLE THREE.

THE SECURITIES

SECTION 3.01. AMOUNT UNLIMITED; ISSUABLE IN SERIES.

The aggregate principal amount of Securities which may be authenticated and delivered under this Indenture is unlimited.

The Securities may be issued in one or more series. Subject to the second to last paragraph of this Section and except with respect to the Bonds of Series Due 2019, prior to the authentication and delivery of Securities of any series there shall be established by specification in a supplemental indenture or in a Board Resolution or in an Officer's Certificate pursuant to a supplemental indenture or a Board Resolution:

(a) the title of the Securities of such series (which shall distinguish the Securities of such series from Securities of all other series);

(b) any limit upon the aggregate principal amount of the Securities of such series which may be authenticated and delivered under this Indenture (except for Securities authenticated and delivered upon registration of transfer of, or in exchange for, or in lieu of, other Securities of such series pursuant to Section 3.04, 3.05, 3.06, 5.06 or 13.06 and except for any Securities which, pursuant to Section 3.03, are deemed never to have been authenticated and delivered hereunder);

(c) the Person or Persons (without specific identification) to whom any interest on Securities of such series, or any Tranche thereof, shall be payable, if other than the Person in whose name that Security (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date for such interest;

(d) the date or dates on which the principal of the Securities of such series or any Tranche thereof, is payable or any formulary or other method or other means by which such date or dates shall be determined, by reference to an index or other fact or event ascertainable outside of this Indenture or otherwise (without regard to any provisions for redemption, prepayment, acceleration, purchase or extension); and the right, if any, to extend the Maturity of the Securities of such series, or any Tranche thereof, and the duration of any such extension;

(e) the rate or rates at which the Securities of such series, or any Tranche thereof, shall bear interest, if any (including the rate or rates at which overdue principal shall bear interest after Maturity if different from the rate or rates at which such Securities shall bear interest prior to Maturity, and, if applicable, the rate or rates at which overdue premium or interest shall bear interest, if any), or any formulary or other method or other means by which such rate or rates shall be determined by reference to an index or other fact or event ascertainable outside of this Indenture or otherwise, the date or dates from which such interest shall accrue; the Interest Payment Dates and the Regular Record Dates, if any, for the interest payable on such Securities on any Interest Payment Date; and the basis of computation of interest, if other than as provided in Section 3.10; and the right, if any, to extend the interest payment periods and the duration of any such extension;

(f) the place or places at which and/or methods (if other than as provided elsewhere in this Indenture) by which (i) the principal of and premium, if any, and interest, if any, on Securities of such series, or any Tranche thereof, shall be payable, (ii) registration of transfer of Securities of such series, or any Tranche thereof, may be effected, (iii) exchanges of Securities of such series, or any Tranche thereof, may be effected and (iv) notices and demands to or upon the Company in respect of the Securities of such series, or any Tranche thereof, and this Indenture may be served; the Security Registrar and any Paying Agent or Agents for such series or Tranche, if other than the Trustee; and, if such is the case and if administratively acceptable to the Trustee, that the principal of such Securities shall be payable without the presentment or surrender thereof;

(g) the period or periods within which, or the date or dates on which, the price or prices at which and the terms and conditions upon which the Securities of such series, or any Tranche thereof, may be redeemed, in whole or in part, at the option of the Company and any restrictions on such redemptions; including but not limited to a restriction on a partial redemption by the Company of the Securities of any series, or any Tranche thereof, resulting in delisting of such Securities from any national exchange;

(h) the obligation or obligations, if any, of the Company to redeem or purchase or repay the Securities of such series, or any Tranche thereof, pursuant to any sinking fund or other mandatory redemption provisions or at the option of a Holder thereof and the period or periods within which or the date or dates on which, the price or prices at which and the terms and conditions upon which such Securities shall be redeemed or purchased or repaid, in whole or in part, pursuant to such obligation and applicable exceptions to the requirements of Section 5.04 in the case of mandatory redemption or redemption or repayment at the option of the Holder;

(i) the denominations in which Securities of such series, or any Tranche thereof, shall be issuable if other than denominations of One Thousand Dollars ($1,000) and any integral multiple thereof;

(j) if the principal of or premium, if any, or interest, if any, on the Securities of such series, or any Tranche thereof, are to be payable, at the election of the Company or a Holder thereof, in a coin or currency other than that in which the Securities are stated to be payable, the period or periods within which, and the terms and conditions upon which, such election may be made and the manner in which the amount of such coin or currency payable is to be determined;

(k) the currency or currencies, including composite currencies, in which payment of the principal of and premium, if any, and interest, if any, on the Securities of such series, or any Tranche thereof, shall be payable (if other than Dollars) and the manner in which the equivalent of the principal amount thereof in Dollars is to be determined for any purpose, including for the purpose of determining the principal amount deemed to be Outstanding at any time;

(l) if the principal of or premium, if any, or interest, if any, on the Securities of such series, or any Tranche thereof, are to be payable, or are to be payable at the election of the Company or a Holder thereof, in securities or other property, the type and amount of such securities or other property, or the formulary or other method or other means by which such

amount shall be determined, and the period or periods within which, and the terms and conditions upon which, any such election may be made;

(m) if the amount payable in respect of principal of or premium, if any, or interest, if any, on the Securities of such series, or any Tranche thereof, may be determined with reference to an index or other fact or event ascertainable outside this Indenture, the manner in which such amounts shall be determined to the extent not established pursuant to clause (e) of this paragraph;

(n) if other than the entire principal amount thereof, the portion of the principal amount of Securities of such series, or any Tranche thereof, which shall be payable upon declaration of acceleration of the Maturity thereof pursuant to Section 9.02;

(o) any Events of Default, in addition to those specified in Section 9.01, and any covenants of the Company for the benefit of the Holders of Securities, in addition to those set forth in Article Seven; provided, however, that such supplemental indenture, Board Resolution or Officer's Certificate may provide that such additions or exceptions shall only be effective so long as the Securities of such series, or one or more Tranches thereof, remain Outstanding;

(p) the terms, if any, pursuant to which the Securities of such series, or any Tranche thereof, may be converted into or exchanged for shares of capital stock or other securities of the Company or any other Person;

(q) the obligations or instruments, if any, which shall be considered to be Eligible Obligations in respect of the Securities of such series, or any Tranche thereof, denominated in a currency other than Dollars or in a composite currency, whether Eligible Obligations include Investment Securities with respect to Securities of such series, and any provisions for satisfaction and discharge of Securities of any series, in addition to those set forth in Article Eight, or any exceptions to those set forth in Article Eight;

(r) if the Securities of such series, or any Tranche thereof, are to be issued in global form, (i) any limitations on the rights of the Holder or Holders of such Securities to transfer or exchange the same or to obtain the registration of transfer thereof, (ii) any limitations on the rights of the Holder or Holders thereof to obtain certificates therefor in definitive form in lieu of global form and (iii) any other matters incidental to such Securities;

(s) if the Securities of such series, or any Tranche thereof, are to be issuable as bearer securities, any and all matters incidental thereto which are not specifically addressed in a supplemental indenture as contemplated by clause (g) of Section 13.01;

(t) to the extent not established pursuant to clause (r) of this paragraph, any limitations on the rights of the Holders of the Securities of such Series, or any Tranche thereof, to transfer or exchange such Securities or to obtain the registration of transfer thereof; and if a service charge will be made for the registration of transfer or exchange of Securities of such series, or any Tranche thereof, the amount or terms thereof;

(u) any exceptions to Section 1.15, or variation in the definition of Business Day, with respect to the Securities of such series, or any Tranche thereof; and

(v) any other terms of the Securities of such series, or any Tranche thereof, that the Company may elect to specify.

With respect to Securities of a series subject to a Periodic Offering, the indenture supplemental hereto or the Board Resolution which establishes such series, or the Officer's Certificate pursuant to such supplemental indenture or Board Resolution, as the case may be, may provide general terms or parameters for Securities of such series and provide either that the specific terms of Securities of such series, or any Tranche thereof, shall be specified in a Company Order or that such terms shall be determined by the Company or its agents in accordance with procedures specified in a Company Order as contemplated in clause (b) of Section 3.03.

Unless otherwise provided with respect to a series of Securities as contemplated in Section 3.01(b), without the consent of any Holder, the aggregate principal amount of a series of Securities, including the Bonds of Series Due 2019, may be increased and additional Securities of such series may be issued up to the maximum aggregate principal amount authorized with respect to such series as increased, provided that such additional Securities of such series are fungible with the previously issued Securities of such series for Federal income tax purposes.

SECTION 3.02. DENOMINATIONS.

Unless otherwise provided as contemplated by Section 3.01 with respect to any series of Securities, or any Tranche thereof, the Securities of each series shall be issuable in denominations of One Thousand Dollars ($1,000) and any integral multiple thereof.

SECTION 3.03. EXECUTION, AUTHENTICATION, DELIVERY AND DATING.

Unless otherwise provided as contemplated by Section 3.01 with respect to any series of Securities or any Tranche thereof, the Securities shall be executed on behalf of the Company by an Authorized Officer, and may (but need not) have the corporate seal of the Company affixed thereto or reproduced thereon attested by any other Authorized Officer or by the Secretary or an Assistant Secretary of the Company. The signature of any or all of these officers on the Securities may be manual or facsimile.

Securities bearing the manual or facsimile signatures of individuals who were at the time of execution Authorized Officers or the Secretary or an Assistant Secretary of the Company shall bind the Company, notwithstanding that such individuals or any of them have ceased to hold such offices prior to the authentication and delivery of such Securities or did not hold such offices at the date of such Securities.

The Trustee shall authenticate and deliver Securities of a series for original issue, at one time or from time to time in accordance with the Company Order referred to below, upon receipt by the Trustee of:

(a) the instrument or instruments establishing the form or forms and terms of the Securities of such series, as provided in Sections 2.01 and 3.01;

(b) a Company Order requesting the authentication and delivery of such Securities and, to the extent that the terms of such Securities shall not have been established in an indenture supplemental hereto or in a Board Resolution, or in an Officer's Certificate pursuant to a supplemental indenture or Board Resolution, all as contemplated by Section 3.01, or pursuant to Article Four, either (i) establishing such terms or (ii) in the case of Securities of a series subject to a Periodic Offering, specifying procedures, acceptable to the Trustee, by which such terms are to be established (which procedures may provide, to the extent acceptable to the Trustee, for authentication and delivery pursuant to oral or electronic instructions from the Company or any agent or agents thereof, which oral instructions are to be promptly confirmed electronically or in writing), in either case in accordance with the instrument or instruments establishing the terms of the Securities of such series delivered pursuant to clause (a) above;

(c) any opinions, certificates, documents and instruments required by Article Sixteen;

(d) Securities of such series, each executed on behalf of the Company by an Authorized Officer of the Company;

(e) an Officer's Certificate (i) which shall comply with the requirements of Section 1.04 of this Indenture and (ii) which states that no Event of Default under this Indenture has occurred or is occurring; and

(f) an Opinion of Counsel which shall comply with the requirements of Section 1.04 of this Indenture and that states that:

(i) the form or forms of such Securities have been duly authorized by the Company and have been established in conformity with the provisions of this Indenture;

(ii) the terms of such Securities have been duly authorized by the Company and have been established in conformity with the provisions of this Indenture; and

(iii) when such Securities shall have been authenticated and delivered by the Trustee and issued and delivered by the Company in the manner and subject to any conditions specified in such Opinion of Counsel, such Securities will have been duly issued under this Indenture and will constitute valid and legally binding obligations of the Company, entitled to the benefits provided by this Indenture, and enforceable in accordance with their terms, subject, as to enforcement, to laws relating to or affecting generally the enforcement of mortgagees' and other creditors' rights, including, without limitation, bankruptcy, insolvency, reorganization, receivership, moratorium and other laws affecting the rights and remedies of creditors and mortgagees generally and general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law);

provided, however, that, with respect to Securities of a series subject to a Periodic Offering, the Trustee shall be entitled to receive such Opinion of Counsel only once at or prior to the time of the first authentication and delivery of Securities of such series and that in lieu of the opinions described in clauses (ii) and (iii) above such Opinion of Counsel may, alternatively, state, respectively,

(x) that, when the terms of such Securities shall have been established pursuant to a Company Order or Orders, or pursuant to such procedures as may be specified from time to time by a Company Order or Orders, all as contemplated by and in accordance with the instrument or instruments delivered pursuant to clause (a) above, such terms will have been duly authorized by the Company and will have been established in conformity with the provisions of this Indenture; and

(y) that, such Securities, when (1) executed by the Company, (2) authenticated and delivered by the Trustee in accordance with this Indenture, (3) issued and delivered by the Company and (4) paid for, all as contemplated by and in accordance with the aforesaid Company Order or Orders, as the case may be, will have been duly issued under this Indenture and will constitute valid and legally binding obligations of the Company, entitled to the benefits provided by the Indenture, and enforceable in accordance with their terms, subject, as to enforcement, to laws relating to or affecting generally the enforcement of mortgagees' and other creditors' rights, including, without limitation, bankruptcy, insolvency, reorganization, receivership, moratorium and other laws affecting the rights and remedies of creditors and mortgagees generally and general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

With respect to Securities of a series subject to a Periodic Offering, the Trustee may conclusively rely, as to the authorization by the Company of any of such Securities, the forms and terms thereof and the legality, validity, binding effect and enforceability thereof, and compliance of the authentication and delivery thereof with the terms and conditions of this Indenture, upon the Opinion of Counsel and other documents delivered pursuant to Sections 2.01 and 3.01 and this Section, as applicable, at or prior to the time of the first authentication of Securities of such series, unless and until such opinion or other documents have been superseded or revoked or expire by their terms. In connection with the authentication and delivery of Securities of a series, pursuant to a Periodic Offering, the Trustee shall be entitled to assume that the Company's instructions to authenticate and deliver such Securities do not violate any applicable law or any applicable rule, regulation or order of any Governmental Authority having jurisdiction over the Company.

If the forms or terms of the Securities of any series have been established by or pursuant to a Board Resolution or an Officer's Certificate as permitted by Sections 2.01 or 3.01, the Trustee shall not be required to authenticate such Securities if the issuance of such Securities pursuant to this Indenture will affect the Trustee's own rights, duties or immunities under the Securities and this Indenture or otherwise in a manner which is not reasonably acceptable to the Trustee.

Except as otherwise specified as contemplated by Section 3.01 with respect to any series of Securities, or any Tranche thereof, each Security shall be dated the date of its authentication.

Except as otherwise specified as contemplated by Section 3.01 with respect to any series of Securities, or any Tranche thereof, no Security shall be entitled to any benefit under this Indenture or be valid or obligatory for any purpose unless there appears on such Security a certificate of authentication substantially in the form provided for herein executed by the Trustee or its agent by manual signature of an authorized signatory thereof, and such certificate upon any

Security shall be conclusive evidence, and the only evidence, that such Security has been duly authenticated and delivered hereunder and is entitled to the benefits of this Indenture. Notwithstanding the foregoing, if any Security shall have been authenticated and delivered hereunder to the Company, or any Person acting on its behalf, but shall never have been issued and sold by the Company, and the Company shall deliver such Security to the Trustee for cancellation as provided in Section 3.09 together with a written statement (which need not comply with Section 1.04 and need not be accompanied by an Opinion of Counsel) stating that such Security has never been issued and sold by the Company, for all purposes of this Indenture such Security shall be deemed never to have been authenticated and delivered hereunder and shall never be entitled to the benefits hereof.

SECTION 3.04. GLOBAL OR TEMPORARY SECURITIES.

The Company may issue some or all of the Securities in temporary or permanent global form. The Company may issue a global Security only to a depository, including The Depository Trust Company, or other clearing corporation or securities intermediary, or its nominee. A depository or its nominee may transfer a Security in global form only to the depository, a nominee of a depository or to a successor depository, but upon request of such depository, the Company shall deliver non-global Securities in exchange for global Securities. A global Security shall represent the amount of Securities specified in the global Security. A global Security may have variations that the depository requires or that the Company considers appropriate for such a Security, including grids for increasing or decreasing the principal amount of such Security. Beneficial owners of part or all of a global Security are subject to the rules of the depository as in effect from time to time. The Company, the Trustee and any Registrar and any Paying Agent shall not be responsible for any acts or omissions of a depository, for any depository records of beneficial ownership interests or for any transactions between the depository and beneficial owners.

Until definitive Securities are ready for delivery, the Company may use temporary Securities. Temporary Securities shall be substantially in the form of definitive Securities but may have variations that the Company considers appropriate for temporary Securities. Without unreasonable delay, the Company shall deliver definitive Securities in exchange for temporary Securities. Until exchanged in full as hereinabove provided, temporary Securities shall in all respects be entitled to the same benefits under this Indenture as definitive Securities of the same series and Tranche and of like tenor authenticated and delivered hereunder.

SECTION 3.05. REGISTRATION, REGISTRATION OF TRANSFER AND EXCHANGE.

The Company shall cause to be kept in an office designated pursuant to Section 7.02, with respect to the Securities of each series, a register (all registers kept in accordance with this Section being collectively referred to as the "Security Register") in which, subject to such reasonable regulations as it may prescribe, the Company shall provide for the registration of Securities of such series, or any Tranche thereof, and the registration of transfer thereof. The Company shall designate one Person to maintain the Security Register for the Securities of each series, and such Person is referred to herein, with respect to such series, as the "Security Registrar." Unless otherwise provided as contemplated by Section 3.01, the Trustee shall be the

Security Registrar for all series of Securities. Anything herein to the contrary notwithstanding, the Company may designate one of its offices as an office in which the register with respect to the Securities of a series shall be maintained, and the Company may designate itself the Security Registrar with respect to one or more series of Securities. The Security Register shall be open for inspection by the Trustee and the Company at all reasonable times.

Except as otherwise specified as contemplated by Section 3.01 with respect to the Securities of any series, or any Tranche thereof, upon surrender for registration of transfer of any Security of such series or Tranche at the office or agency of the Company maintained pursuant to Section 7.02 in a Place of Payment for such series or Tranche, the Company shall execute, and the Trustee shall authenticate and deliver, in the name of the designated transferee or transferees, one or more new Securities of the same series and Tranche, of authorized denominations and of like tenor and aggregate principal amount.

Except as otherwise specified as contemplated by Section 3.01 with respect to the Securities of any series, or any Tranche thereof, any Security of such series or Tranche may be exchanged at the option of the Holder for one or more new Securities of the same series and Tranche, of authorized denominations and of like tenor and aggregate principal amount, upon surrender of the Securities to be exchanged at any such office or agency. Whenever any Securities are so surrendered for exchange, the Company shall execute, and the Trustee shall authenticate and deliver, the Securities, which the Holder making the exchange is entitled to receive.

All Securities delivered upon any registration of transfer or exchange of Securities shall be valid obligations of the Company, evidencing the same obligation, and entitled to the same benefits under this Indenture, as the Securities surrendered upon such registration of transfer or exchange.

Every Security presented or surrendered for registration of transfer or for exchange shall (if so required by the Company, the Trustee or the Security Registrar) be duly endorsed or shall be accompanied by a written instrument of transfer in form satisfactory to the Company, the Trustee or the Security Registrar, as the case may be, duly executed by the Holder thereof or his attorney duly authorized in writing.

Unless otherwise specified as contemplated by Section 3.01, with respect to Securities of any series, or any Tranche thereof, no service charge shall be made for any registration of transfer or exchange of Securities, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any registration of transfer or exchange of Securities, other than exchanges pursuant to Sections 3.04, 5.06 or 13.06 not involving any transfer.

The Company shall not be required to execute or to provide for the registration of transfer of or the exchange of (a) Securities of any series, or any Tranche thereof, during a period of 15 days immediately preceding the date notice is to be given identifying the serial numbers of the Securities of such series or Tranche called for redemption, or (b) any Security so selected for redemption in whole or in part, except the unredeemed portion of any Security being redeemed in part.

SECTION 3.06. MUTILATED, DESTROYED, LOST AND STOLEN SECURITIES.

If any mutilated Security is surrendered to the Trustee, the Company shall execute and the Trustee shall authenticate and deliver in exchange therefor a new Security of the same series and Tranche, and of like tenor and principal amount, bearing a number not contemporaneously outstanding.

If there shall be delivered to the Company and the Trustee (a) evidence to their satisfaction of the ownership of and the destruction, loss or theft of any Security and (b) such security or indemnity as may be reasonably required by them to save each of them and any agent of any of them harmless, then, in the absence of notice to the Company or the Trustee that such Security has been acquired by a bona fide purchaser, the Company shall execute and the Trustee shall authenticate and deliver, in lieu of any such destroyed, lost or stolen Security, a new Security of the same series and Tranche, and of like tenor and principal amount, bearing a number not contemporaneously outstanding.

Notwithstanding the foregoing, in case any such mutilated, destroyed, lost or stolen Security has become or is about to become due and payable, the Company in its discretion may, instead of issuing a new Security, pay such Security.

Upon the issuance of any new Security under this Section, the Company may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other reasonable expenses (including the fees and expenses of the Trustee) in connection therewith.

Every new Security of any series issued pursuant to this Section in lieu of any destroyed, lost or stolen Security shall constitute an original additional contractual obligation of the Company, whether or not the destroyed, lost or stolen Security shall be at any time enforceable by anyone other than the Holder of such new Security, and any such new Security shall be entitled to all the benefits of this Indenture equally and proportionately with any and all other Securities of such series duly issued hereunder.

The provisions of this Section are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Securities.

SECTION 3.07. PAYMENT OF INTEREST; INTEREST RIGHTS PRESERVED.

Unless otherwise specified as contemplated by Section 3.01 with respect to the Securities of any series, or any Tranche thereof, interest on any Security which is payable, and is punctually paid or duly provided for, on any Interest Payment Date shall be paid to the Person in whose name that Security (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date for such interest.

Any interest on any Security of any series which is payable, but is not punctually paid or duly provided for, on any Interest Payment Date (herein called "Defaulted Interest") shall forthwith cease to be payable to the Holder on the related Regular Record Date by virtue of

having been such Holder, and such Defaulted Interest may be paid by the Company, at its election, as provided in clause (a) or (b) below:

(a) The Company may elect to make payment of any Defaulted Interest to the Persons in whose names the Securities of such series (or their respective Predecessor Securities) are registered at the close of business on a date (a "Special Record Date") for the payment of such Defaulted Interest, which shall be fixed in the following manner. The Company shall notify the Trustee in writing of the amount of Defaulted Interest proposed to be paid on each Security of such series and the date of the proposed payment, and at the same time the Company shall deposit with the Trustee an amount of money equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest or shall make arrangements satisfactory to the Trustee for such deposit prior to the date of the proposed payment, such money when deposited to be held in trust (and at the request of the Company, invested or reinvested in Government Obligations designated by the Company and maturing on or before the Special Record Date fixed by the Trustee, any interest accruing on such Government Obligations to be promptly paid over to the Company free and clear of any Lien) for the benefit of the Persons entitled to such Defaulted Interest as in this clause provided. Thereupon the Trustee shall fix a Special Record Date for the payment of such Defaulted Interest which shall be not more than 15 days and not less than 10 days prior to the date of the proposed payment and not less than 10 days after the receipt by the Trustee of the notice of the proposed payment. The Trustee shall promptly notify the Company of such Special Record Date and, in the name and at the expense of the Company shall promptly cause notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor to be mailed, first-class postage prepaid, to each Holder of Securities of such series at the address of such Holder as it appears in the Security Register, not less than 10 days prior to such Special Record Date. Notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor having been so mailed, such Defaulted Interest shall be paid to the Persons in whose names the Securities of such series (or their respective Predecessor Securities) are registered at the close of business on such Special Record Date.

(b) The Company may make payment of any Defaulted Interest on the Securities of any series in any other lawful manner not inconsistent with the requirements of any securities exchange on which such Securities may be listed, and upon such notice as may be required by such exchange, if, after notice given by the Company to the Trustee of the proposed payment pursuant to this clause, such manner of payment shall be deemed practicable by the Trustee.

Subject to the foregoing provisions of this Section and Section 3.05, each Security delivered under this Indenture upon registration of transfer of or in exchange for or in lieu of any other Security shall carry the rights to interest accrued and unpaid, and to accrue, which were carried by such other Security.

SECTION 3.08. PERSONS DEEMED OWNERS.

Prior to due presentment of a Security for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name such Security is registered as the absolute owner of such Security for the purpose of receiving payment of principal of and premium, if any, and (subject to Sections 3.05 and 3.07) interest, if any, on such Security and for all other purposes whatsoever, whether or not such Security be

overdue, and none of the Company, the Trustee or any agent of the Company or the Trustee shall be affected by notice to the contrary.

SECTION 3.09. CANCELLATION.

All Securities surrendered for payment, redemption, registration of transfer or exchange or for credit against any sinking fund payment shall, if surrendered to any Person other than the Security Registrar, be delivered to the Security Registrar and, if not theretofore canceled, shall be promptly canceled by the Security Registrar. The Company may at any time deliver to the Security Registrar for cancellation any Securities previously authenticated and delivered hereunder which the Company may have acquired in any manner whatsoever or which the Company shall not have issued and sold, and all Securities so delivered shall be promptly canceled by the Security Registrar. No Securities shall be authenticated in lieu of or in exchange for any Securities canceled as provided in this Section, except as expressly permitted by this Indenture. All canceled Securities held by the Security Registrar shall be disposed of in accordance with the customary practices of the Security Registrar at the time in effect, and the Security Registrar shall not be required to destroy any such certificates. The Security Registrar shall promptly deliver a certificate of disposition to the Trustee and the Company unless, by a Company Order, similarly delivered, the Company shall direct that canceled Securities be returned to it. The Security Registrar shall promptly deliver evidence of any cancellation of a Security in accordance with this Section 3.09 to the Trustee and the Company upon their request therefor.

SECTION 3.10. COMPUTATION OF INTEREST.

Except as otherwise specified as contemplated by Section 3.01 for Securities of any series, or Tranche thereof, interest on the Securities of each series shall be computed on the basis of a three hundred sixty (360) day year consisting of twelve (12) thirty (30) day months, and with respect to any period less than a full month, on the basis of the actual number of days elapsed during such period. For example, the interest for a period running from the 15th day of one month to the 15th day of the next month would be calculated on the basis of one 30-day month.

SECTION 3.11. PAYMENT TO BE IN PROPER CURRENCY.

In the case of any Security denominated in any currency other than Dollars or in a composite currency (the "Required Currency"), except as otherwise specified with respect to such Security as contemplated by Section 3.01, the obligation of the Company to make any payment of the principal thereof, or the premium or interest thereon, shall not be discharged or satisfied by any tender by the Company, or recovery by the Trustee, in any currency other than the Required Currency, except to the extent that such tender or recovery shall result in the Trustee timely holding the full amount of the Required Currency then due and payable. If any such tender or recovery is in a currency other than the Required Currency, the Trustee may take such actions as it considers appropriate to exchange such currency for the Required Currency. The costs and risks of any such exchange, including without limitation the risks of delay and exchange rate fluctuation, shall be borne by the Company, the Company shall remain fully liable for any shortfall or delinquency in the full amount of Required Currency then due and payable,

and in no circumstances shall the Trustee be liable therefor except in the case of its negligence or willful misconduct.

SECTION 3.12. EXTENSION OF INTEREST PAYMENT.

The Company shall have the right at any time, to extend interest payment periods on all the Securities of any series hereunder, if so specified as contemplated by Section 3.01 with respect to such Securities and upon such terms as may be specified as contemplated by Section 3.01 with respect to such Securities.

SECTION 3.13. CUSIP AND ISIN NUMBERS.

The Company in issuing the Securities may use CUSIP, ISIN or other similar numbers (if then generally in use), and, if so, the Company, the Trustee or the Security Registrar may use CUSIP, ISIN or such other numbers in notices of redemption as a convenience to Holders; provided that any such notice may state that no representation is made as to the correctness of such numbers either as printed on the Securities or as contained in any notice of a redemption and that reliance may be placed only on the other identification numbers printed on the Securities, in which case none of the Company or, as the case may be, the Trustee or the Security Registrar, or any agent of any of them, shall have any liability in respect of any CUSIP, ISIN or other number used on any such notice, and any such redemption shall not be affected by any defect in or omission of such numbers. The Company shall promptly notify the Trustee and Security Registrar of any change in the CUSIP, ISIN or other such number.

[END OF ARTICLE THREE]

ARTICLE FOUR.

FIRST MORTGAGE BONDS, % SERIES DUE APRIL 1, 2019

SECTION 4.01. CREATION AND DESIGNATION OF BONDS OF SERIES DUE 2019.

There is hereby created a series of Securities to be issued under and secured by the Indenture, to be designated as "First Mortgage Bonds, % Series, Due April 1, 2019 (herein sometimes referred to as the "Bonds of Series Due 2019").

SECTION 4.02. AGGREGATE PRINCIPAL AMOUNT OF BONDS OF SERIES DUE 2019 ISSUABLE.

(a) The principal amount of Bonds of Series Due 2019 which may be authenticated and delivered hereunder is limited to the aggregate principal amount of Four Hundred Fifty Million Dollars ($450,000,000) (except for Bonds of Series Due 2019 authenticated and delivered upon registration of transfer of, or in exchange for, or in lieu of, other Bonds of Series Due 2019 pursuant to Section 3.04, 3.05, 3.06, 5.06 or 13.06 and except for any Bonds of Series Due 2019 which, pursuant to Section 3.03, are deemed never to have been authenticated and delivered hereunder).

(b) The Bonds of Series Due 2019 in the aggregate principal amount of Four Hundred Fifty Million Dollars ($450,000,000) may at any time subsequent to the execution hereof be executed by the Company and delivered to the Trustee and shall be authenticated by the Trustee and delivered (either before or after the recording hereof) upon the basis of Property Additions issued and delivered to the Trustee for such purpose, pursuant to a Company Order referred to in Section 16.02 of this Indenture and upon receipt by the Trustee of the opinions and other documents required by said Section 16.02.

SECTION 4.03. BOOK-ENTRY SYSTEM.

The following provisions shall apply to the Bonds of Series Due 2019.

(a) The Bonds of Series Due 2019 shall be issued in fully registered form only. However, except as provided elsewhere in this Section, the registered owner of all of the Bonds of Series Due 2019 initially shall be The Depository Trust Company ("DTC") or its nominee, and such Bonds of Series Due 2019 initially shall be registered in the name of DTC or its nominee. Payment of the principal of or interest on Bonds of Series Due 2019 registered in the name of DTC or its nominee shall be made in the manner specified in DTC's rules and by-laws. DTC (and any successor securities depository) and its (or their) participating institutions (collectively "Participants") shall maintain a book-entry registration and transfer system with respect to ownership of beneficial interests in the Bonds of Series Due 2019 (the "Book-Entry System").

(b) The Bonds of Series Due 2019 initially shall be issued in the form of one or more authenticated, fully registered bonds for such series (each a "Global Security") which (i) need not be in the form of a lithographed or engraved certificate, but may be typewritten or printed on ordinary paper or such paper as the Trustee may reasonably request, (ii) shall represent and be

denominated in an amount equal to 100% of the aggregate principal amount of the Bonds of Series Due 2019 issued under this Indenture, (iii) shall be executed by the Company and authenticated by the Trustee in accordance with the provisions of this Indenture, (iv) shall be registered in the name of DTC or its nominee, and delivered to DTC or its nominee or a custodian therefor, and (v) shall contain the following legend on the face thereof:

> Unless this certificate is presented by an authorized representative of The Depository Trust Company, a New York corporation ("DTC"), to issuer or its agent for registration of transfer, exchange or payment, and any certificate issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered holder hereof, Cede & Co., has an interest herein.

Unless and until it is exchanged in whole or in part for Bonds of Series Due 2019 in definitive certificated form, each Global Security representing the Bonds of Series Due 2019 may not be transferred except as a whole by DTC to a nominee of DTC or by a nominee of DTC to DTC or another nominee of DTC or by DTC or any such nominee to a successor securities depository or a nominee of any such successor securities depository.

(c) The Trustee and the Company may treat DTC or its nominee, or any successor securities depository or nominee thereof (collectively, the "Depository") as the sole and exclusive owner of the Bonds of Series Due 2019, registered in its name for the purposes of payment of the principal or redemption price of or interest on the Bonds of Series Due 2019, giving any notice permitted or required to be given to Holders of the Bonds of Series Due 2019, under this Indenture, registering the transfer of the Bonds of Series Due 2019, obtaining any consent or other action to be taken by Holders of the Bonds of Series Due 2019, and for all other purposes whatsoever and neither the Trustee nor the Company shall be affected by any notice to the contrary. Neither the Company nor the Trustee nor any Security Registrar nor any Paying Agent shall have any responsibility or obligation to any Participant, any Person claiming a beneficial ownership interest in the Bonds of Series Due 2019 under or through the Depository or any Participant, or any other Person which is not shown on the Security Register as being a Holder of the Bonds of Series Due 2019 with respect to (i) the accuracy of any records maintained by the Depository or any Participant; (ii) the payment by the Depository to any Participant of any amount in respect of the principal or Redemption Price of or interest on the Bonds of Series Due 2019; (iii) the payment by any Participant to any owner of a beneficial ownership interest in the Bonds of Series Due 2019, in respect of the principal or Redemption Price of or interest on the Bonds of Series Due 2019 or (iv) any consent or other action taken by the Depository as owner of the Bonds of Series Due 2019. The Trustee shall pay all principal or Redemption Price of and interest on the Bonds of Series Due 2019 only to or upon the order of the registered Holder or Holders of the Bonds of Series Due 2019, as shown on the Security Register, and all such payments shall be valid and effective to fully satisfy and discharge the Company's obligations with respect to the principal or Redemption Price of and interest on the Bonds of Series Due 2019, to the extent of the sum or sums so paid. Except as hereinafter

provided, no Person other than a Holder of the Bonds of Series Due 2019, as shown on the Security Register, shall receive an authenticated Bond evidencing the obligation of the Company to make payment of the principal or Redemption Price of and interest on the Bonds of Series Due 2019, pursuant to this Indenture. Upon delivery by DTC to the Trustee of written notice to the effect that DTC has determined to substitute a new nominee for Cede & Co, and subject to the provisions of this Indenture, the word "Cede & Co.", as used in this Indenture, shall refer to each new nominee of DTC.

(d) In the event that after the occurrence of an Event of Default that has not been cured or waived, holders of a majority in aggregate principal amount of the beneficial interests in the Bonds of Series Due 2019, as reflected in the books and records of the Depository, notify the Trustee, through the Depository or any Participant, that the continuation of the Book-Entry System is no longer in the best interests of such holders of beneficial interests in the Bonds of such Series, then the Trustee shall notify the Depository and the Company, and the Depository will notify the Participants of the availability through the Depository of definitive certificated Bonds of such Series. In such event, the Company shall execute, and the Trustee, upon receipt of a Company Order, for the authentication and delivery of definitive certificated Bonds of Series Due 2019, will authenticate and deliver Bonds of such Series in definitive certificated form, in any authorized denominations, all pursuant to the provisions of this Indenture, to the Person or Persons specified to the Trustee in writing by the Depository in the aggregate principal amount of the applicable Global Security or Securities and in exchange for such Global Security or Securities.

(e) If at any time the Depository notifies the Company that it is unwilling or unable to continue as Depository for the Bonds of Series Due 2019, or if at any time the Depository shall no longer be registered as a clearing agency in good standing under the Exchange Act or other applicable statute or regulation, the Company may appoint a successor Depository with respect to the Bonds of such Series. If a successor Depository for the Bonds of such Series is not appointed by the Company within 90 days after the Company receives such notice or becomes aware of such condition, the Company will execute, and the Trustee, upon receipt of a Company Order for the authentication and delivery of definitive certificated Bonds of Series Due 2019, will authenticate and deliver Bonds of such Series in definitive certificated form, in any authorized denominations, all pursuant to the provisions of this Indenture, to the Person or Persons specified to the Trustee in writing by the Depository in the aggregate principal amount of the applicable Global Security or Global Securities and in exchange for such Global Security or Global Securities.

(f) The Company may at any time and in its sole discretion and subject to the procedures of the Depository determine that the Bonds of Series Due 2019 shall no longer be represented by a Global Security or Global Securities. In such event the Company will execute, and the Trustee, upon receipt of a Company Order for the authentication and delivery of definitive certificated Bonds of Series Due 2019, will authenticate and deliver Bonds of Series Due 2019 in definitive certificated form, in any authorized denominations, all pursuant to the provisions of this Indenture, to the Person or Persons specified to the Trustee in writing by the Depository in the aggregate principal amount of the Global Security or Global Securities and in exchange for such Global Security or Global Securities.

(g) Upon the exchange of any Global Security for the Bonds of Series Due 2019 in definitive certificated form, in authorized denominations, the Global Security or Global Securities shall be cancelled by the Trustee.

(h) Whenever the Depository requests the Company and the Trustee to do so, the Trustee and the Company will cooperate with the Depository in taking appropriate action after reasonable notice to (i) make available one or more separate Global Securities evidencing the Bonds of Series Due 2019 to any Participant having such Bonds of Series Due 2019 credited to its account at the Depository, or (ii) arrange for another Depository to maintain custody of the Global Security or Securities evidencing the Bonds of Series Due 2019.

(i) In connection with any notice or other communication to be provided to Holders of the Bonds of Series Due 2019 pursuant to this Indenture by the Company or the Trustee with respect to any consent or other action to be taken by Holders of such Bonds of Series Due 2019, the Company or the Trustee, as the case may be, shall establish a record date for such consent or other action and give the Depository notice of such record date not less than 15 calendar days in advance of such record date to the extent possible. Such notice to the Depository shall be given only so long as a Depository or its nominee is the sole Holder of the Bonds of Series Due 2019.

SECTION 4.04. DATE OF BONDS OF SERIES DUE 2019.

Each Bond of Series Due 2019 issued prior to the first Interest Payment Date therefor shall be dated as of March , 2009, and otherwise shall be dated as provided in Section 3.03 of this Indenture.

SECTION 4.05. MATURITY DATES, INTEREST RATES, INTEREST PAYMENT DATES AND REGULAR RECORD DATES FOR BONDS OF SERIES DUE 2019.

All Bonds of Series Due 2019 shall be due and payable on April 1, 2019, and shall bear interest from the date of original issuance thereof or the last date to which interest has been paid or duly provided for at the rate of % per annum, payable semi-annually on the first day of April and October in each year, commencing October 1, 2009 (each such date being an Interest Payment Date for Bonds of Series Due 2019).

Subject to certain exceptions provided in this Indenture, the interest payable on any Interest Payment Date for Bonds of Series Due 2019 shall be paid to the Person in whose name a Bond of Series Due 2019 shall be registered at the close of business on the Regular Record Date for the Bonds of Series Due 2019 (as defined in the form of the Bonds of Series Due 2019 set forth in Section 4.10) or, in the case of any Defaulted Interest therefor, in the manner and to the Person as provided in Section 3.07 of this Indenture. If any Interest Payment Date for Bonds of Series Due 2019 should fall on a day that is not a Business Day, then the interest payment shall be made on the next succeeding Business Day and no interest shall accrue for the intervening period with respect to the payment so deferred.

SECTION 4.06. PLACE AND MANNER OF PAYMENT OF BONDS OF SERIES DUE 2019.

Subject to agreements with or the rules of the Depository or any successor book-entry security system or similar system with respect to Global Securities, both the principal of and the interest on the Bonds of Series Due 2019 shall be payable in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts, at the office or agency of the Company in Cincinnati, Ohio, or, at the option of the Holder thereof, at the office or agency of the Company in the Borough of Manhattan, the City of New York, State of New York, except that interest on the Bonds of Series Due 2019 may be paid, at the option of the Company, by check or draft mailed to the address of the Person entitled thereto as it appears on the Security Register.

SECTION 4.07. DENOMINATIONS AND NUMBERING OF DEFINITIVE BONDS OF SERIES DUE 2019.

Definitive Bonds of Series Due 2019 shall be issuable in denominations of $2,000 and multiples of $1,000 in excess thereof, numbered consecutively from "R-1" upward.

SECTION 4.08. TEMPORARY BONDS OF SERIES DUE 2019 AND EXCHANGE THEREOF.

Pursuant to the provisions of Section 3.04 of this Indenture, Bonds of Series Due 2019 may be issued in temporary form, and if temporary bonds be issued, the Company shall, with all reasonable dispatch, at its own expense and without charge to the holders of the temporary bonds, prepare and execute definitive Bonds of Series Due 2019 and exchange the temporary bonds for such definitive bonds in the manner provided for in said Section, provided, however, no presentation or surrender of temporary Bonds of Series Due 2019 shall be necessary in order for the Holders entitled to interest thereon to receive such interest.

SECTION 4.09. REDEMPTION PROVISIONS OF THE BONDS OF SERIES DUE 2019.

(a) The Bonds of Series Due 2019 may be redeemed at the option of the Company, as a whole or in part at any time, at a redemption price equal to the greater of (1) 100% of the principal amount of the Bonds of Series Due 2019 to be redeemed and (2) the sum of the present values of the remaining scheduled payments of principal and interest thereon (exclusive of interest accrued to the Redemption Date), discounted to the Redemption Date on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus % (basis points), plus, in each case, accrued interest to the Redemption Date. For the avoidance of doubt, interest that is due and payable on an Interest Payment Date for the Bonds of Series Due 2019 falling on or prior to a Redemption Date therefor will be payable on such Interest Payment Date in accordance with the Bonds of Series Due 2019 and this Indenture. The Company shall notify the Trustee of the Redemption Price with respect to any redemption pursuant to this paragraph promptly after the calculation thereof. The Trustee shall not be responsible for calculating said Redemption Price.

(b) For purposes of this Section, except as otherwise expressly provided or unless the context otherwise requires:

"Business Day" means any day other than a day on which banks in New York City are required or authorized to be closed.

"Comparable Treasury Issue" means the United States Treasury security or securities selected by the Quotation Agent as having an actual or interpolated maturity comparable to the remaining term of the Bonds of Series Due 2019 to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of a comparable maturity to the remaining term of the Bonds of Series Due 2019.

"Comparable Treasury Price" means, with respect to any Redemption Date for the Bonds of Series Due 2019, (A) the average of the Reference Treasury Dealer Quotations for such Redemption Date, after excluding the highest and lowest such Reference Treasury Dealer Quotations, or (B) if the Quotation Agent obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

"Quotation Agent" means one of the Reference Treasury Dealers appointed by the Company.

"Reference Treasury Dealer" means each of Barclays Capital Inc., Deutsche Bank Securities Inc. and UBS Securities LLC, plus two other financial institutions appointed by the Company at the time of any redemption or their affiliates which are primary U.S. Government securities dealers, and their respective successors; provided, however, that if any of the foregoing or their affiliates shall cease to be a primary U.S. Government securities dealer in the United States (a "Primary Treasury Dealer"), the Company shall substitute therefor another Primary Treasury Dealer.

"Reference Treasury Dealer Quotations" means, with respect to each Reference Treasury Dealer and any Redemption Date, the average, as determined by the Quotation Agent, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Quotation Agent by the Reference Treasury Dealers at 3:30 p.m., New York time, on the third Business Day preceding such Redemption Date.

"Treasury Rate" means, with respect to any Redemption Date, the rate per annum equal to the semiannual equivalent yield to maturity or interpolated maturity (on a day count basis) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such Redemption Date.

(c) Notice of any redemption by the Company will be mailed at least thirty (30) days but not more than sixty (60) days before any Redemption Date to each Holder of Bonds of Series Due 2019 to be redeemed. If less than all the Bonds of Series Due 2019 are to be redeemed at the option of the Company, the Trustee shall select, in such manner as it shall deem fair and appropriate, the Bonds of Series Due 2019 to be redeemed in whole or in part.

(d) Unless the Company defaults in payment of the Redemption Price therefor, on and after any Redemption Date therefor, interest will cease to accrue on the Bonds of Series Due 2019 or portions thereof called for redemption.

(e) The Company shall indemnify and hold harmless the Trustee from any and all losses, costs, damages, expenses, fees (including reasonable attorneys' fees), court costs, judgments, penalties, obligations, suits, disbursements and liabilities of any kind or character whatsoever which may at any time be imposed upon, incurred by or asserted against the Trustee by reason of or arising out of or caused, directly or indirectly, by any act or omission of the Trustee with respect to this Section 4.09, except for such that would arise out of the gross negligence, willful misconduct or bad faith of the Trustee and except for costs and expenses arising in the ordinary course of the Trustee's business.

SECTION 4.10. FORM OF THE BONDS OF SERIES DUE 2019.

The Bonds of Series Due 2019 and the Trustee's certificate to be endorsed thereon shall be substantially in the following form:

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(FORM OF BOND OF SERIES DUE 2019)

[Unless this certificate is presented by an authorized representative of The Depository Trust Company, a New York corporation ("DTC"), to issuer or its agent for registration of transfer, exchange or payment, and any certificate issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered holder hereof, Cede & Co., has an interest herein.][1]

No. R-
CUSIP No:
ISIN:

$_____

DUKE ENERGY OHIO, INC.
FIRST MORTGAGE BOND, % SERIES,
DUE APRIL 1, 2019

Duke Energy Ohio, Inc., an Ohio corporation (hereinafter called the "Company"), for value received, hereby promises to pay to _____, or registered assigns, the principal sum of_____ Dollars ($) on the first day of April, 2019 and to pay interest on said sum from the date hereof or from the most recent date to which interest has been paid or duly provided for, until said principal sum is paid or made available for payment, at the rate of % per annum, payable semi-annually on the first day of April and October in each year, commencing October 1, 2009 (each such date herein called an "Interest Payment Date"). Both the principal of and the interest on this bond shall be payable in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts at the office or agency of the Company in Cincinnati, Ohio, or, at the option of the registered owner hereof, at the office or agency of the Company in the Borough of Manhattan, the City of New York, State of New York, except that interest on this bond may be paid, at the option of the Company, by check or draft mailed to the address of the Person entitled thereto as it appears on the Security Register.

This bond is one of the Securities of the Company issued and to be issued from time to time under and in accordance with and all secured by a First Mortgage Indenture, dated as of August 1, 1936, from the Company to The Bank of New York Mellon Trust Company, N.A., as successor Trustee (which indenture as amended by all supplemental indentures is hereinafter referred to as the "Indenture"). Said Trustee or its successor in trust under the Indenture is hereinafter sometimes referred to as the "Trustee." Reference is hereby made to the Indenture for a description of the property mortgaged and pledged and the nature and extent of the security for said Securities. Capitalized terms not otherwise defined herein have the meanings specified therefor in the Indenture. By the terms of the Indenture, the Securities secured thereby are issuable in series which may vary as to date, amount, date of maturity, rate of interest and in other respects as in the Indenture provided.

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1 This should be included only if the Bonds of Series Due 2019 are being issued in global form.

This bond is one of a series designated as "First Mortgage Bonds, % Series, Due April 1, 2019" (hereinafter referred to as the "Bonds of Series Due 2019") of the Company issued under and secured by the Indenture and created by a Fortieth Supplemental Indenture, dated as of March , 2009, which Supplemental Indenture also amends and restates in its entirety the Indenture.

Subject to certain exceptions provided in the Indenture, the interest payable on any Interest Payment Date shall be paid to the Person in whose name this bond shall be registered at the close of business on the Regular Record Date (hereinafter defined) or, in the case of Defaulted Interest therefor, in the manner and to the person as provided in the Indenture. If any Interest Payment Date should fall on a day that is not a Business Day, then the interest payment shall be made on the next succeeding Business Day and no interest shall accrue for the intervening period with respect to the payment so deferred.

The term "Regular Record Date" shall mean, with respect to any Interest Payment Date for any Bonds of Series Due 2019, the close of business on the fifteenth (15th) calendar day next preceding the respective Interest Payment Date (whether or not a Business Day); provided, however, that so long as the Bonds of Series Due 2019 are held by a Depository in the form of one or more Global Securities, the Regular Record Date with respect to each Interest Payment Date will be the close of business on the Business Day before the applicable Interest Payment Date.

The Bonds of Series Due 2019 may be redeemed at the option of the Company, as a whole or in part at any time, at a Redemption Price equal to the greater of (1) 100% of the principal amount of the Bonds of Series Due 2019 to be redeemed and (2) the sum of the present values of the remaining scheduled payments of principal and interest thereon (exclusive of interest accrued to the Redemption Date), discounted to the Redemption Date on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus % (basis points), plus, in the case of each of clause (1) and (2), accrued and unpaid interest, if any, to the Redemption Date. For the avoidance of doubt, interest that is due and payable on an Interest Payment Date falling on or prior to a Redemption Date therefor will be payable on such Interest Payment Date in accordance with the Bonds of Series Due 2019 and the Indenture.

Notice of any redemption by the Company will be mailed at least thirty (30) days but not more than sixty (60) days before any Redemption Date to each Holder of Bonds of Series Due 2019 to be redeemed. If less than all the Bonds of Series Due 2019 are to be redeemed at the option of the Company, the Trustee shall select, in such manner as it shall deem fair and appropriate, the Bonds of Series Due 2019 to be redeemed..

The Bonds of Series Due 2019 are not otherwise redeemable prior to their maturity.

Unless the Company defaults in payment of the Redemption Price, on and after any Redemption Date for the Bonds of Series Due 2019, interest will cease to accrue on the Bonds of Series Due 2019 or portions thereof called for redemption.

In the case of any of certain Events of Default specified in the Indenture, the principal of this bond may be declared or may become due and payable prior to the stated date of maturity hereof in the manner and with the effect provided in the Indenture.

No recourse shall be had for the payment of the principal of or interest on this bond, or for any claim based hereon, or otherwise in respect hereof or of the Indenture, to or against any incorporator, shareholder, officer or director, past, present or future, of the Company or of any predecessor or successor company, either directly or through the Company or such predecessor or successor company, under any constitution or statute or rule of law, or by the enforcement of any assessment or penalty, or otherwise, all such liability of incorporators, shareholders, directors and officers being waived and released by the registered owner hereof by the acceptance of this bond and being likewise waived and released by the terms of the Indenture.

The Bonds of Series Due 2019 are issuable only in registered form without coupons. This bond is transferable by the registered owner hereof, in person or by an attorney duly authorized, at the Corporate Trust Office of The Bank of New York Mellon Trust Company, N.A., the Trustee, or its successor in trust under the Indenture, or, at the option of the registered owner, at the office or agency of the Company in the Borough of Manhattan, the City of New York, State of New York, upon the surrender and cancellation of this bond, and upon any such transfer a new registered Security or Securities of the same series and maturity date and for the same aggregate principal amount will be issued to the transferee in exchange herefor.

The Bonds of Series Due 2019 are issuable in denominations of $2,000 and multiples of $1,000 in excess thereof. In the manner and subject to the limitations provided in the Indenture, Bonds of Series Due 2019 are exchangeable as between authorized denominations, upon presentation thereof for such purpose by the registered owner, at the Corporate Trust Office of The Bank of New York Mellon Trust Company, N.A., the Trustee, or its successor in trust under the Indenture, or, at the option of the registered owner, at the office or agency of the Company in the Borough of Manhattan, the City of New York, State of New York.

No service charge will be made for any transfer or exchange of this bond, but the Company may require a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

This bond shall not be valid or become obligatory for any purpose unless and until it shall have been authenticated by the execution by the Trustee, or its successor in trust under the Indenture, of the certificate endorsed hereon.

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IN WITNESS WHEREOF, Duke Energy Ohio, Inc. has caused this bond to be executed in its name by the manual or facsimile signature of an Authorized Officer.

Dated as of:

DUKE ENERGY OHIO, INC.

By _____
[Name]
Authorized Officer

TRUSTEE'S CERTIFICATE OF AUTHENTICATION

This is one of the Securities of the series designated therein referred to in the within-mentioned Indenture.

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., AS TRUSTEE

By _____
Authorized Signatory

[END OF ARTICLE FOUR]

ARTICLE FIVE.

REDEMPTION OF SECURITIES

SECTION 5.01. APPLICABILITY OF ARTICLE.

Securities of any series, or any Tranche thereof, which are redeemable before their Stated Maturity shall be redeemable in accordance with their terms and (except as otherwise specified as contemplated by Section 3.01 for Securities of such series or Tranche) in accordance with this Article.

SECTION 5.02. ELECTION TO REDEEM; NOTICE TO TRUSTEE.

The election of the Company to redeem any Securities shall be evidenced by a Board Resolution or an Officer's Certificate. The Company shall, at least 40 days prior to the Redemption Date fixed by the Company (unless a shorter notice shall be satisfactory to the Trustee), notify the Trustee in writing of such Redemption Date and of the principal amount of such Securities to be redeemed. In the case of any redemption of Securities which are subject to the prior compliance with any restriction or condition on such redemption provided in the terms of such Securities or elsewhere in this Indenture, the Company shall furnish the Trustee with an Officer's Certificate evidencing compliance with such restriction or condition.

SECTION 5.03. SELECTION OF SECURITIES TO BE REDEEMED.

If less than all the Securities of any series, or any Tranche thereof, are to be redeemed, the particular Securities to be redeemed shall be selected by the Trustee from the Outstanding Securities of such series or Tranche not previously called for redemption, by such method as shall be provided for such particular series or Tranche, or in the absence of any such provision, by such method of random selection as the Trustee shall deem fair and appropriate and which may, in any case, provide for the selection for redemption of portions (equal to any authorized denomination for Securities of such series or Tranche) of the principal amount of Securities of such series or Tranche of a denomination larger than the minimum authorized denomination for Securities of such series or Tranche; provided, however, that if, as indicated in an Officer's Certificate, the Company shall have offered to purchase all or any principal amount of the Securities then Outstanding of any series, or any Tranche thereof, and less than all of such Securities as to which such offer was made shall have been tendered to the Company for such purchase, the Trustee, if so directed by Company Order, shall select for redemption all or any principal amount of such Securities which have not been so tendered.

The Trustee shall promptly notify the Company and the Security Registrar in writing of the Securities selected for redemption and, in the case of any Securities selected to be redeemed in part, the principal amount thereof to be redeemed.

For all purposes of this Indenture, unless the context otherwise requires, all provisions relating to the redemption of Securities shall relate, in the case of any Securities redeemed or to be redeemed only in part, to the portion of the principal amount of such Securities which has been or is to be redeemed.

SECTION 5.04. NOTICE OF REDEMPTION.

Except as otherwise specified as contemplated by Section 3.01 for Securities of any series, notice of redemption shall be given in the manner provided in Section 1.08 to the Holders of the Securities to be redeemed not less than 30 days prior to the Redemption Date.

Except as otherwise specified as contemplated by Section 3.01 for Securities of any series, all notices of redemption shall state:

(a) the Redemption Date,

(b) the Redemption Price (if known),

(c) if less than all the Securities of any series or Tranche are to be redeemed, the identification of the particular Securities to be redeemed and the portion of the principal amount of any Security to be redeemed in part,

(d) that on the Redemption Date the Redemption Price, together with accrued interest, if any, to the Redemption Date, will become due and payable upon each such Security to be redeemed and, if applicable, that interest thereon will cease to accrue on and after said date,

(e) the place or places where such Securities are to be surrendered for payment of the Redemption Price and accrued interest, if any, unless it shall have been specified as contemplated by Section 3.01 with respect to such Securities that such surrender shall not be required,

(f) that the redemption is for a sinking or other fund, if such is the case,

(g) the CUSIP, ISIN or other similar numbers, if any, assigned to such Securities; provided, however, that such notice may state that no representation is made as to the correctness of CUSIP, ISIN or other similar numbers, in which case none of the Company, the Trustee or any agent of the Company or the Trustee shall have any liability in respect of the use of any CUSIP, ISIN or other similar number or numbers on such notices, and the redemption of such Securities shall not be affected by any defect in or omission of such numbers, and

(h) such other matters as the Company shall deem desirable or appropriate.

Unless otherwise specified with respect to any Securities in accordance with Section 3.01, with respect to any notice of redemption of Securities at the election of the Company, unless, upon the giving of such notice, such Securities shall be deemed to have been paid in accordance with Section 8.01, such notice may state that such redemption shall be conditional upon the receipt by the Paying Agent or Agents for such Securities, on or prior to the date fixed for such redemption, of money sufficient to pay the principal of and premium, if any, and interest, if any, on such Securities and that if such money shall not have been so received such notice shall be of no force or effect and the Company shall not be required to redeem such Securities. In the event that such notice of redemption contains such a condition and such money is not so received, the redemption shall not be made and within a reasonable time thereafter notice shall be given, in the manner in which the notice of redemption was given, that such

money was not so received and such redemption was not required to be made, and the Paying Agent or Agents for the Securities otherwise to have been redeemed shall promptly return to the Holders thereof any of such Securities which had been surrendered for payment upon such redemption. Notice of redemption of Securities to be redeemed at the election of the Company, and any notice of non-satisfaction of a condition for redemption as aforesaid, shall be given by the Company or, at the Company's request, by the Security Registrar in the name and at the expense of the Company. Except as provided in Section 6.03, notice of any mandatory redemption of Securities shall be given by the Security Registrar in the name and at the expense of the Company.

SECTION 5.05. SECURITIES PAYABLE ON REDEMPTION DATE.

Notice of redemption having been given as aforesaid, and the conditions, if any, set forth in such notice having been satisfied, the Securities or portions thereof so to be redeemed shall, on the Redemption Date, become due and payable at the Redemption Price therein specified, and from and after such date (unless, in the case of an unconditional notice of redemption, the Company shall default in the payment of the Redemption Price and accrued interest, if any) such Securities or portions thereof, if interest-bearing, shall cease to bear interest. Upon surrender of any such Security for redemption in accordance with such notice, such Security or portion thereof shall be paid by the Company at the Redemption Price, together with accrued interest, if any, to the Redemption Date; provided, however, that no such surrender shall be a condition to such payment if so specified as contemplated by Section 3.01 with respect to such Security; and provided, further, that except as otherwise specified as contemplated by Section 3.01 with respect to such Security, any installment of interest on any Security the Stated Maturity of which installment is on or prior to the Redemption Date shall be payable to the Holder of such Security, or one or more Predecessor Securities, registered as such at the close of business on the related Regular Record Date according to the terms of such Security and subject to the provisions of Sections 3.05 and 3.07.

SECTION 5.06. SECURITIES REDEEMED IN PART.

Upon the surrender of any Security which is to be redeemed only in part at a Place of Payment therefor (with, if the Company or the Trustee so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Company and the Trustee duly executed by, the Holder thereof or his attorney duly authorized in writing), the Company shall execute, and the Trustee shall authenticate and deliver to the Holder of such Security, without service charge, a new Security or Securities of the same series and Tranche, of any authorized denomination requested by such Holder and of like tenor and in aggregate principal amount equal to and in exchange for the unredeemed portion of the principal of the Security so surrendered.

[END OF ARTICLE FIVE]

ARTICLE SIX.

SINKING FUNDS

SECTION 6.01. APPLICABILITY OF ARTICLE.

The provisions of this Article shall be applicable to any sinking fund for the retirement of the Securities of any series, or any Tranche thereof, except as otherwise specified as contemplated by Section 3.01 for Securities of such series or Tranche.

The minimum amount of any sinking fund payment provided for by the terms of Securities of any series, or any Tranche thereof, is herein referred to as a "mandatory sinking fund payment", and any payment in excess of such minimum amount provided for by the terms of Securities of any series, or any Tranche thereof, is herein referred to as an "optional sinking fund payment". If provided for by the terms of Securities of any series, or any Tranche thereof, the cash amount of any sinking fund payment may be subject to reduction as provided in Section 6.02. Each sinking fund payment shall be applied to the redemption of Securities of the series or Tranche in respect of which it was made as provided for by the terms of such Securities.

SECTION 6.02. SATISFACTION OF SINKING FUND PAYMENTS WITH SECURITIES.

The Company (a) may deliver to the Trustee Outstanding Securities (other than any previously called for redemption) of a series or Tranche in respect of which a mandatory sinking fund payment is to be made and (b) may apply as a credit Securities of such series or Tranche which have been redeemed either at the election of the Company pursuant to the terms of such Securities or through the application of permitted optional sinking fund payments pursuant to the terms of such Securities, in each case in satisfaction of all or any part of such mandatory sinking fund payment with respect to the Securities of such series; provided, however, that no Securities shall be applied in satisfaction of a mandatory sinking fund payment if such Securities shall have been previously so applied. Securities so applied shall be received and credited for such purpose by the Trustee at the Redemption Price specified in such Securities for redemption through operation of the sinking fund and the amount of such mandatory sinking fund payment shall be reduced accordingly.

SECTION 6.03. REDEMPTION OF SECURITIES FOR SINKING FUND.

Not less than 40 days prior to each sinking fund payment date for the Securities of any series, or any Tranche thereof, the Company shall deliver to the Trustee an Officer's Certificate specifying:

(a) the amount of the next succeeding mandatory sinking fund payment for such series or Tranche;

(b) the amount, if any, of the optional sinking fund payment to be made together with such mandatory sinking fund payment;

(c) the aggregate sinking fund payment; and

(d) the portion, if any, of such aggregate sinking fund payment which is to be satisfied by the payment of cash;

(e) the portion, if any, of such aggregate sinking fund payment which is to be satisfied by delivering and crediting Securities of such series or Tranche pursuant to Section 6.02 and stating the basis for such credit and that such Securities have not previously been so credited, and the Company shall also deliver to the Trustee any Securities to be so delivered.

If the Company shall not deliver such Officer's Certificate and, to the extent applicable, all such Securities, the next succeeding sinking fund payment for such series or Tranche shall be made entirely in cash in the amount of the mandatory sinking fund payment. Not less than 30 days before each such sinking fund payment date the Trustee shall select the Securities to be redeemed upon such sinking fund payment date in the manner specified in Section 5.03 and cause notice of the redemption thereof to be given in the name of and at the expense of the Company in the manner provided in Section 5.04. Such notice having been duly given, the redemption of such Securities shall be made upon the terms and in the manner stated in Sections 5.05 and 5.06.

[END OF ARTICLE SIX]

ARTICLE SEVEN.

REPRESENTATIONS AND COVENANTS

SECTION 7.01. PAYMENT OF SECURITIES; LAWFUL POSSESSION.

(a) The Company shall pay the principal of and premium, if any, and interest, if any, on the Securities of each series in accordance with the terms of such Securities and this Indenture.

(b) At the Execution Date, the Company is lawfully possessed of the Mortgaged Property and has sufficient right and authority to mortgage and pledge the Mortgaged Property, as provided in and by this Indenture.

SECTION 7.02. MAINTENANCE OF OFFICE OR AGENCY.

The Company shall maintain in each Place of Payment for the Securities of each series, or any Tranche thereof, an office or agency where payment of such Securities shall be made, where the registration of transfer or exchange of such Securities may be effected and where notices and demands to or upon the Company in respect of such Securities and this Indenture may be served.

The Company shall give prompt written notice to the Trustee of the location, and any change in the location, of each such office or agency and prompt notice to the Holders of any such change in the manner specified in Section 1.08. If at any time the Company shall fail to maintain any such required office or agency or shall fail to furnish the Trustee with the address thereof, then payment of such Securities shall be made, registration of transfer or exchange thereof may be effected and notices and demands in respect of such Securities and this Indenture may be served at the Corporate Trust Office of the Trustee, and the Company hereby appoints the Trustee as its agent for all such purposes in any such event.

The Company may also from time to time designate one or more other offices or agencies with respect to the Securities of one or more series, or any Tranche thereof, for any or all of the foregoing purposes and may from time to time rescind such designations; provided, however, that, unless otherwise specified as contemplated by Section 3.01 with respect to the Securities of such series or Tranche, no such designation or rescission shall in any manner relieve the Company of its obligation to maintain an office or agency for such purposes in each Place of Payment for such Securities in accordance with the requirements set forth above. The Company shall give prompt written notice to the Trustee, and prompt notice to the Holders in the manner specified in Section 1.08, of any such designation or rescission and of any change in the location of any such other office or agency.

Anything herein to the contrary notwithstanding, any office or agency required by this Section may be maintained at an office of the Company or an Affiliate of the Company, in which event the Company or such Affiliate shall perform all functions to be performed at such office or agency.

SECTION 7.03. MONEY FOR SECURITIES PAYMENTS TO BE HELD IN TRUST.

If the Company shall at any time act as its own Paying Agent with respect to the Securities of any series, or any Tranche thereof, it shall, on or before each due date of the principal of and premium, if any, and interest, if any, on any of such Securities, segregate and hold in trust for the benefit of the Persons entitled thereto a sum sufficient to pay the principal and premium or interest so becoming due until such sums shall be paid to such Persons or otherwise disposed of as herein provided. The Company shall promptly notify the Trustee of any failure by the Company (or any other obligor on such Securities) to make any payment of principal of or premium, if any, or interest, if any, on such Securities.

Whenever the Company shall have one or more Paying Agents for the Securities of any series, or any Tranche thereof, it shall, on or before each due date of the principal of and premium, if any, and interest, if any, on such Securities, deposit with such Paying Agents sums sufficient (without duplication) to pay the principal and premium or interest so becoming due, such sums to be held in trust for the benefit of the Persons entitled to such principal, premium or interest, and (unless such Paying Agent is the Trustee) the Company shall promptly notify the Trustee of any failure by it so to act.

The Company shall cause each Paying Agent for the Securities of any series, or any Tranche thereof, other than the Company or the Trustee, to execute and deliver to the Trustee an instrument in which such Paying Agent shall agree with the Trustee, subject to the provisions of this Section, that such Paying Agent shall:

(a) hold all sums held by it for the payment of the principal of and premium, if any, or interest, if any, on such Securities in trust for the benefit of the Persons entitled thereto until such sums shall be paid to such Persons or otherwise disposed of as herein provided;

(b) give the Trustee notice of any failure by the Company (or any other obligor upon such Securities) to make any payment of principal of or premium, if any, or interest, if any, on such Securities; and

(c) at any time during the continuance of any such failure, upon the written request of the Trustee, forthwith pay to the Trustee all sums so held in trust by such Paying Agent and furnish to the Trustee such information as it possesses regarding the names and addresses of the Persons entitled to such sums.

The Company may at any time pay, or by Company Order direct any Paying Agent to pay, to the Trustee all sums held in trust by the Company or such Paying Agent, such sums to be held by the Trustee upon the same trusts as those upon which such sums were held by the Company or such Paying Agent and, if so stated in a Company Order delivered to the Trustee, in accordance with the provisions of Article Seven; and, upon such payment by any Paying Agent to the Trustee, such Paying Agent shall be released from all further liability with respect to such money.

Any money deposited with the Trustee or any Paying Agent, or then held by the Company, in trust for the payment of the principal of and premium, if any, or interest, if any, on any Security and remaining unclaimed for two years after such principal and premium, if any, or interest, if any, has become due and payable shall to the extent permitted by law be paid to the Company on Company Request, or, if then held by the Company, shall be discharged from such trust; and, upon such payment or discharge, the Holder of such Security shall, as an unsecured general creditor and not as the Holder of an Outstanding Security, look only to the Company for payment of the amount so due and payable and remaining unpaid unless the applicable law provides otherwise, and all liability of the Trustee or such Paying Agent with respect to such trust money, and all liability of the Company as trustee thereof, shall thereupon cease; provided, however, that the Trustee or such Paying Agent, before being required to make any such payment to the Company, may at the expense of the Company cause to be mailed, on one occasion only, notice to such Holder that such money remains unclaimed and that, after a date specified therein, which shall not be less than thirty (30) days from the date of such mailing, any unclaimed balance of such money then remaining will be paid to the Company.

SECTION 7.04. CORPORATE EXISTENCE.

Subject to the rights of the Company under Article Twelve, the Company shall do or cause to be done all things necessary to preserve and keep in full force and effect its legal existence as a corporation.

SECTION 7.05. ANNUAL OFFICER'S CERTIFICATE AS TO COMPLIANCE.

Not later than October 1 in each year, commencing October 1, 2009, the Company shall deliver to the Trustee an Officer's Certificate which need not comply with the requirements of Section 1.04, executed by the principal executive officer, the principal financial officer or the principal accounting officer of the Company, as to such officer's knowledge of the Company's compliance with all conditions and covenants under this Indenture, such compliance to be determined without regard to any period of grace or requirement of notice under this Indenture, and making any other statements as may be required by the provisions of Section 314(a)(4) of the Trust Indenture Act.

SECTION 7.06. WAIVER OF CERTAIN COVENANTS.

The Company may omit in any particular instance to comply with any term, provision or condition set forth in (a) Section 7.02 or any additional covenant or restriction specified with respect to the Securities of any series, or any Tranche thereof, as contemplated by Section 3.01, if before the time for such compliance the Holders of a majority in aggregate principal amount of the Outstanding Securities of all series and Tranches with respect to which compliance with Section 7.02 or such additional covenant or restriction is to be omitted, considered as one class, shall, by Act of such Holders, either waive such compliance in such instance or generally waive compliance with such term, provision or condition and (b) Section 7.04, 7.05 or Article Twelve if before the time for such compliance the Holders of a majority in principal amount of Securities Outstanding under this Indenture shall, by Act of such Holders, either waive such compliance in such instance or generally waive compliance with such term, provision or condition; but, in the case of (a) or (b), no such waiver shall extend to or affect such term, provision or condition

except to the extent so expressly waived, and, until such waiver shall become effective, the obligations of the Company and the duties of the Trustee in respect of any such term, provision or condition shall remain in full force and effect.

[END OF ARTICLE SEVEN]

ARTICLE EIGHT.

SATISFACTION AND DISCHARGE

SECTION 8.01. SATISFACTION AND DISCHARGE OF SECURITIES.

Any Security or Securities, or any portion of the principal amount thereof, shall be deemed to have been paid and no longer Outstanding for all purposes of this Indenture, and the entire indebtedness of the Company in respect thereof shall be deemed to have been satisfied and discharged, if there shall have been irrevocably deposited with the Trustee or any Paying Agent (other than the Company), in trust:

(a) money in an amount which shall be sufficient, or

(b) in the case of a deposit made prior to the Maturity of such Securities or portions thereof, Eligible Obligations, which shall not contain provisions permitting the redemption or other prepayment thereof at the option of the issuer thereof, the principal of and the interest on which when due, without any regard to reinvestment thereof, will provide moneys which, together with the money, if any, deposited with or held by the Trustee or such Paying Agent, shall be sufficient in the written opinion of a firm of independent certified public accountants delivered to the Trustee, or

(c) a combination of (a) or (b) which shall be sufficient in the opinion of such firm, to pay when due the principal of and premium, if any, and interest, if any, due and to become due on such Securities or portions thereof on or prior to Maturity; provided, however, that in the case of the provision for payment or redemption of less than all the Securities of any series or Tranche, such Securities or portions thereof shall have been selected by the Trustee as provided herein and, in the case of a redemption of all or less than all the Securities of any series or Tranche, the notice requisite to the validity of such redemption shall have been given or irrevocable authority shall have been given by the Company to the Trustee to give such notice, under arrangements satisfactory to the Trustee; and provided, further, that the Company shall have delivered to the Trustee and such Paying Agent:

(x) if such deposit shall have been made prior to the Maturity of such Securities, a Company Order stating that the money and Eligible Obligations deposited in accordance with this Section shall be held in trust, as provided in Section 8.03;

(y) an Officer's Certificate and Opinion of Counsel, each stating that all conditions precedent herein provided for relating to the deemed payment and, if the Officer's Certificate described in clause (z) below shall have been delivered, satisfaction and discharge of such Securities have been complied with; and

(z) if the Company intends such deposit to satisfy and discharge its indebtedness in respect of such Securities or portions thereof prior to the Maturity of such Securities or portion thereof, an Officer's Certificate stating the Company's intention that, upon delivery of such Officer's Certificate, its indebtedness in respect of such Securities or portions thereof will have been satisfied and discharged as contemplated in this Section.

Upon the deposit of money or Eligible Obligations, or both, in accordance with this Section, together with the documents required by clauses (x), (y) and (z) above, the Trustee shall, upon receipt of a Company Request, acknowledge in writing that the Security or Securities or portions thereof with respect to which such deposit was made are deemed to have been paid for all purposes of this Indenture and that the entire indebtedness of the Company in respect thereof has been satisfied and discharged as contemplated in this Section. In the event that all of the conditions set forth in the preceding paragraph shall have been satisfied in respect of any Securities or portions thereof except that, for any reason, the Officer's Certificate specified in clause (z) shall not have been delivered, such Securities or portions thereof shall nevertheless be deemed to have been paid for all purposes of this Indenture, and the Holders of such Securities or portions thereof shall nevertheless be no longer entitled to the benefits provided by this Indenture, the Lien of this Indenture, or any of the covenants of the Company under Article Seven (except the covenants contained in Sections 7.02 and 7.03) or any other covenants made in respect of such Securities or portions thereof as contemplated by Section 3.01 or Section 13.01(b), but the indebtedness of the Company in respect of such Securities or portions thereof shall not be deemed to have been satisfied and discharged prior to Maturity for any other purpose and the Holders of such Securities or portions thereof shall continue to be entitled to look to the Company for payment of the indebtedness represented thereby; and, upon Company Request, the Trustee shall acknowledge in writing that such Securities or portions thereof are deemed to have been paid for all purposes of this Indenture.

If payment at or prior to Stated Maturity of less than all of the Securities of any series, or any Tranche thereof, is to be provided for in the manner and with the effect provided in this Section, the Trustee shall select such Securities, or portions of principal amount thereof, in the manner specified by Section 5.03 for selection for redemption of less than all the Securities of a series or Tranche.

In the event that Securities which shall be deemed to have been paid for purposes of this Indenture, and, if such is the case, in respect of which the Company's indebtedness shall have been satisfied and discharged, all as provided in this Section, do not mature and are not to be redeemed within the sixty (60) day period commencing with the date of the deposit of moneys or Eligible Obligations, as aforesaid, the Company shall, as promptly as practicable, give a notice, in the same manner as a notice of redemption with respect to such Securities, to the Holders of such Securities to the effect that such deposit has been made and the effect thereof.

Notwithstanding that any Securities shall be deemed to have been paid for purposes of this Indenture, as aforesaid, the obligations of the Company and the Trustee in respect of such Securities under Sections 3.04, 3.05, 3.06, 5.04, 7.02, 7.03, 10.07 and 10.15 and this Article shall survive such deemed payment and any related satisfaction and discharge.

The Company shall pay, and shall indemnify the Trustee or any Paying Agent with which Eligible Obligations shall have been deposited as provided in this Section against, any tax, fee or other charge imposed on or assessed against such Eligible Obligations or the principal or interest received in respect of such Eligible Obligations, including, but not limited to, any such tax payable by any entity deemed, for tax purposes, to have been created as a result of such deposit.

Anything herein to the contrary notwithstanding, (a) if, at any time after a Security would be deemed to have been paid for purposes of this Indenture, and, if such is the case, the Company's indebtedness in respect thereof would be deemed to have been satisfied and discharged, pursuant to this Section (without regard to the provisions of this paragraph), the Trustee or any Paying Agent, as the case may be, (i) shall be required to return the money or Eligible Obligations, or combination thereof, deposited with it as aforesaid to the Company or its representative under any applicable Federal or State bankruptcy, insolvency or other similar law, or (ii) is unable to apply any money in accordance with this Article with respect to any Securities by reason of any order or judgment of any court or Governmental Authority enjoining, restraining or otherwise prohibiting such application, such Security shall thereupon be deemed retroactively not to have been paid and any satisfaction and discharge of the Company's indebtedness in respect thereof shall retroactively be deemed not to have been effected, and such Security shall be deemed to remain Outstanding and (b) any satisfaction and discharge of the Company's indebtedness in respect of any Security shall be subject to the provisions of the last paragraph of Section 7.03.

SECTION 8.02. SATISFACTION AND DISCHARGE OF INDENTURE.

This Indenture shall upon Company Request cease to be of further effect (except as hereinafter expressly provided), and the Trustee, at the expense of the Company, shall execute such instruments as the Company shall reasonably request to evidence and acknowledge the satisfaction and discharge of this Indenture, when:

(a) no Securities remain Outstanding hereunder;

(b) the Company has paid or caused to be paid, or made provision acceptable to the Trustee for payment of, all other sums payable hereunder by the Company; and

(c) the Company has delivered to the Trustee an Officer's Certificate and an Opinion of Counsel, each containing the statements required by Section 1.04;

provided, however, that if, in accordance with the last paragraph of Section 8.01, any Security, previously deemed to have been paid for purposes of this Indenture, shall be deemed retroactively not to have been so paid, this Indenture shall thereupon be deemed retroactively not to have been satisfied and discharged, as aforesaid, and to remain in full force and effect, and the Company shall execute and deliver such instruments as the Trustee shall reasonably request to evidence and acknowledge the same.

Notwithstanding anything to the contrary expressed or implied in this Indenture, the fact that no Securities are Outstanding hereunder at any particular time and that the Company has paid or caused to be paid, or made provision acceptable to Trustee for payment of, all other sums payable hereunder by the Company, shall not operate to render void this Indenture, or any amendment or supplement hereto, nor will the same be deemed a release, satisfaction or discharge of this Indenture, or any amendment or supplement hereto. This Indenture, as amended and supplemented, shall remain in full force until recordation of appropriate instrument(s) of satisfaction and discharge executed by the Trustee in accordance with this

Section following a Company Request and the Company's delivery of the Officer's Certificate and Opinion of Counsel set forth in paragraph (c) above.

Notwithstanding the satisfaction and discharge of this Indenture as aforesaid, the obligations of the Company and the Trustee under Sections 3.04, 3.05, 3.06, 5.04, 7.02, 7.03, 10.07 and 10.15 and this Article shall survive such satisfaction and discharge.

Upon satisfaction and discharge of this Indenture as provided in this Section, the Trustee shall assign, transfer and turn over to the Company, subject to the lien provided by Section 10.07, any and all money, securities and other property then held by the Trustee for the benefit of the Holders of the Securities (other than money and Eligible Obligations held by the Trustee pursuant to Section 8.03) and shall execute and deliver to the Company such instruments as, in the judgment of the Company, shall be necessary, desirable or appropriate to effect or evidence the satisfaction and discharge of this Indenture.

SECTION 8.03. APPLICATION OF TRUST MONEY.

Neither the Eligible Obligations nor the money deposited pursuant to Section 8.01, nor the principal or interest payments on any such Eligible Obligations, shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal of and premium, if any, and interest, if any, on the Securities or portions of principal amount thereof in respect of which such deposit was made, all subject, however, to the provisions of Section 7.03; provided, however, that so long as there shall not have occurred and be continuing an Event of Default, any cash received from such principal or interest payments on such Eligible Obligations, if not then needed for such purpose, shall, to the extent practicable and upon Company Request be invested in Eligible Obligations of the type described in clause (b) in the first paragraph of Section 8.01 maturing at such times and in such amounts as shall be sufficient, together with any other moneys and the proceeds of any other Eligible Obligations then held by the Trustee, in the written opinion of a firm of independent certified public accountants delivered to the Trustee, to pay when due the principal of and premium, if any, and interest, if any, due and to become due on such Securities or portions thereof on and prior to the Maturity thereof, and interest earned from such reinvestment shall be paid over to the Company as received, free and clear of any trust, lien or pledge under this Indenture (except the lien provided by Section 10.07); and provided, further, that, so long as there shall not have occurred and be continuing an Event of Default, any moneys held in accordance with this Section on the Maturity of all such Securities in excess of the amount required to pay the principal of and premium, if any, and interest, if any, then due on such Securities shall be paid over to the Company free and clear of any trust, lien or pledge under this Indenture (except the lien provided by Section 10.07); and provided, further, that if an Event of Default shall have occurred and be continuing, moneys to be paid over to the Company pursuant to this Section shall be held until such Event of Default shall have been waived or cured.

At any time before or after depositing any money or Eligible Obligations with the Trustee under this Article, the Company may by written notice to the Trustee irrevocably waive any or all of its rights (1) to any residual interest in such money or Eligible Obligations, including any interest earned or excess amounts, (2) to instruct the Trustee to sell or purchase Eligible Obligations or otherwise invest money or proceeds held in trust pursuant to this Section, (3) to

provide investment advice to the Trustee with respect to such money or Eligible Obligations, (4) to provide to the Trustee instructions or advice of counsel for the Company as to matters arising in connection with the Trustee's servicing of the trust established pursuant to this Section with respect to such money or Eligible Obligations, or (5) to any involvement with such money, Eligible Obligations or the trust established pursuant to this Section.

[END OF ARTICLE EIGHT]

ARTICLE NINE.

EVENTS OF DEFAULT; REMEDIES

SECTION 9.01. EVENTS OF DEFAULT.

"Event of Default" means any one of the following events:

(a) failure to pay any interest on any Security when it becomes due and payable and continuance of such default for a period of 30 days; provided, however, that no such default shall constitute an "Event of Default" if the Company has made a valid extension of the interest payment period with respect to the Securities of the series of which such Security is a part, if so provided as contemplated by Section 3.01; or

(b) failure to pay the principal of or premium, if any, on any Security when it becomes due and payable; provided, however, that no such default shall constitute an "Event of Default" if the Company has made a valid extension of the Maturity of the Securities of the series of which such Security is a part, if so provided as contemplated by Section 3.01; or

(c) failure to perform or breach of, any covenant or warranty of the Company in this Indenture (other than a covenant or warranty a default in the performance of which or breach of which is elsewhere in this Section specifically addressed) and continuance of such default or breach for a period of 90 days after there has been given, by registered or certified mail, to the Company by the Trustee, or to the Company and the Trustee by the Holders of at least 35% in aggregate principal amount of the Outstanding Securities, a written notice specifying such default or breach and requiring it to be remedied and stating that such notice is a **"Notice of Default"** hereunder, unless the Trustee, or the Trustee and the Holders of a principal amount of Securities not less than the principal amount of Securities the Holders of which gave such notice, as the case may be, shall agree in writing to an extension of such period prior to its expiration; provided, however, that the Trustee, or the Trustee and the Holders of such principal amount of Securities, as the case may be, shall be deemed to have agreed to an extension of such period if corrective action is initiated by the Company within such period and is being diligently pursued; or

(d) the entry by a court having jurisdiction in the premises of (1) a decree or order for relief in respect of the Company in an involuntary case or proceeding under any applicable Federal or State bankruptcy, insolvency, reorganization or other similar law or (2) a decree or order adjudging the Company a bankrupt or insolvent, or approving as properly filed a petition by one or more Persons other than the Company seeking reorganization, arrangement, adjustment or composition of or in respect of the Company under any applicable Federal or State bankruptcy, insolvency or similar law, or appointing a custodian, receiver, liquidator, assignee, trustee, sequestrator or other similar official for the Company or for any substantial part of its property, or ordering the winding up or liquidation of its affairs, and any such decree or order for relief or any such other decree or order shall have remained unstayed and in effect for a period of 90 consecutive days;

(e) the commencement by the Company of a voluntary case or proceeding under any applicable Federal or State bankruptcy, insolvency, reorganization or other similar law or of any other case or proceeding to be adjudicated a bankrupt or insolvent, or the consent by the Company to the entry of a decree or order for relief in respect of the Company in a case or proceeding under any applicable Federal or State bankruptcy, insolvency, reorganization or other similar law or to the commencement of any bankruptcy or insolvency case or proceeding against the Company, or the filing by the Company of a petition or answer or consent seeking reorganization or relief under any applicable Federal or State bankruptcy, insolvency, reorganization or similar law, or the consent by the Company to the filing of such petition or to the appointment of or taking possession by a custodian, receiver, liquidator, assignee, trustee, sequestrator or similar official of the Company or of any substantial part of its property, or the making by the Company of an assignment for the benefit of creditors, or the admission by the Company in writing of its inability to pay its debts generally as they become due, or the authorization of such action by the Board of Directors of the Company; or

(f) any other Event of Default provided for as contemplated by Section 3.01(o).

SECTION 9.02. ACCELERATION OF MATURITY; RESCISSION AND ANNULMENT.

If an Event of Default shall have occurred and be continuing, then in every such case the Trustee or the Holders of not less than 35% in principal amount of the Outstanding Securities may declare the principal amount (or, if any of the Securities of such series are Discount Securities, such portion of the principal amount of such Securities as may be specified in the terms thereof as contemplated by Section 3.01) of all of the Securities to be due and payable immediately, by a notice in writing to the Company (and to the Trustee if given by Holders), and upon receipt by the Company of notice of such declaration such principal amount (or specified amount) together with premium, if any, and accrued and unpaid interest shall become immediately due and payable.

At any time after such a declaration of acceleration of the maturity of the Securities then Outstanding shall have been made, but before any sale of any of the Mortgaged Property has been made and before a judgment or decree for payment of the money due shall have been obtained by the Trustee as provided in this Article, the Event or Events of Default giving rise to such declaration of acceleration shall, without further act, be deemed to have been cured, and such declaration and its consequences shall, without further act, be deemed to have been rescinded and annulled, if

(a) the Company shall have paid or deposited with the Trustee a sum sufficient to pay

(i) all overdue interest, if any, on all Securities then Outstanding;

(ii) the principal of and premium, if any, on any Securities then Outstanding which have become due otherwise than by such declaration of acceleration and interest thereon at the rate or rates prescribed therefor in such Securities;

(iii) to the extent that payment of such interest is lawful, interest upon overdue interest at the rate or rates prescribed therefor in such Securities;

(iv) all amounts due to the Trustee under Section 10.07; and

(b) all Events of Default, other than the non-payment of the principal of Securities of such series which shall have become due solely by such declaration of acceleration, shall have been cured or waived as provided in Section 9.13.

No such rescission shall affect any subsequent Event of Default or impair any right consequent thereon.

SECTION 9.03. COLLECTION OF INDEBTEDNESS AND SUITS FOR ENFORCEMENT BY TRUSTEE.

If an Event of Default described in clause (a) or (b) of Section 9.01 shall have occurred and be continuing, the Company shall, upon demand of the Trustee, pay to it, for the benefit of the Holders of the Securities with respect to which such Event of Default shall have occurred and be continuing, the whole amount then due and payable on such Securities for principal and premium, if any, and interest, if any, and, to the extent permitted by law, interest on premium, if any, and on any overdue principal and interest, at the rate or rates prescribed therefor in such Securities, and, in addition thereto, such further amount as shall be sufficient to cover any amounts due to the Trustee under Section 10.07.

If the Company shall fail to pay such amounts forthwith upon such demand, the Trustee, in its own name and as trustee of an express trust, may institute a judicial proceeding for the collection of the sums so due and unpaid, may prosecute such proceeding to judgment or final decree and may enforce the same against the Company or any other obligor upon such Securities and collect the moneys adjudged or decreed to be payable in the manner provided by law out of the property of the Company or any other obligor upon such Securities, wherever situated.

If an Event of Default shall have occurred and be continuing, the Trustee may in its discretion proceed to protect and enforce its rights and the rights of the Holders of Securities by such appropriate judicial proceedings as the Trustee shall deem necessary to protect and enforce any such rights, whether for the specific enforcement of any covenant or agreement in this Indenture or in aid of the exercise of any power granted herein, or to enforce any other proper remedy.

SECTION 9.04. TRUSTEE MAY FILE PROOFS OF CLAIM.

In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other judicial proceeding relative to the Company or any other obligor upon the Securities or the property of the Company or of such other obligor or their creditors, the Trustee (irrespective of whether the principal of the Securities shall then be due and payable as therein expressed or by declaration or otherwise and irrespective of whether the Trustee shall have made any demand on the Company for the payment of overdue principal or interest) shall be entitled and empowered, by intervention in such proceeding or otherwise,

(a) to file and prove a claim for the whole amount of principal, premium, if any, and interest, if any, owing and unpaid in respect of the Securities and to file such other papers or

documents as may be necessary or advisable in order to have the claims of the Trustee (including any claim for amounts due to the Trustee under Section 10.07) and of the Holders allowed in such judicial proceeding, and

(b) to collect and receive any moneys or other property payable or deliverable on any such claims and to distribute the same;

and any custodian, receiver, assignee, trustee, liquidator, sequestrator or other similar official in any such judicial proceeding is hereby authorized by each Holder to make such payments to the Trustee and, in the event that the Trustee shall consent to the making of such payments directly to the Holders, to pay to the Trustee any amounts due it under Section 10.07.

Nothing herein contained shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Holder any plan of reorganization, arrangement, adjustment or composition affecting the Securities or the rights of any Holder thereof or to authorize the Trustee to vote in respect of the claim of any Holder in any such proceeding.

SECTION 9.05. TRUSTEE MAY ENFORCE CLAIMS WITHOUT POSSESSION OF SECURITIES.

All rights of action and claims under this Indenture or the Securities may be prosecuted and enforced by the Trustee, without the possession of any of the Securities or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Trustee shall be brought in its own name as trustee of an express trust, and any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, be for the ratable benefit of the Holders in respect of which such judgment has been recovered.

SECTION 9.06. APPLICATION OF MONEY COLLECTED.

Any money or other property collected or received by the Trustee pursuant to this Article, or otherwise distributable under this Article in respect of the Company's obligations under this Indenture, shall be applied in the following order, to the extent permitted by law, at the date or dates fixed by the Trustee and, in case of the distribution of such money on account of principal or premium, if any, or interest, if any, upon presentation of the Securities in respect of which or for the benefit of which such money shall have been collected and the notation thereon of the payment if only partially paid and upon surrender thereof if fully paid:

First: To the payment of all amounts due the Trustee under Section 10.07;

Second: To the payment of the amounts then due and unpaid upon the Securities for principal of and premium, if any, and interest, if any, in respect of which or for the benefit of which such money has been collected, ratably, without preference or priority of any kind, according to the amounts due and payable on such Securities for principal, premium, if any, and interest, if any, respectively; and

Third: To the payment of the remainder, if any, to the Company or to whomsoever may be lawfully entitled to receive the same or as a court of competent jurisdiction may direct.

SECTION 9.07. LIMITATION ON SUITS.

No Holder shall have any right to institute any proceeding, judicial or otherwise, with respect to this Indenture, or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless:

(a) such Holder shall have previously given written notice to the Trustee of a continuing Event of Default;

(b) the Holders of a majority in aggregate principal amount of the Outstanding Securities shall have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee hereunder;

(c) such Holder or Holders shall have offered to the Trustee indemnity satisfactory to it against the costs, expenses and liabilities to be incurred in compliance with such request;

(d) the Trustee for 60 days after its receipt of such notice, request and offer of indemnity shall have failed to institute any such proceeding; and

(e) no direction inconsistent with such written request shall have been given to the Trustee during such 60-day period by the Holders of a majority in aggregate principal amount of the Outstanding Securities;

it being understood and intended that no one or more of the Holders of any Securities shall have any right in any manner whatever by virtue of, or by availing of, any provision of this Indenture to affect, disturb or prejudice the rights of any other Holders or to obtain or to seek to obtain priority or preference over any other Holders or to enforce any right under this Indenture, except in the manner herein provided and for the equal and ratable benefit of all Holders.

SECTION 9.08. UNCONDITIONAL RIGHT OF HOLDERS TO RECEIVE PRINCIPAL, PREMIUM AND INTEREST.

Notwithstanding any other provision in this Indenture, the Holder of any Security shall have the right, which is absolute and unconditional, to receive payment of the principal of and premium, if any, and (subject to Section 3.07) interest, if any, on such Security on the Stated Maturity or Maturities expressed in such Security (or, in the case of redemption, on the Redemption Date) and to institute suit for the enforcement of any such payment, and such rights shall not be impaired without the consent of such Holder.

SECTION 9.09. RESTORATION OF RIGHTS AND REMEDIES.

If the Trustee or any Holder has instituted any proceeding to enforce any right or remedy under this Indenture and such proceeding shall have been discontinued or abandoned for any reason, or shall have been determined adversely to the Trustee or to such Holder, then and in every such case, subject to any determination in such proceeding, the Company, the Trustee and such Holder shall be restored severally and respectively to their former positions hereunder and thereafter all rights and remedies of the Trustee and such Holder shall continue as though no such proceeding had been instituted.

SECTION 9.10. RIGHTS AND REMEDIES CUMULATIVE.

Except as otherwise provided in the last paragraph of Section 3.06, no right or remedy herein conferred upon or reserved to the Trustee or to the Holders is intended to be exclusive of any other right or remedy, and every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

SECTION 9.11. DELAY OR OMISSION NOT WAIVER.

No delay or omission of the Trustee or of any Holder to exercise any right or remedy accruing upon any Event of Default shall impair any such right or remedy or constitute a waiver of any such Event of Default or any acquiescence therein. Every right and remedy given by this Article or by law to the Trustee or to the Holders may be exercised from time to time, and as often as may be deemed expedient, by the Trustee or by the Holders, as the case may be.

SECTION 9.12. CONTROL BY HOLDERS OF SECURITIES.

If an Event of Default shall have occurred and be continuing, the Holders of a majority in principal amount of the Outstanding Securities shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred on the Trustee, with respect to such Securities; provided, however, that

(a) such direction shall not be in conflict with any rule of law or with this Indenture, and could not involve the Trustee in personal liability in circumstances where indemnity would not, in the Trustee's sole discretion, be adequate, and

(b) the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction.

SECTION 9.13. WAIVER OF PAST DEFAULTS.

The Holders of not less than a majority in principal amount of the Outstanding Securities may on behalf of the Holders of all the Securities waive any past default hereunder and its consequences, except a default

(a) in the payment of the principal of or premium, if any, or interest, if any, on any Outstanding Security, or

(b) in respect of a covenant or provision hereof which under Section 13.02 cannot be modified or amended without the consent of the Holder of each Outstanding Security of any series or Tranche affected.

Upon any such waiver, such default shall cease to exist, and any and all Events of Default arising therefrom shall be deemed to have been cured, for every purpose of this Indenture; but no

such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

SECTION 9.14. UNDERTAKING FOR COSTS.

The Company and the Trustee agree, and each Holder by his acceptance thereof shall be deemed to have agreed, that any court may in its discretion require, in any suit for the enforcement of any right or remedy under this Indenture, or in any suit against the Trustee for any action taken, suffered or omitted by it as Trustee, the filing by any party litigant in such suit of an undertaking to pay the costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable attorneys' fees, against any party litigant in such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant but the provisions of this Section shall not apply to any suit instituted by the Company, to any suit instituted by the Trustee, to any suit instituted by any Holder, or group of Holders, holding in the aggregate more than 10% in aggregate principal amount of the Securities then Outstanding, or to any suit instituted by any Holder for the enforcement of the payment of the principal of or premium, if any, or interest, if any, on any Security on or after the Stated Maturity or Maturities expressed in such Security (or in the case of redemption, on or after the Redemption Date).

SECTION 9.15. WAIVER OF USURY, STAY OR EXTENSION LAWS.

The Company covenants (to the extent that it may lawfully do so) that it will not at any time insist upon, or plead, or in any manner whatsoever claim or take the benefit or advantage of, any usury, stay or extension law wherever enacted, now or at any time hereafter in force, which may affect the covenants or the performance of this Indenture; and the Company (to the extent that it may lawfully do so) hereby expressly waives all benefit or advantage of any such law and covenants that it will not hinder, delay or impede the execution of any power herein granted to the Trustee, but will suffer and permit the execution of every such power as though no such law had been enacted.

SECTION 9.16. RECEIVER AND OTHER REMEDIES.

If an Event of Default shall have occurred and, during the continuance thereof, the Trustee shall have commenced judicial proceedings to enforce any right under this Indenture, the Trustee shall, to the extent permitted by law, be entitled, as against the Company, to the appointment of a receiver of the Mortgaged Property and subject to the rights, if any, of others to receive collections from former, present or future customers of the rents, issues, profits, revenues and other income thereof, and whether or not any receiver is appointed, the Trustee shall be entitled to retain possession and control of, and to collect and receive the income from cash, securities and other personal property held by the Trustee hereunder. In addition, upon the occurrence and during the continuance of an Event of Default, the Trustee shall be entitled to all remedies available to mortgagees and secured parties under the Uniform Commercial Code or any other applicable law.

SECTION 9.17. ENTRY UPON MORTGAGED PROPERTY.

If an Event of Default shall have occurred and be continuing, the Company, upon demand of the Trustee and if and to the extent permitted by law, shall forthwith surrender to the Trustee the actual possession of, and the Trustee, by such officers or agents as it may appoint, may enter upon and take possession of, the Mortgaged Property; and the Trustee may hold, operate and manage the Mortgaged Property and make all needful repairs and such renewals, replacements, betterments and improvements as to the Trustee shall seem prudent; and the Trustee may receive, subject to the rights of others, if any, with respect thereto, the rents, issues, profits, revenues and other income of the Mortgaged Property; and, after deducting the costs and expenses of entering, taking possession, holding, operating and managing the Mortgaged Property, as well as payments for insurance and taxes and other proper charges upon the Mortgaged Property prior to the Lien of this Indenture and reasonable compensation to itself, its agents and counsel, the Trustee may apply the same as provided in Section 9.06. Whenever all that is then due in respect of the principal of and premium, if any, and interest, if any, on the Securities and under any of the terms of this Indenture shall have been paid and all defaults hereunder shall have been cured, the Trustee shall surrender possession of the Mortgaged Property to the Company.

SECTION 9.18. POWER OF SALE; SUITS FOR ENFORCEMENT.

If an Event of Default shall have occurred and be continuing, the Trustee, by such officers or agents as it shall appoint, with or without entry, in its discretion may, subject to the provisions of Section 9.12 and if and to the extent permitted by law:

(a) sell, subject to any mandatory requirements of applicable law, the Mortgaged Property as an entirety, or in such parcels as the Holders of a majority in principal amount of the Securities then Outstanding shall in writing request, or in the absence of such request, as the Trustee may determine, to the highest bidder at public auction at such place and at such time (which sale may be adjourned by the Trustee from time to time in its discretion by announcement at the time and place fixed for such sale, without further notice) and upon such terms as the Trustee may fix and briefly specify in a notice of sale to be published once in each week for four successive weeks prior to such sale in an Authorized Publication in each Place of Payment for the Securities of each series; or

(b) proceed to protect and enforce its rights and the rights of the Holders of Securities under this Indenture by sale pursuant to judicial proceedings or by a suit, action or proceeding in equity or at law or otherwise, whether for the specific performance of any covenant or agreement contained in this Indenture or in aid of the execution of any power granted in this Indenture or for the foreclosure of this Indenture or for the enforcement of any other legal, equitable or other remedy, as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce any of the rights of the Trustee or the Holders of Securities.

SECTION 9.19. INCIDENTS OF SALE.

Upon any sale of any of the Mortgaged Property, whether made under the power of sale hereby given or pursuant to judicial proceedings, to the extent permitted by law:

(a) the principal amount (or, if any of the Securities are Discount Securities, such portion of the principal amount of such Securities as may be specified in the terms thereof as contemplated by Section 3.01) of all Outstanding Securities, if not previously due, shall at once become and be immediately due and payable, together with premium, if any, and accrued interest, if any, thereon;

(b) any Holder or Holders of Securities or the Trustee may bid for and purchase the property offered for sale, and upon compliance with the terms of sale may hold, retain and possess and dispose of such property, without further accountability, and may, in paying the purchase money therefor, deliver any Outstanding Securities or claims for interest thereon in lieu of cash to the amount which shall, upon distribution of the net proceeds of such sale, be payable thereon, and such Securities, in case the amounts so payable thereon shall be less than the amount due thereon, shall be returned to the Holders thereof after being appropriately stamped to show partial payment;

(c) the Trustee may make and deliver to the purchaser or purchasers a good and sufficient deed, bill of sale and instrument of assignment and transfer of the property sold;

(d) the Trustee is hereby irrevocably appointed the true and lawful attorney of the Company, in its name and stead, to make all necessary deeds, bills of sale and instruments of assignment and transfer of the property so sold; and for that purpose it may execute all necessary deeds, bills of sale and instruments of assignment and transfer, and may substitute one or more persons, firms or corporations with like power, the Company hereby ratifying and confirming all that its said attorney or such substitute or substitutes shall lawfully do by virtue hereof; but, if so requested by the Trustee or by any purchaser, the Company shall ratify and confirm any such sale or transfer by executing and delivering to the Trustee or to such purchaser or purchasers all proper deeds, bills of sale, instruments of assignment and transfer and releases as may be designated in any such request;

(e) all right, title, interest, claim and demand whatsoever, either at law or in equity or otherwise, of the Company of, in and to the property so sold shall be divested and such sale shall be a perpetual bar both at law and in equity against the Company, its successors and assigns, and against any and all persons claiming or who may claim the property sold or any part thereof from, through or under the Company; and

(f) the receipt of the Trustee or of the officer or agent making such sale shall be a sufficient discharge to the purchaser or purchasers at such sale for his or their purchase money and such purchaser or purchasers and his or their assigns or personal representatives shall not, after paying such purchase money and receiving such receipt, be obliged to see to the application of such purchase money, or be in anywise answerable for any loss, misapplication or non-application thereof.

[END OF ARTICLE NINE]

ARTICLE TEN.

THE TRUSTEE

SECTION 10.01. CERTAIN DUTIES AND RESPONSIBILITIES.

(a) The Trustee shall have and be subject to all the duties and responsibilities specified with respect to an indenture trustee in the Trust Indenture Act and no implied covenants or obligations shall be read into this Indenture against the Trustee. For purposes of Sections 315(a) and 315(c) of the Trust Indenture Act, the term "default" is hereby defined as an Event of Default which has occurred and is continuing.

(b) No provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

(c) Notwithstanding anything contained in this Indenture to the contrary, the duties and responsibilities of the Trustee under this Indenture shall be subject to the protections, exculpations and limitations on liability afforded to an indenture trustee under the provisions of the Trust Indenture Act. For the purposes of Sections 315(b) and 315(d)(2) of the Trust Indenture Act, the term "responsible officer" is defined as a Responsible Officer (as herein defined).

(d) Whether or not therein expressly so provided, every provision of this Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provisions of this Section.

SECTION 10.02. NOTICE OF DEFAULTS.

The Trustee shall give notice of any default hereunder known to the Trustee in the manner and to the extent required to do so by the Trust Indenture Act, unless such default shall have been cured or waived; provided, however, that in the case of any default of the character specified in Section 9.01(c), no such notice to Holders shall be given until at least 60 days after the occurrence thereof. For the purpose of this Section, the term "default" means any event which is, or after notice or lapse of time, or both, would become, an Event of Default.

SECTION 10.03. CERTAIN RIGHTS OF TRUSTEE.

Subject to the provisions of Section 10.01 and to the applicable provisions of the Trust Indenture Act:

(a) the Trustee may conclusively rely and shall be fully protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties;

(b) any request or direction of the Company mentioned herein shall be sufficiently evidenced by a Company Request or Company Order, or as otherwise expressly provided herein, and any resolution of the Board of Directors may be sufficiently evidenced by a Board Resolution;

(c) whenever in the administration of this Indenture the Trustee shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, the Trustee (unless other evidence be herein specifically prescribed) may, in the absence of bad faith on its part, conclusively rely upon an Officer's Certificate;

(d) the Trustee may consult with counsel and the written advice of such counsel or any Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon;

(e) the Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request or direction of any Holder pursuant to this Indenture, unless such Holder shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction;

(f) the Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document, but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee shall determine to make such further inquiry or investigation, it shall (subject to applicable legal requirements) be entitled to examine, during normal business hours, the books, records and premises of the Company, personally or by agent or attorney;

(g) the Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys and the Trustee shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by it hereunder;

(h) the Trustee shall not be charged with knowledge of any default (as defined in Section 10.02) or Event of Default (other than an interest or principal payment default; provided that the Trustee is the principal Paying Agent) unless either (1) a Responsible Officer of the Trustee shall have actual knowledge of such default or Event of Default or (2) written notice of such default or Event of Default shall have been given to the Trustee by the Company or any other obligor on such Securities, or by any Holder of such Securities;

(i) the rights, privileges, protections, immunities and benefits given to the Trustee, including, without limitation, its right to be indemnified, are extended to, and shall be enforceable by, the Trustee in each of its capacities hereunder;

(j) the Trustee shall not be liable for any action taken, suffered or omitted to be taken by it in good faith and reasonably believed by it to be authorized or within the discretion or rights or powers conferred upon it by this Indenture; and

(k) in no event shall the Trustee be responsible or liable for special, indirect, or consequential loss or damage of any kind whatsoever (including, without limitation, loss of profit) irrespective of whether the Trustee has been advised of the likelihood of such loss or damage and regardless of the form of action.

SECTION 10.04. NOT RESPONSIBLE FOR RECITALS, ISSUANCE OF SECURITIES, ETC.

The recitals contained herein and in the Securities (except the Trustee's certificates of authentication) shall be taken as the statements of the Company, and neither the Trustee nor any Authenticating Agent assumes responsibility for their correctness. The Trustee makes no representations as to the value or condition of the Mortgaged Property, the title of the Company to the Mortgaged Property, the security afforded by the Lien of this Indenture, the validity or genuineness of any securities deposited with the Trustee hereunder, or the validity or sufficiency of this Indenture or of the Securities. Neither the Trustee nor any Authenticating Agent shall be accountable for the use or application by the Company of Securities or the proceeds thereof or any money paid to the Company hereunder. The Trustee shall not be responsible for perfecting or maintaining the perfection of any security interest granted to it hereunder or for filing, re-filing, recording or re-recording any notice or other document in any public office at any time or times or for seeing to the insurance of the Mortgaged Property or for paying or causing the payment of any taxes owing in connection therewith.

SECTION 10.05. MAY HOLD SECURITIES.

Each of the Trustee, any Authenticating Agent, any Paying Agent, any Security Registrar or any other agent of the Company, in its individual or any other capacity, may become the owner or pledgee of Securities and, subject to Sections 10.08 and 10.13, may otherwise deal with the Company with the same rights it would have if it were not the Trustee, Authenticating Agent, Paying Agent, Security Registrar or such other agent.

SECTION 10.06. MONEY HELD IN TRUST.

Money held by the Trustee in trust hereunder need not be segregated from other funds, except to the extent required by law. The Trustee shall be under no liability for interest on or investment of any money received by it hereunder except as expressly provided herein or otherwise agreed with, and for the sole benefit of, the Company.

SECTION 10.07. COMPENSATION AND REIMBURSEMENT.

The Company shall

(a) pay to the Trustee from time to time reasonable compensation for all services rendered by it hereunder (which compensation shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust);

(b) except as otherwise expressly provided herein, reimburse the Trustee upon its request for all reasonable expenses, disbursements and advances reasonably incurred or made by the Trustee in accordance with any provision of this Indenture (including the reasonable

compensation and the expenses and disbursements of its agents and counsel), except to the extent that any such expense, disbursement or advance may be attributable to the Trustee's negligence, willful misconduct or bad faith; and

(c) indemnify the Trustee for, and hold it harmless from and against, any loss, liability or expense (including under environmental laws) reasonably incurred by it arising out of or in connection with the acceptance or administration of the trust or trusts hereunder or the performance of its duties hereunder, including the reasonable costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers or duties hereunder except to the extent any such loss, liability or expense may be attributable to its negligence, willful misconduct or bad faith.

As security for the performance of the obligations of the Company under this Section, the Trustee shall have a lien prior to the Securities upon the Mortgaged Property and all property and funds held or collected by the Trustee as such, other than property and funds held in trust under Section 8.03 (except moneys payable to the Company as provided in Section 8.03).

In addition and without prejudice to the rights provided to the Trustee under any of the provisions of this Indenture or under applicable law, when the Trustee incurs expenses or renders services in connection with an Event of Default specified in Section 9.01(d) or Section 9.01(e), the expenses (including the reasonable charges and expenses of its counsel) and the compensation for the services are intended to constitute expenses of administration under any applicable Federal and State bankruptcy, insolvency or other similar law.

The Company's obligations under this Section 10.07 and the Lien referred to in this Section 10.07 shall survive the resignation or removal of the Trustee, the discharge of the Company's obligations under Article Eight of this Indenture and/or the termination of this Indenture.

"Trustee" for purposes of this Section 10.07 shall include any predecessor Trustee; provided, however, that the negligence, willful misconduct or bad faith of any Trustee hereunder shall not affect the rights of any other Trustee hereunder.

SECTION 10.08. DISQUALIFICATION; CONFLICTING INTERESTS.

If the Trustee shall have or acquire any conflicting interest within the meaning of the Trust Indenture Act, it shall either eliminate such conflicting interest or resign to the extent, in the manner and with the effect, and subject to the conditions, provided in the Trust Indenture Act and this Indenture. For purposes of Section 310(b)(1) of the Trust Indenture Act and to the extent permitted thereby, the Trustee, in its capacity as trustee in respect of the Securities of any series, shall not be deemed to have a conflicting interest arising from its capacity as trustee in respect of the Securities of any other series issued under this Indenture. Nothing herein shall prevent the Trustee from filing with the Commission the application referred to in the second to last paragraph of Section 310(b) of the Trust Indenture Act.

SECTION 10.09. CORPORATE TRUSTEE REQUIRED; ELIGIBILITY.

There shall at all times be a Trustee hereunder which shall be:

(a) a corporation organized and doing business under the laws of the United States of America, any State thereof or the District of Columbia, authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least $50,000,000 and subject to supervision or examination by Federal, State or District of Columbia authority; or

(b) if and to the extent permitted by the Commission by rule, regulation or order upon application, a corporation or other Person organized and doing business under the laws of a foreign government, authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least $50,000,000 or the Dollar equivalent of the applicable foreign currency and subject to supervision or examination by authority of such foreign government or a political subdivision thereof substantially equivalent to supervision or examination applicable to United States institutional trustees; and

in either case, qualified and eligible under this Article and the Trust Indenture Act. If such corporation publishes reports of condition at least annually, pursuant to law or to the requirements of such supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time the Trustee shall cease to be eligible in accordance with the provisions of this Section and the Trust Indenture Act, it shall resign immediately in the manner and with the effect hereinafter specified in this Article.

SECTION 10.10. RESIGNATION AND REMOVAL; APPOINTMENT OF SUCCESSOR.

(a) No resignation or removal of the Trustee and no appointment of a successor Trustee pursuant to this Article shall become effective until the acceptance of appointment by the successor Trustee in accordance with the applicable requirements of Section 10.11.

(b) The Trustee may resign at any time by giving written notice thereof to the Company. If the instrument of acceptance by a successor Trustee required by Section 10.11 shall not have been delivered to the resigning or removed Trustee within 30 days after the giving of such notice of resignation or receipt by the Trustee of notice of such removal, the resigning or removed Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee.

(c) The Trustee may be removed at any time by Act of the Holders of a majority in principal amount of the Outstanding Securities delivered to the Trustee and the Company.

(d) If at any time:

(i) the Trustee shall fail to comply with Section 10.08 after written request therefor by the Company or by any Holder who has been a bona fide Holder for at least six months, or

(ii) the Trustee shall cease to be eligible under Section 10.09 or Section 310(a) of the Trust Indenture Act and shall fail to resign after written request therefor by the Company or by any such Holder, or

(iii) the Trustee shall become incapable of acting or shall be adjudged a bankrupt or insolvent or a receiver of the Trustee or of its property shall be appointed or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, then, in any such case, (x) the Company by Board Resolutions may remove the Trustee with respect to all Securities or (y) subject to Section 9.14, any Holder who has been a bona fide Holder for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee with respect to all Securities and the appointment of a successor Trustee or Trustees.

(e) If the Trustee shall resign, be removed or become incapable of acting, or if a vacancy shall occur in the office of Trustee for any cause (other than as contemplated by clause (y) in subsection (d) or this Section), the Company, by Board Resolutions, shall promptly appoint a successor Trustee and shall comply with the applicable requirements of Section 10.11. If, within one year after such resignation, removal or incapability, or the occurrence of such vacancy, a successor Trustee shall be appointed by Act of the Holders of a majority in principal amount of the Outstanding Securities delivered to the Company and the retiring Trustee, the successor Trustee so appointed shall, forthwith upon its acceptance of such appointment in accordance with the applicable requirements of Section 10.11, become the successor Trustee and to that extent supersede the successor Trustee appointed by the Company. If no successor Trustee shall have been so appointed by the Company or the Holders and accepted appointment in the manner required by Section 10.11, any Holder who has been a bona fide Holder of a Security for at least six months may, on behalf of itself and all others similarly situated, petition any court of competent jurisdiction for the appointment of a successor Trustee.

(f) So long as no event which is, or after notice or lapse of time, or both, would become, an Event of Default shall have occurred and be continuing, and except with respect to a Trustee appointed by Act of the Holders of a majority in principal amount of the Outstanding Securities pursuant to subsection (e) of this Section, if the Company shall have delivered to the Trustee (i) a Board Resolution appointing a successor Trustee, effective as of a date specified therein, and (ii) an instrument of acceptance of such appointment, effective as of such date, by such successor Trustee in accordance with Section 10.11, the Trustee shall be deemed to have resigned as contemplated in subsection (b) of this Section, the successor Trustee shall be deemed to have been appointed by the Company pursuant to subsection (e) of this Section and such appointment shall be deemed to have been accepted as contemplated in Section 10.11, all as of such date, and all other provisions of this Section and Section 10.11 shall be applicable to such resignation, appointment and acceptance except to the extent inconsistent with this subsection (f).

(g) The Company shall give notice of each resignation and each removal of the Trustee and each appointment of a successor Trustee to all Holders of Securities in the manner provided in Section 1.08. Each notice shall include the name of the successor Trustee and the address of its Corporate Trust Office.

SECTION 10.11. ACCEPTANCE OF APPOINTMENT BY SUCCESSOR.

(a) In case of the appointment hereunder of a successor Trustee, every such successor Trustee so appointed shall execute, acknowledge and deliver to the Company and to the retiring Trustee an instrument accepting such appointment, and thereupon the resignation or removal of the retiring Trustee shall become effective and such successor Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Trustee; but, on the request of the Company or the successor Trustee, such retiring Trustee shall, upon payment of all sums owed to it, execute and deliver an instrument transferring to such successor Trustee all the rights, powers and trusts of the retiring Trustee and shall duly assign, transfer and deliver to such successor Trustee all property and money held by such retiring Trustee hereunder, subject nevertheless to its Lien provided for in Section 10.07.

(b) Upon request of any such successor Trustee, the Company shall execute any instruments for more fully and certainly vesting in and confirming to such successor Trustee all such rights, powers and trusts referred to in subsection (a) of this Section.

(c) No successor Trustee shall accept its appointment unless at the time of such acceptance such successor Trustee shall be qualified and eligible under this Article.

SECTION 10.12. MERGER, CONVERSION, CONSOLIDATION OR SUCCESSION TO BUSINESS.

Any corporation into which the Trustee may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which the Trustee shall be a party, or any corporation succeeding to all or substantially all the corporate trust business of the Trustee, shall be the successor of the Trustee hereunder, provided such corporation shall be otherwise qualified and eligible under this Article, without the execution or filing of any paper or any further act on the part of any of the parties hereto. In case any Securities shall have been authenticated, but not delivered, by the Trustee then in office, any successor by merger, conversion or consolidation to such authenticating Trustee may adopt such authentication and deliver the Securities so authenticated with the same effect as if such successor Trustee had itself authenticated such Securities.

SECTION 10.13. PREFERENTIAL COLLECTION OF CLAIMS AGAINST COMPANY.

If the Trustee shall be or become a creditor of the Company or any other obligor upon the Securities (other than by reason of a relationship described in Section 311(b) of the Trust Indenture Act), the Trustee shall be subject to any and all applicable provisions of the Trust Indenture Act regarding the collection of claims against the Company or such other obligor. For purposes of Section 311(b) of the Trust Indenture Act (a) the term "cash transaction" shall have the meaning provided in Rule 11b-4 under the Trust Indenture Act, and (b) the term "self-liquidating paper" shall have the meaning provided in Rule 11b-6 under the Trust Indenture Act.

SECTION 10.14. CO-TRUSTEE AND SEPARATE TRUSTEES.

At any time or times, for the purpose of meeting the legal requirements of any applicable jurisdiction, the Company and the Trustee shall have power to appoint, and, upon the written request of the Trustee or of the Holders of at least 35% in principal amount of the Securities then Outstanding, the Company shall for such purpose join with the Trustee in the execution and delivery of all instruments and agreements necessary or proper to appoint, one or more Persons approved by the Trustee either to act as co-trustee, jointly with the Trustee, or to act as separate trustee, in either case with such powers as may be provided in the instrument of appointment, and to vest in such Person or Persons, in the capacity aforesaid, any property, title, right or power deemed necessary or desirable, subject to the other provisions of this Section.

If the Company does not join in such appointment within 15 days after the receipt by it of a request so to do, or if an Event of Default shall have occurred and be continuing, the Trustee alone shall have power to make such appointment.

Should any written instrument or instruments from the Company be required by any co-trustee or separate trustee to more fully confirm to such co-trustee or separate trustee such property, title, right or power, any and all such instruments shall, on request, be executed, acknowledged and delivered by the Company.

Every co-trustee or separate trustee shall, to the extent permitted by law, but to such extent only, be appointed subject to the following conditions:

(a) the Securities shall be authenticated and delivered, and all rights, powers, duties and obligations hereunder in respect of the custody of securities, cash and other personal property held by, or required to be deposited or pledged with, the Trustee hereunder, shall be exercised solely, by the Trustee;

(b) the rights, powers, duties and obligations hereby conferred or imposed upon the Trustee in respect of any property covered by such appointment shall be conferred or imposed upon and exercised or performed either by the Trustee or by the Trustee and such co-trustee or separate trustee jointly, as shall be provided in the instrument appointing such co-trustee or separate trustee, except to the extent that under any law of any jurisdiction in which any particular act is to be performed, the Trustee shall be incompetent or unqualified to perform such act, in which event such rights, powers, duties and obligations shall be exercised and performed by such co-trustee or separate trustee.

(c) the Trustee at any time, by an instrument in writing executed by it, with the concurrence of the Company, may accept the resignation of or remove any co-trustee or separate trustee appointed under this Section, and, if an Event of Default shall have occurred and be continuing, the Trustee shall have power to accept the resignation of, or remove, any such co-trustee or separate trustee without the concurrence of the Company. Upon the written request of the Trustee, the Company shall join with the Trustee in the execution and delivery of all instruments and agreements necessary or proper to effectuate such resignation or removal. A successor to any co-trustee or separate trustee so resigned or removed may be appointed in the manner provided in this Section;

(d) no co-trustee or separate trustee hereunder shall be personally liable by reason of any act or omission of the Trustee, or any other such trustee hereunder, and the Trustee shall not be personally liable by reason of any act or omission of any such co-trustee or separate trustee; and

(e) any Act of Holders delivered to the Trustee shall be deemed to have been delivered to each such co-trustee and separate trustee.

SECTION 10.15. APPOINTMENT OF AUTHENTICATING AGENT.

The Trustee may appoint an Authenticating Agent or Agents with respect to the Securities of one or more series, or any Tranche thereof, which shall be authorized to act on behalf of the Trustee to authenticate Securities of such series or Tranche issued upon original issuance, exchange, registration of transfer or partial redemption thereof or pursuant to Section 3.06, and Securities so authenticated shall be entitled to the benefits of this Indenture and shall be valid and obligatory for all purposes as if authenticated by the Trustee hereunder. Wherever reference is made in this Indenture to the authentication and delivery of Securities by the Trustee or the Trustee's certificate of authentication, such reference shall be deemed to include authentication and delivery on behalf of the Trustee by an Authenticating Agent and a certificate of authentication executed on behalf of the Trustee by an Authenticating Agent. Each Authenticating Agent shall be acceptable to the Company and shall at all times be a corporation organized and doing business under the laws of the United States of America, any State or territory thereof or the District of Columbia or the Commonwealth of Puerto Rico, authorized under such laws to act as Authenticating Agent, having a combined capital and surplus of not less than $50,000,000 and subject to supervision or examination by Federal or State authority. If such Authenticating Agent publishes reports of condition at least annually, pursuant to law or to the requirements of said supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such Authenticating Agent shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time an Authenticating Agent shall cease to be eligible in accordance with the provisions of this Section, such Authenticating Agent shall resign immediately in the manner and with the effect specified in this Section.

Any corporation into which an Authenticating Agent may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which such Authenticating Agent shall be a party, or any corporation succeeding to the corporate agency or corporate trust business of an Authenticating Agent, shall continue to be an Authenticating Agent, provided such corporation shall be otherwise eligible under this Section, without the execution or filing of any paper or any further act on the part of the Trustee or the Authenticating Agent.

An Authenticating Agent may resign at any time by giving written notice thereof to the Trustee and the Company. The Trustee may at any time terminate the agency of an Authenticating Agent by giving written notice thereof to such Authenticating Agent and the Company. Upon receiving such a notice of resignation or upon such a termination, or in case at any time such Authenticating Agent shall cease to be eligible in accordance with the provisions of this Section, the Trustee may appoint a successor Authenticating Agent which shall be

acceptable to the Company. Any successor Authenticating Agent upon acceptance of its appointment hereunder shall become vested with all the rights, powers and duties of its predecessor hereunder, with like effect as if originally named as an Authenticating Agent. No successor Authenticating Agent shall be appointed unless eligible under the provisions of this Section.

The Company agrees to pay to each Authenticating Agent, from time to time, reasonable compensation for its services under this Section.

The provisions of Sections 3.08, 10.04 and 10.05 shall be applicable to each Authenticating Agent.

If an appointment with respect to the Securities of one or more series, or any Tranche thereof, shall be made pursuant to this Section, the Securities of such series or Tranche may have endorsed thereon, in addition to the Trustee's certificate of authentication, an alternate certificate of authentication substantially in the following form:

This is one of the Securities of the series designated therein referred to in the within-mentioned Indenture.

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., As Trustee

By [Name of Authenticating Agent],
As Authenticating Agent

By _____
Authorized Officer

If all of the Securities of a series may not be originally issued at one time, and if the Trustee does not have an office capable of authenticating Securities upon original issuance located in a Place of Payment where the Company wishes to have Securities of such series authenticated upon original issuance, the Trustee, if so requested by the Company in writing (which writing need not comply with Section 1.04 and need not be accompanied by an Opinion of Counsel), shall appoint, in accordance with this Section and in accordance with such procedures as shall be acceptable to the Trustee, an Authenticating Agent having an office in a Place of Payment designated by the Company with respect to such series of Securities.

[END OF ARTICLE TEN]

ARTICLE ELEVEN.

HOLDERS' LISTS AND REPORTS BY TRUSTEE AND COMPANY

SECTION 11.01. LISTS OF HOLDERS.

Semiannually, not later than April 1 and October 1 in each year, commencing October 1, 2009 and at such other times as the Trustee may request in writing, the Company shall furnish or cause to be furnished to the Trustee information as to the names and addresses of the Holders, and the Trustee shall preserve such information and similar information received by it in any other capacity and afford to the Holders access to information so preserved by it, all to such extent, if any, and in such manner as shall be required by the Trust Indenture Act; provided, however, that no such list need be furnished so long as the Trustee shall be the Security Registrar.

SECTION 11.02. REPORTS BY TRUSTEE AND COMPANY.

The Trustee shall transmit to the Holders, the Commission and each securities exchange upon which any Securities are listed, on or before July 1, 2009, and on or before the first day of July in each year thereafter, a report as of the last preceding fifteenth day of May, with respect to any events and other matters described in Section 313(a) of the Trust Indenture Act, which may have occurred within the previous 12 months (but if no event has occurred within such period no report need be transmitted), in such manner and to the extent required by the Trust Indenture Act. The Trustee shall transmit to the Holders, the Commission and each securities exchange upon which any Securities are listed, and the Company shall file with the Trustee (within 30 days after filing with the Commission in the case of reports which pursuant to Section 314(a) of the Trust Indenture Act must be filed with the Commission and furnished to the Trustee) and transmit to the Holders, such information, reports and other documents, if any, at such times and in such manner, as shall be required by Section 314(a) of the Trust Indenture Act. The Company shall notify the Trustee of the listing of any Securities on any securities exchange and of any delisting thereof.

Delivery of such reports, information and documents to the Trustee is for informational purposes only, and the Trustee's receipt of such shall not constitute notice or constructive notice of any information contained therein or determinable from information contained therein, including the Company's compliance with any of its covenants hereunder (as to which the Trustee is entitled to rely exclusively on Officer's Certificates).

The Company shall file with the Trustee (within thirty (30) days after filing with the Commission in the case of reports that pursuant to Section 314(a) of the Trust Indenture Act must be filed with the Commission and furnished to the Trustee) and transmit to the Holders, such information, reports and other documents, if any, at such times and in such manner, as shall be required by Section 314(a) of the Trust Indenture Act.

[END OF ARTICLE ELEVEN]

ARTICLE TWELVE.

CONSOLIDATION, MERGER, CONVEYANCE, OR OTHER TRANSFER

SECTION 12.01. COMPANY MAY CONSOLIDATE, ETC., ONLY ON CERTAIN TERMS.

The Company shall not consolidate with or merge into any other corporation, or convey or otherwise transfer, or lease, as or substantially as an entirety the Mortgaged Property to any Person, unless:

(a) the corporation formed by such consolidation or into which the Company is merged or the Person which acquires by conveyance or other transfer, or which leases, as or substantially as an entirety such Mortgaged Property shall be a corporation organized and existing under the laws of the United States, any State or Territory thereof or the District of Columbia (such corporation being hereinafter sometimes called the **"Successor Company"**) and shall execute and deliver to the Trustee an indenture supplemental hereto, in form recordable and reasonably satisfactory to the Trustee, which:

(i) in the case of a consolidation, merger, conveyance or other transfer, or in the case of a lease if the term thereof extends beyond the last Stated Maturity of the Securities then Outstanding, contains an express assumption by the Successor Company of the due and punctual payment of the principal of and premium, if any, and interest, if any, on all the Securities then Outstanding and the performance and observance of every covenant and condition of this Indenture to be performed or observed by the Company, and

(ii) in the case of a consolidation, merger, conveyance or other transfer contains a grant, conveyance, transfer and mortgage by the Successor Company, of the same tenor of the Granting Clauses herein,

(A) confirming the Lien of this Indenture on the Mortgaged Property (as constituted immediately prior to the time such transaction became effective) and subjecting to the Lien of this Indenture all property, real, personal and mixed, thereafter acquired by the Successor Company which shall constitute an improvement, extension or addition to the Mortgaged Property (as so constituted) or a renewal, replacement or substitution of or for any part thereof, and,

(B) at the election of the Successor Company, subjecting to the Lien of this Indenture such property, real, personal or mixed, in addition to the property described in subclause (A) above, then owned or thereafter acquired by the Successor Company as the Successor Company shall, in its sole discretion, specify or describe therein,

and the Lien confirmed or created by such grant, conveyance, transfer and mortgage shall have force, effect and standing similar to those which the Lien of this Indenture would have had if the Company had not been a party to such consolidation, merger, conveyance or other transfer and

had itself, after the time such transaction became effective, purchased, constructed or otherwise acquired the property subject to such grant, conveyance, transfer and mortgage;

(b) in the case of a lease, such lease shall be made expressly subject to termination at any time during the continuance of an Event of Default, by (i) the Company or the Trustee and (ii) the purchaser of the property so leased at any sale thereof hereunder, whether such sale be made under the power of sale hereby conferred or pursuant to judicial proceedings;

(c) the Company shall have delivered to the Trustee an Officer's Certificate and an Opinion of Counsel each of which shall state that such consolidation, merger, conveyance or other transfer or lease, and such supplemental indenture, comply with this Article and that all conditions precedent herein provided for relating to such transaction have been complied with; and

(d) immediately after giving effect to such transaction (and treating any debt that becomes an obligation of the Successor Company as a result of such transaction as having been incurred by the Successor Company at the time of such transaction), no Default or Event of Default shall have occurred and be continuing.

As used in this Article and in Section 17.09(d), the terms "improvement", "extension" and "addition" shall be limited to (a) with respect to real property subject to the Lien of this Indenture, any item of personal property which has been so affixed or attached to such real property as to be regarded a part of such real property under applicable law and (b) with respect to personal property subject to the Lien of this Indenture, any improvement, extension or addition to such personal property which (i) is made to maintain, renew, repair or improve the function of such personal property and (ii) is physically installed in or affixed to such personal property.

SECTION 12.02. SUCCESSOR COMPANY SUBSTITUTED.

Upon any consolidation or merger or any conveyance or other transfer of, as or substantially as an entirety the Mortgaged Property in accordance with Section 12.01, the Successor Company shall succeed to, and be substituted for, and may exercise every power and right of, the Company under this Indenture with the same effect as if such Successor Company had been named as the "Company" herein. Without limiting the generality of the foregoing:

(a) all property of the Successor Company then subject to the Lien of this Indenture, of the character described in Section 1.03, shall constitute Property Additions;

(b) the Successor Company may execute and deliver to the Trustee, and thereupon the Trustee shall, subject to the provisions of Article Sixteen, authenticate and deliver, Securities upon any basis provided in Article Sixteen; and

(c) the Successor Company may, subject to the applicable provisions of this Indenture, cause Property Additions to be applied to any other Authorized Purpose.

All Securities executed by the Successor Company, and authenticated and delivered by the Trustee, shall in all respects be entitled to the benefit of the Lien of this Indenture equally and

ratably with all Securities executed, authenticated and delivered prior to the time such consolidation, merger, conveyance or other transfer became effective.

SECTION 12.03. EXTENT OF LIEN HEREOF ON PROPERTY OF SUCCESSOR COMPANY.

Unless, in the case of a consolidation, merger, conveyance or other transfer contemplated by Section 12.01, the indenture supplemental hereto contemplated in Section 12.01 or in Article Thirteen expressly provides otherwise, neither this Indenture nor such supplemental indenture shall become or be, or be required to become or be, a Lien upon any of the properties:

(a) owned by the Successor Company or any other party to such transaction (other than the Company) immediately prior to the time of effectiveness of such transaction; or

(b) acquired by the Successor Company at or after the time of effectiveness of such transaction;

except, in either case, properties (other than Excepted Property) acquired from the Company in or as a result of such transaction and improvements, extensions and additions to such properties and renewals, replacements and substitutions of or for any part or parts thereof.

SECTION 12.04. RELEASE OF COMPANY UPON CONVEYANCE OR OTHER TRANSFER.

In the case of a conveyance or other transfer to any Person or Persons as contemplated in Section 12.01, upon the satisfaction of all the conditions specified in Section 12.01 the Company (such term being used in this Section without giving effect to such transaction) shall be released and discharged from all obligations and covenants under this Indenture and on and under all Securities then Outstanding (unless the Company shall have delivered to the Trustee an instrument in which it shall waive such release and discharge) and, upon request by the Company, the Trustee shall acknowledge in writing that the Company has been so released and discharged.

SECTION 12.05. MERGER INTO COMPANY; EXTENT OF LIEN HEREOF.

(a) Nothing in this Indenture shall be deemed to prevent or restrict any consolidation or merger after the consummation of which the Company would be the surviving or resulting corporation or any conveyance or other transfer, or lease, of any part of the Mortgaged Property which does not constitute the entirety or substantially the entirety of the Mortgaged Property.

(b) Unless, in the case of a consolidation or merger described in subsection (a) of this Section, an indenture supplemental hereto shall otherwise provide, this Indenture shall not become or be, or be required to become or be, a Lien upon any of the properties acquired by the Company in or as a result of such transaction or any improvements, extensions or additions to such properties or any renewals, replacements or substitutions of or for any part or parts thereof.

SECTION 12.06. TRANSFER OF LESS THAN SUBSTANTIALLY ALL.

A conveyance, transfer or lease by the Company of any part of the Mortgaged Property shall not be deemed to constitute the conveyance, transfer or lease as, or substantially as, an entirety of the Mortgaged Property for purposes of this Indenture if the Fair Value of the Mortgaged Property retained by the Company exceeds one hundred fifty percent (150%) of the aggregate principal amount of all Outstanding Securities and any other outstanding debt of the Company secured by a Purchase Money Lien that ranks equally with, or senior to, the Securities with respect to such Mortgaged Property. Such Fair Value shall be established by the delivery to the Trustee of an Independent Expert's Certificate stating the Independent Expert's opinion of such Fair Value as of a date not more than 90 days before or after such conveyance, transfer or lease. This Article is not intended to limit the Company's conveyances, transfers or leases of less than substantially the entirety of the Mortgaged Property.

[END OF ARTICLE TWELVE]

ARTICLE THIRTEEN.

SUPPLEMENTAL INDENTURES

SECTION 13.01. SUPPLEMENTAL INDENTURES WITHOUT CONSENT OF HOLDERS.

Without the consent of any Holders, the Company and the Trustee, at any time and from time to time, may enter into one or more indentures supplemental hereto, in form satisfactory to the Trustee, for any of the following purposes:

(a) to evidence the succession of another Person to the Company and the assumption by any such successor of the covenants of the Company herein and in the Securities all as provided in Article Twelve; or

(b) to add one or more covenants of the Company or other provisions for the benefit of the Holders of the Securities or to surrender any right or power herein conferred upon the Company (and if such is the case, stating that such covenants are to be in effect for only so long as a particular series of Securities, or one or more Tranches thereof, shall be Outstanding); or

(c) to add any additional Events of Default (and if such is the case, stating that such additional Events of Default are to be in effect for only so long as a particular series of Securities, or one or more Tranches thereof, shall be Outstanding); or

(d) to change or eliminate any provision of this Indenture or to add any new provision to this Indenture; provided, however, that if such change, elimination or addition shall adversely affect the interests of the Holders of Securities of any series or Tranche Outstanding on the date of such supplemental indenture in any material respect, such change, elimination or addition shall become effective with respect to such series or Tranche only pursuant to the provisions of Section 13.02 hereof or when no Security of such series or Tranche remains Outstanding; or

(e) to provide additional collateral security for the Securities; or

(f) to establish the form or terms of Securities of any series or Tranche as contemplated by Sections 2.01 and 3.01; or

(g) to provide for the authentication and delivery of bearer securities and coupons appertaining thereto representing interest, if any, thereon and for the procedures for the registration, exchange and replacement thereof and for the giving of notice to, and the solicitation of the vote or consent of, the holders thereof, and for any and all other matters incidental thereto; or

(h) to evidence and provide for the acceptance of appointment hereunder by a separate or successor Trustee with respect to the Securities and to add to or change any of the provisions of this Indenture as shall be necessary to provide for or facilitate the administration of the trusts hereunder by (1) more than one Trustee, pursuant to the requirements of Section 10.14, or (2) a successor Trustee, pursuant to the requirements of Section 10.11(b); or

(i) to provide for the procedures required to permit the Company to utilize, at its option, a non-certificated system of registration for all, or any series or Tranche of, the Securities; or

(j) to change any place or places where (1) the principal of and premium, if any, and interest, if any, on all or any series of Securities, or any Tranche thereof, shall be payable, (2) all or any series of Securities, or any Tranche thereof, may be surrendered for registration of transfer, (3) all or any series of Securities, or any Tranche thereof, may be surrendered for exchange and (4) notices and demands to or upon the Company in respect of all or any series of Securities, or any Tranche thereof, and this Indenture may be served;

(k) to amend and restate this Indenture, as originally executed and delivered and as it may have been subsequently amended, in its entirety, but with such additions, deletions and other changes as shall not adversely affect the interests of the Holders of Securities of any series or Tranche in any material respect; or

(l) to cure any ambiguity, to correct or supplement any provision herein which may be defective or inconsistent with any other provision herein, or to make any other changes to the provisions hereof or to add other provisions with respect to matters or questions arising under this Indenture, provided that such other changes or additions shall not materially adversely affect the interests of the Holders of Securities of any series or Tranche in any material respect.

Without limiting the generality of the foregoing, if the Trust Indenture Act as in effect at the Execution Date or at any time thereafter shall be amended and

(x) if any such amendment shall require one or more changes to any provisions hereof or the inclusion herein of any additional provisions, or shall by operation of law be deemed to effect such changes or incorporate such provisions by reference or otherwise, this Indenture shall be deemed to have been amended so as to conform to such amendment to the Trust Indenture Act, and the Company and the Trustee may, without the consent of any Holders, enter into an indenture supplemental hereto to evidence such amendment hereof; or

(y) if any such amendment shall permit one or more changes to, or the elimination of, any provisions hereof which, at the Execution Date or at any time thereafter, are required by the Trust Indenture Act to be contained herein or are contained herein to reflect any provision of the Trust Indenture Act as in effect at such date, this Indenture may be amended to effect such changes or elimination, and the Company and the Trustee may, without the consent of any Holders, enter into an indenture supplemental hereto to effect such changes or elimination or evidence such amendment.

SECTION 13.02. SUPPLEMENTAL INDENTURES WITH CONSENT OF HOLDERS.

Subject to the provisions of Section 13.01, with the consent of the holders of not less than a majority in aggregate principal amount of the Securities of all series then Outstanding under this Indenture, considered as one class, by Act of said Holders delivered to the Company and the Trustee, the Company, when authorized by a Board Resolution, and the Trustee may enter into an indenture or indentures supplemental hereto for the purpose of adding any provisions to, or changing in any manner or eliminating any of the provisions of, this Indenture; provided,

however, that if there shall be Securities of more than one series Outstanding hereunder and if a proposed supplemental indenture shall directly affect the rights of the Holders of Securities of one or more, but less than all, of such series, then the consent only of the Holders of a majority in aggregate principal amount of the Outstanding Securities of all series so directly affected, considered as one class, shall be required; and provided, further, that if the Securities of any series shall have been issued in more than one Tranche and if the proposed supplemental indenture shall directly affect the rights of the Holders of Securities of one or more, but less than all, of such Tranches, then the consent only of the Holders of a majority in aggregate principal amount of the Outstanding Securities of all Tranches so directly affected, considered as one class, shall be required; and provided, further, that no such supplemental indenture shall, without the consent of the Holder of each Outstanding Security of each series or Tranche so directly affected,

(a) change the Stated Maturity of the principal of, or any installment of principal of or interest on, any Security (other than pursuant to the terms thereof), or reduce the principal amount thereof or the rate of interest thereon (or the amount of any installment of interest thereon) or change the method of calculating such rate or reduce any premium payable upon the redemption thereof, or reduce the amount of the principal of a Discount Security that would be due and payable upon a declaration of acceleration of the Maturity thereof pursuant to Section 9.02, or change the coin or currency (or other property), in which any Security or any premium or the interest thereon is payable, or impair the right to institute suit for the enforcement of any such payment on or after the Stated Maturity thereof (or, in the case of redemption, on or after the Redemption Date), or

(b) permit the creation of any Lien ranking prior to the Lien of this Indenture with respect to the Mortgaged Property or terminate the Lien of this Indenture on the Mortgaged Property or deprive such Holder of the benefit of the security of the Lien of this Indenture, or

(c) reduce the percentage in principal amount of the Outstanding Securities of any series or any Tranche thereof, the consent of the Holders of which is required for any such supplemental indenture, or the consent of the Holders of which is required for any waiver of compliance with any provision of this Indenture or of any default hereunder and its consequences, or reduce the requirements of Section 14.04 for quorum or voting, or

(d) modify any of the provisions of this Section, Section 7.06 or Section 9.13 with respect to the Securities of any series, or any Tranche thereof, except to increase the percentages in principal amount referred to in this Section or such other Sections or to provide that other provisions of this Indenture cannot be modified or waived without the consent of the Holder of each Outstanding Security affected thereby.

A supplemental indenture entered into pursuant to this Section which (x) changes or eliminates any covenant or other provision of this Indenture which is to remain in effect only so long as there shall be Outstanding, Securities of one or more particular series, or one or more Tranches thereof, or (y) modifies the rights of the Holders of Securities of such series or Tranches with respect to such covenant or other provision, shall be deemed not to affect the rights under this Indenture of the Holders of Securities of any other series or Tranche.

It shall not be necessary for any Act of Holders under this Section to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such Act shall approve the substance thereof.

Anything in this Indenture to the contrary notwithstanding, if the Officer's Certificate, supplemental indenture or Board Resolution, as the case may be, establishing the Securities of any series or Tranche shall provide that the Company may make certain specified additions, changes or eliminations to or from the Indenture which shall be specified in such Officer's Certificate, supplemental indenture or Board Resolution establishing such series or Tranche, (a) the Holders of Securities of such series or Tranche shall be deemed to have consented to a supplemental indenture containing such additions, changes or eliminations to or from the Indenture which shall be specified in such Officer's Certificate, supplemental indenture or Board Resolution establishing such series or Tranche, (b) no Act of such Holders shall be required to evidence such consent and (c) such consent may be counted in the determination of whether or not the Holders of the requisite principal amount of Securities shall have consented to such supplemental indenture.

SECTION 13.03. EXECUTION OF SUPPLEMENTAL INDENTURES.

In executing, or accepting the additional trusts created by, any supplemental indenture permitted by this Article or the modifications thereby of the trusts created by this Indenture, the Trustee shall be entitled to receive, and (subject to Section 10.01) shall be fully protected in relying upon, an Opinion of Counsel and an Officer's Certificate stating that the execution of such supplemental indenture is authorized or permitted by this Indenture and containing the statements required by Section 1.04. The Trustee may, but shall not be obligated to, enter into any such supplemental indenture which adversely affects the Trustee's own rights, duties, immunities or liabilities under this Indenture or otherwise.

SECTION 13.04. EFFECT OF SUPPLEMENTAL INDENTURES.

Upon the execution of any supplemental indenture under this Article, this Indenture shall be modified in accordance therewith, and such supplemental indenture shall form a part of this Indenture for all purposes; and every Holder of Securities theretofore or thereafter authenticated and delivered hereunder shall be bound thereby. Any supplemental indenture permitted by this Article may restate this Indenture in its entirety, and, upon the execution and delivery thereof, any such restatement shall supersede this Indenture as theretofore in effect for all purposes.

SECTION 13.05. CONFORMITY WITH TRUST INDENTURE ACT.

Every supplemental indenture executed pursuant to this Article shall conform to the requirements of the Trust Indenture Act as then in effect.

SECTION 13.06. REFERENCE IN SECURITIES TO SUPPLEMENTAL INDENTURES.

Securities of any series, or any Tranche thereof, authenticated and delivered after the execution of any supplemental indenture pursuant to this Article may, and shall if required by the Trustee, bear a notation in form approved by the Company as to any matter provided for in such supplemental indenture. If the Company shall so determine, new Securities of any series, or any

Tranche thereof, so modified as to conform, in the opinion of the Trustee and the Company, to any such supplemental indenture may be prepared and executed by the Company, and authenticated and delivered by the Trustee in exchange for Outstanding Securities of such series or Tranche.

SECTION 13.07. MODIFICATION WITHOUT SUPPLEMENTAL INDENTURE.

To the extent, if any, that the terms of any particular series of Securities shall have been established in or pursuant to a Board Resolution or an Officer's Certificate pursuant to a supplemental indenture or Board Resolution as contemplated by Section 3.01, and not in an indenture supplemental hereto, additions to, changes in or the elimination of any of such terms may be effected by means of a supplemental Board Resolution or Officer's Certificate pursuant to a Board Resolution or a supplemental indenture and complying with the requirements of Section 1.04, as the case may be, delivered to, and accepted by, the Trustee in writing; provided, however, that such supplemental Board Resolution or Officer's Certificate shall not be accepted by the Trustee or otherwise be effective unless all conditions set forth in this Indenture which would be required to be satisfied if such additions, changes or elimination were contained in a supplemental indenture shall have been appropriately satisfied. Upon the written acceptance thereof by the Trustee, any such supplemental Board Resolution or Officer's Certificate shall be deemed to be effective and constitute part of the Indenture and a supplemental indenture hereunder, including for purposes of Section 17.14. Such acceptance shall be conveyed by a written instrument signed by a Responsible Officer of the Trustee.

[END OF ARTICLE THIRTEEN]

ARTICLE FOURTEEN.

MEETINGS OF HOLDERS; ACTION WITHOUT MEETING

SECTION 14.01. PURPOSES FOR WHICH MEETINGS MAY BE CALLED.

A meeting of Holders of Securities of one or more, or all, series, or any Tranche or Tranches thereof, may be called at any time and from time to time pursuant to this Article to make, give or take any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Indenture to be made, given or taken by Holders of Securities of such series or Tranches.

SECTION 14.02. CALL, NOTICE AND PLACE OF MEETINGS.

(a) The Trustee may at any time call a meeting of Holders of Securities of one or more, or all, series, or any Tranche or Tranches thereof, for any purpose specified in Section 14.01, to be held at such time and at such place in the Borough of Manhattan, The City of New York, as the Trustee shall determine, or, with the approval of the Company, at any other place. Notice of every such meeting, setting forth the time and the place of such meeting and in general terms the action proposed to be taken at such meeting, shall be given, in the manner provided in Section 1.08, not less than 21 nor more than 180 days prior to the date fixed for the meeting.

(b) If the Trustee shall have been requested to call a meeting of the Holders of Securities of one or more, or all, series, or any Tranche or Tranches thereof, by the Company or by the Holders of 35% in aggregate principal amount of all of such series and Tranches, considered as one class, for any purpose specified in Section 14.01, by written request setting forth in reasonable detail the action proposed to be taken at the meeting, and the Trustee shall not have given the notice of such meeting within 21 days after receipt of such request or shall not thereafter proceed to cause the meeting to be held as provided herein, then the Company or the Holders of Securities of such series and Tranches in the amount above specified, as the case may be, may determine the time and the place in the Borough of Manhattan, The City of New York, or in such other place as shall be determined or approved by the Company, for such meeting and may call such meeting for such purposes by giving notice thereof as provided in subsection (a) of this Section.

(c) Any meeting of Holders of Securities of one or more, or all, series, or any Tranche or Tranches thereof, shall be valid without notice if the Holders of all Outstanding Securities of such series or Tranches are present in person or by proxy and if representatives of the Company and the Trustee are present, or if notice is waived in writing before or after the meeting by the Holders of all Outstanding Securities of such series, or any Tranche or Tranches thereof or by such of them as are not present at the meeting in person or by proxy, and by the Company and the Trustee.

SECTION 14.03. PERSONS ENTITLED TO VOTE AT MEETINGS.

To be entitled to vote at any meeting of Holders of Securities of one or more, or all, series, or any Tranche or Tranches thereof, a Person shall be (a) a Holder of one or more Outstanding Securities of such series or Tranches, or (b) a Person appointed by an instrument in

writing as proxy for a Holder or Holders of one or more Outstanding Securities of such series or Tranches by such Holder or Holders. The only Persons who shall be entitled to attend any meeting of Holders of Securities of any series or Tranche shall be the Persons entitled to vote at such meeting and their counsel, any representatives of the Trustee and its counsel and any representatives of the Company and its counsel.

SECTION 14.04. QUORUM; ACTION.

The Persons entitled to vote a majority in aggregate principal amount of the Outstanding Securities of the series and Tranches with respect to which a meeting shall have been called as hereinbefore provided, considered as one class, shall constitute a quorum for a meeting of Holders of Securities of such series and Tranches; provided, however, that if any action is to be taken at such meeting which this Indenture expressly provides may be taken by the Holders of a specified percentage, which is less than a majority, in principal amount of the Outstanding Securities of such series and Tranches, considered as one class, the Persons entitled to vote such specified percentage in principal amount of the Outstanding Securities of such series and Tranches, considered as one class, shall constitute a quorum. In the absence of a quorum within one hour of the time appointed for any such meeting, the meeting shall, if convened at the request of Holders of Securities of such series and Tranches, be dissolved. In any other case the meeting may be adjourned for such period as may be determined by the chairman of the meeting prior to the adjournment of such meeting. In the absence of a quorum at any such adjourned meeting, such adjourned meeting may be further adjourned for such period as may be determined by the chairman of the meeting prior to the adjournment of such adjourned meeting. Except as provided by Section 14.05(e), notice of the reconvening of any meeting adjourned for more than 30 days shall be given as provided in Section 14.02(a) not less than ten days prior to the date on which the meeting is scheduled to be reconvened. Notice of the reconvening of an adjourned meeting shall state expressly the percentage, as provided above, of the principal amount of the Outstanding Securities of such series and Tranches which shall constitute a quorum.

Except as limited by Section 13.02, any resolution presented to a meeting or adjourned meeting duly reconvened at which a quorum is present as aforesaid may be adopted only by the affirmative vote of the Holders of a majority in aggregate principal amount of the Outstanding Securities of the series and Tranches with respect to which such meeting shall have been called, considered as one class; provided, however, that, except as so limited, any resolution with respect to any action which this Indenture expressly provides may be taken by the Holders of a specified percentage, which is less than a majority, in principal amount of the Outstanding Securities of such series and Tranches, considered as one class, may be adopted at a meeting or an adjourned meeting duly reconvened and at which a quorum is present as aforesaid by the affirmative vote of the Holders of such specified percentage in principal amount of the Outstanding Securities of such series and Tranches, considered as one class.

Any resolution passed or decision taken at any meeting of Holders of Securities duly held in accordance with this Section shall be binding on all the Holders of Securities of the series and Tranches with respect to which such meeting shall have been held, whether or not present or represented at the meeting.

SECTION 14.05. ATTENDANCE AT MEETINGS; DETERMINATION OF VOTING RIGHTS; CONDUCT AND ADJOURNMENT OF MEETINGS.

(a) Attendance at meetings of Holders of Securities may be in person or by proxy; and, to the extent permitted by law, any such proxy shall remain in effect and be binding upon any future Holder of the Securities with respect to which it was given unless and until specifically revoked by the Holder or future Holder of such Securities before being voted.

(b) Notwithstanding any other provisions of this Indenture, the Trustee may make such reasonable regulations as it may deem advisable for any meeting of Holders of Securities in regard to proof of the holding of such Securities and of the appointment of proxies and in regard to the appointment and duties of inspectors of votes, the submission and examination of proxies, certificates and other evidence of the right to vote, and such other matters concerning the conduct of the meeting as it shall deem appropriate. Except as otherwise permitted or required by any such regulations, the holding of Securities shall be proved in the manner specified in Section 1.06 and the appointment of any proxy shall be proved in the manner specified in Section 1.06. Such regulations may provide that written instruments appointing proxies, regular on their face, may be presumed valid and genuine without the proof specified in Section 1.06 or other proof.

(c) The Trustee shall, by an instrument in writing, appoint a temporary chairman of the meeting, unless the meeting shall have been called by the Company or by Holders as provided in Section 14.02(b), in which case the Company or the Holders of Securities of the series and Tranches calling the meeting, as the case may be, shall in like manner appoint a temporary chairman. A permanent chairman and a permanent secretary of the meeting shall be elected by vote of the Persons entitled to vote a majority in aggregate principal amount of the Outstanding Securities of all series and Tranches represented in person or by proxy at the meeting, considered as one class.

(d) At any meeting each Holder or proxy shall be entitled to one vote for each $1,000 principal amount of Securities held or represented by him; provided, however, that no vote shall be cast or counted at any meeting in respect of any Security challenged as not Outstanding and ruled by the chairman of the meeting to be not Outstanding. The chairman of the meeting shall have no right to vote, except as a Holder of a Security or proxy.

(e) Any meeting duly called pursuant to Section 14.02 at which a quorum is present may be adjourned from time to time by Persons entitled to vote a majority in aggregate principal amount of the Outstanding Securities of all series and Tranches represented at the meeting, considered as one class; and the meeting may be held as so adjourned without further notice.

SECTION 14.06. COUNTING VOTES AND RECORDING ACTION OF MEETINGS.

The vote upon any resolution submitted to any meeting of Holders shall be by written ballots on which shall be subscribed the signatures of the Holders or of their representatives by proxy and the principal amounts and serial numbers of the Outstanding Securities, of the series and Tranches with respect to which the meeting shall have been called, held or represented by them. The permanent chairman of the meeting shall appoint two inspectors of votes who shall count all votes cast at the meeting for or against any resolution and who shall make and file with

the secretary of the meeting their verified written reports of all votes cast at the meeting. A record, in duplicate, of the proceedings of each meeting of Holders shall be prepared by the secretary of the meeting and there shall be attached to said record the original reports of the inspectors of votes on any vote by ballot taken thereat and affidavits by one or more persons having knowledge of the facts setting forth a copy of the notice of the meeting and showing that said notice was given as provided in Section 14.02 and, if applicable, Section 14.04. Each copy shall be signed and verified by the affidavits of the permanent chairman and secretary of the meeting and one such copy shall be delivered to the Company, and another to the Trustee to be preserved by the Trustee, the latter to have attached thereto the ballots voted at the meeting. Any record so signed and verified shall be conclusive evidence of the matters therein stated.

SECTION 14.07. ACTION WITHOUT MEETING.

In lieu of a vote of Holders at a meeting as hereinbefore contemplated in this Article, any request, demand, authorization, direction, notice, consent, waiver or other action may be made, given or taken by Holders by one or more written instruments as provided in Section 1.06.

[END OF ARTICLE FOURTEEN]

ARTICLE FIFTEEN.

IMMUNITY OF INCORPORATORS, SHAREHOLDERS, OFFICERS AND DIRECTORS

SECTION 15.01. LIABILITY SOLELY CORPORATE.

No recourse shall be had for the payment of the principal of or premium, if any, or interest, if any, on any Securities or any part thereof, or for any claim based thereon or otherwise in respect thereof, or of the indebtedness represented thereby, or upon any obligation, covenant or agreement under this Indenture, against any incorporator, shareholder, member, limited partner, officer, manager or director, as such, past, present or future of the Company or of any predecessor or successor of the Company (either directly or through the Company or a predecessor or successor of the Company), whether by virtue of any constitutional provision, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise; it being expressly agreed and understood that this Indenture and all the Securities are solely corporate obligations, and that no personal liability whatsoever shall attach to, or be incurred by, any incorporator, shareholder, member, limited partner, officer, manager or director, past, present or future, of the Company or of any predecessor or successor of the Company, either directly or indirectly through the Company or any predecessor or successor of the Company, because of the indebtedness hereby authorized or under or by reason of any of the obligations, covenants or agreements contained in this Indenture or in any of the Securities or to be implied herefrom or therefrom, and that any such personal liability is hereby expressly waived and released as a condition of, and as part of the consideration for, the execution of this Indenture and the issuance of the Securities.

[END OF ARTICLE FIFTEEN]

ARTICLE SIXTEEN.

ISSUANCE OF SECURITIES

SECTION 16.01. GENERAL.

The Trustee shall authenticate and deliver Securities, for original issue, at one time or from time to time in accordance with the Company Order referred to below, only pursuant to Section 16.02, 16.03 or 16.04.

SECTION 16.02. ISSUANCE OF SECURITIES ON THE BASIS OF PROPERTY ADDITIONS.

(a) Securities of any one or more series may be authenticated and delivered on the basis of Property Additions which do not constitute Funded Property in an aggregate principal amount not exceeding sixty-six and two-thirds percent (66-2/3%) of the balance of the Cost or the Fair Value to the Company of such Property Additions (whichever shall be less) after making any deductions and any additions pursuant to Section 1.03(b).

(b) Securities of any series shall be authenticated by the Trustee on the basis of Property Additions and delivered in accordance with one or more Company Orders, all without compliance with any of the conditions, provisions and limitations set forth in Sections 16.03 and 16.04, upon receipt by the Trustee of:

(i) the documents with respect to the Securities of such series specified in Section 3.03;

(ii) an Expert's Certificate dated as of a date not more than ninety (90) days prior to the date of the related Company Order,

(1) describing the property designated by the Company, in its discretion, to be made the basis of the authentication and delivery of such Securities (such description of property to be made by reference, at the election of the Company, either to specified items, units and/or elements of property or portions thereof, on a percentage or Dollar basis, or to properties reflected in specified accounts or subaccounts in the Company's books of account or portions thereof, on a Dollar basis), and stating the Cost of such property;

(2) stating that all such property constitutes Property Additions;

(3) stating that such Property Additions are desirable for use in the conduct of the business, or one of the businesses, of the Company;

(4) stating that such Property Additions, to the extent of the Cost or Fair Value to the Company thereof (whichever is less) to be made the basis of the authentication and delivery of such Securities, do not constitute Funded Property;

(5) stating what part, if any, of such Property Additions includes property which within six months prior to the date of acquisition thereof by the Company had been used or operated by others than the Company in a business similar to that in which it has been or is to be used or operated by the Company and stating whether or not, in the judgment of the signers, the Fair Value of such Property Additions to the Company, as of the date of such certificate, is less than Twenty-five Thousand Dollars ($25,000) and whether or not such Fair Value is less than one percent (1%) of the aggregate principal amount of Securities then Outstanding;

(6) stating, in the judgment of the signers, the Fair Value to the Company, as of the date of such certificate, of such Property Additions, except any thereof with respect to the Fair Value to the Company of which a statement is to be made in an Independent Expert's Certificate pursuant to clause (iii) below;

(7) stating the amount required to be deducted under Section 1.03(b)(i) and the amounts elected to be added by the Company under Section 1.03(b)(ii) in respect of Funded Property retired by the Company;

(8) if any property included in such Property Additions is subject to a Lien of the character described (I) in clause (f) of the definition of Permitted Liens, stating that such Lien does not, in the judgment of the signers, materially impair the use by the Company of the Mortgaged Property considered as a whole for the purposes for which it is held by the Company, or (II) in clause (i)(ii) of the definition of Permitted Liens, stating that such Lien does not, in the judgment of the signers, materially impair the use by the Company of such property for the purposes for which it is held by the Company or (III) in clause (p)(ii) of the definition of Permitted Liens, stating that the enforcement of such Lien would not, in the judgment of the signers, adversely affect the interests of the Company in such property in any material respect;

(9) stating the lower of the Cost or the Fair Value to the Company of such Property Additions, after the deductions therefrom and additions thereto specified in such Expert's Certificate pursuant to clause (7) above;

(10) stating the aggregate principal amount of the Securities to be authenticated and delivered on the basis of such Property Additions (such amount not to exceed sixty-six and two-thirds percent (66-2/3%) of the amount stated pursuant to clause (9) above);

(iii) in case any Property Additions are shown by the Expert's Certificate provided for in clause (ii) above to include property which, within six months prior to the date of acquisition thereof by the Company, had been used or operated by others than the Company in a business similar to that in which it has been or is to be used or operated by the Company and such certificate does not show the Fair Value thereof to the Company, as of the date of such certificate, to be less than Twenty-five Thousand Dollars ($25,000) or less than one percent (1%) of the aggregate principal amount of Securities then

Outstanding, an Independent Expert's Certificate stating, in the judgment of the signer, the Fair Value to the Company, as of the date of such Independent Expert's Certificate, of (X) such Property Additions which have been so used or operated and (at the option of the Company) as to any other Property Additions included in the Expert's Certificate provided for in clause (ii) above and (Y) in case such Independent Expert's Certificate is being delivered in connection with the authentication and delivery of Securities, any property so used or operated which has been subjected to the Lien of this Indenture since the commencement of the then current calendar year as the basis for the authentication and delivery of Securities and as to which an Independent Expert's Certificate has not previously been furnished to the Trustee;

(iv) Opinion of Counsel to the effect that:

(1) this Indenture constitutes, or, upon the delivery of, and/or the filing and/or recording in the proper places and manner of, the instruments of conveyance, assignment or transfer, if any, specified in said opinion, will constitute, a Lien on all the Property Additions to be made the basis of the authentication and delivery of such Securities, subject to no Lien thereon prior to the Lien of this Indenture except Permitted Liens; and

(2) the Company has corporate authority to operate such Property Additions; and

(v) copies of the instruments of conveyance, assignment and transfer, if any, specified in the Opinion of Counsel provided for in clause (iv) above.

SECTION 16.03. ISSUANCE OF SECURITIES ON THE BASIS OF RETIRED SECURITIES.

(a) Securities of any one or more series may be authenticated and delivered on the basis of, and in an aggregate principal amount not exceeding the aggregate principal amount of, Retired Securities.

(b) Securities of any series shall be authenticated by the Trustee on the basis of Retired Securities and delivered in accordance with one or more Company Orders, all without compliance with any of the conditions, provisions and limitations set forth in Sections 16.02 and 16.04, upon receipt by the Trustee of:

(i) the documents with respect to the Securities of such series specified in Section 3.03; and

(ii) an Officer's Certificate stating that Retired Securities, specified by series, in an aggregate principal amount not less than the aggregate principal amount of Securities to be authenticated and delivered, have theretofore been authenticated and delivered and, as of the date of such Officer's Certificate, constitute Retired Securities and are the basis for the authentication and delivery of such Securities.

SECTION 16.04. ISSUANCE OF SECURITIES ON THE BASIS OF DEPOSIT OF CASH.

(a) Securities of any one or more series may be authenticated and delivered on the basis of, and in an aggregate principal not exceeding the amount of, any cash deposited with the Trustee for such purpose.

(b) Securities of any series shall be authenticated by the Trustee on the basis of the deposit of cash and delivered in accordance with one or more Company Orders, all without compliance with any of the conditions, provisions and limitations set forth in Sections 16.02 and 16.03, upon receipt by the Trustee of:

(i) such deposit of cash; and

(ii) the documents with respect to the Securities of such series specified in Section 3.03.

(c) All cash deposited with the Trustee under the provisions of this Section shall be held by the Trustee as a part of the Mortgaged Property and may be withdrawn from time to time by the Company, upon application of the Company to the Trustee, in an amount equal to the aggregate principal amount of Securities to the authentication and delivery of which the Company shall be entitled under any of the provisions of this Indenture by virtue of compliance with all applicable provisions of this Indenture (except as hereinafter in this subsection (c) otherwise provided).

Upon any such application for withdrawal, the Company shall comply with all applicable provisions of this Article relating to the authentication and delivery of Securities except that the Company shall not in any event be required to deliver the documents specified in Section 3.03.

Any withdrawal of cash under this subsection (c) shall operate as a waiver by the Company of its right to the authentication and delivery of the Securities on which it is based and such Securities may not thereafter be authenticated and delivered hereunder. Any Property Additions which have been made the basis of any such right to the authentication and delivery of Securities so waived shall be deemed to have been made the basis of the withdrawal of such cash; any Retired Securities which have been made the basis of any such right to the authentication and delivery of Securities so waived shall be deemed to have been made the basis of the withdrawal of such cash.

(d) If at any time the Company shall so direct, any sums deposited with the Trustee under the provisions of this Section may be used or applied to the purchase, payment or redemption of Securities in the manner and subject to the conditions provided in clauses (d) and (e) of Section 17.06.

[END OF ARTICLE SIXTEEN]

ARTICLE SEVENTEEN.

POSSESSION, USE AND RELEASE OF MORTGAGED PROPERTY

SECTION 17.01. QUIET ENJOYMENT.

Unless one or more Events of Default shall have occurred and be continuing, the Company shall be permitted to possess, use and enjoy the Mortgaged Property (except, to the extent not herein otherwise provided, such cash and securities as are expressly required to be deposited with the Trustee).

SECTION 17.02. DISPOSITIONS WITHOUT RELEASE.

Unless an Event of Default shall have occurred and be continuing, the Company may at any time and from time to time, without any release or consent by, or report to, the Trustee:

(a) sell or otherwise dispose of, free from the Lien of this Indenture, any machinery, equipment, apparatus, towers, transformers, poles, lines, cables, conduits, ducts, conductors, meters, regulators, holders, tanks, retorts, purifiers, odorizers, scrubbers, compressors, valves, pumps, mains, pipes, service pipes, fittings, connections, services, tools, implements, or any other fixtures or personalty, then subject to the Lien hereof, which shall have become old, inadequate, obsolete, worn out, unfit, unadapted, unserviceable, undesirable or unnecessary for use in the operations of the Company upon replacing the same by, or substituting for the same, similar or analogous property, or other property performing a similar or analogous function or otherwise obviating the need therefor, having a Fair Value to the Company at least equal to that of the property sold or otherwise disposed of and subject to the Lien hereof, subject to no Liens prior hereto except Permitted Liens and any other Liens to which the property sold or otherwise disposed of was subject;

(b) cancel or make changes or alterations in or substitutions for any and all easements, servitudes, rights-of-way and similar rights and/or interests;

(c) grant, free from the Lien of this Indenture, easements, ground leases or rights-of-way in, upon, over and/or across the property or rights-of-way of the Company for the purpose of roads, pipe lines, transmission lines, distribution lines, communication lines, railways, removal or transportation of coal, lignite, gas, oil or other minerals or timber, and other like purposes, or for the joint or common use of real property, rights-of-way, facilities and/or equipment; provided, however, that such grant shall not materially impair the use of the property or rights-of-way for the purposes for which such property or rights-of-way are held by the Company; and

(d) terminate, abandon, surrender, cancel, release, modify or dispose of any franchises, licenses or permits that are Mortgaged Property; provided that such action is, in the opinion of the Company, necessary, desirable or advisable in the conduct of the business of the Company, and; provided further that any franchises, licenses or permits that become Mortgaged Property by the operation of the First Granting Clause and thereafter, in the opinion of the Company, cease to be necessary for the operation of the Mortgaged Property shall automatically cease to be subject to the Lien of this Indenture, without any release or consent, or report to, the Trustee.

SECTION 17.03. RELEASE OF FUNDED PROPERTY.

Unless an Event of Default shall have occurred and be continuing, the Company may obtain the release of any part of the Mortgaged Property, or any interest therein, which constitutes Funded Property, other than Funded Cash held by the Trustee, and the Trustee shall release all its right, title and interest in and to the same from the Lien hereof, upon receipt by the Trustee of:

(a) a Company Order requesting the release of such property and transmitting therewith a form of instrument or instruments to effect such release;

(b) an Officer's Certificate stating that, to the knowledge of the signer, no Event of Default has occurred and is continuing;

(c) an Expert's Certificate made and dated not more than ninety (90) days prior to the date of such Company Order:

(i) describing the property to be released;

(ii) stating the Fair Value, in the judgment of the signers, of the property to be released;

(iii) stating the Cost of the property to be released (or, if the Fair Value to the Company of such property at the time the same became Funded Property was certified to be an amount less than the Cost thereof, then such Fair Value, as so certified, in lieu of Cost); and

(iv) stating that, in the judgment of the signers, such release will not impair the security under this Indenture in contravention of the provisions hereof;

(d) an amount in cash to be held by the Trustee as part of the Mortgaged Property, equal to the amount, if any, by which the amount referred to in clause (c)(iii) above exceeds the aggregate of the following items:

(i) an amount equal to the aggregate principal amount of any obligations secured by Purchase Money Lien delivered to the Trustee, to be held as part of the Mortgaged Property, subject to the limitations hereafter in this Section set forth;

(ii) an amount equal to the Cost or Fair Value to the Company (whichever is less), after making any deductions and any additions pursuant to Section 1.03, of any Property Additions not constituting Funded Property described in an Expert's Certificate, dated not more than ninety (90) days prior to the date of the Company Order requesting such release and complying with clause (ii) and, to the extent applicable, clause (iii) in Section 16.02(b), delivered to the Trustee; provided, however, that the deductions and additions contemplated by Section 1.03 shall not be required to be made if such Property Additions were acquired, made or constructed on or after the ninetieth (90th) day preceding the date of such Company Order;

(iii) one hundred fifty percent (150%) of the aggregate principal amount of Securities to the authentication and delivery of which the Company shall be entitled under the provisions of Section 16.03, by virtue of compliance with all applicable provisions of Section 16.03 (except as hereinafter in this Section otherwise provided); provided, however, that such release shall operate as a waiver by the Company of the right to the authentication and delivery of such Securities and, to such extent, no such Securities may thereafter be authenticated and delivered hereunder; and any Securities which could have been the basis of such right to the authentication and delivery of Securities so waived shall be deemed to have been made the basis of such release of property;

(iv) any amount in cash and/or an amount equal to the aggregate principal amount of any obligations secured by Purchase Money Lien that, in either case, is evidenced to the Trustee by a certificate of the trustee or other holder of a Lien prior to the Lien of this Indenture to have been received by such trustee or other holder in accordance with the provisions of such Lien in consideration for the release of such property or any part thereof from such Lien, all subject to the limitations hereafter in this Section set forth;

(v) one hundred fifty percent (150%) of the aggregate principal amount of any Outstanding Securities delivered to the Trustee (other than Securities authenticated and delivered pursuant to Section 16.04); and

(vi) any taxes and expenses incidental to any sale, exchange, dedication or other disposition of the property to be released;

provided, however, that no obligations secured by Purchase Money Lien upon any property being released from the Lien hereof shall be used as a credit in connection with such release unless all obligations secured by such Purchase Money Lien shall be delivered to the Trustee or to the trustee or other holder of a Lien prior to the Lien of this Indenture;

(e) if the release is on the basis of Property Additions or on the basis of the right to the authentication and delivery of Securities under Section 16.03, all documents contemplated below in this Section; and

(f) if the release is on the basis of the delivery to the Trustee or to the trustee or other holder of a prior Lien of obligations secured by Purchase Money Lien, all documents contemplated below in this Section, to the extent required.

If and to the extent that the release of property is, in whole or in part, based upon Property Additions (as permitted under the provisions of clause (d)(ii) in the first paragraph of this Section), the Company shall, subject to the provisions of said clause (d)(ii) and except as hereafter in this paragraph provided, comply with all applicable provisions of this Indenture as if such Property Additions were to be made the basis of the authentication and delivery of Securities equal in principal amount to sixty-six and two-thirds percent (66-2/3%) of the Cost (or, as to property of which the Fair Value to the Company at the time the same became Funded Property was certified to be an amount less than the Cost thereof, such Fair Value, as so certified,

in lieu of Cost) of that portion of the property to be released which is to be released on the basis of such Property Additions, as shown by the Expert's Certificate required by clause (c) in the first paragraph of this Section; provided, however, that the Cost of any Property Additions received or to be received by the Company in whole or in part as consideration in exchange for the property to be released shall for all purposes of this Indenture be deemed to be the amount stated in the Expert's Certificate provided for in clause (c) in the first paragraph of this Section to be the lower of Cost or Fair Value of the property to be released (x) plus the amount of any cash and the fair market value of any other consideration, further to be stated in such Expert's Certificate, paid and/or delivered or to be paid and/or delivered by, and the amount of any obligations assumed or to be assumed by, the Company in connection with such exchange as additional consideration for such Property Additions and/or (y) less the amount of any cash and the fair market value of any other consideration, which shall also be stated in such Expert's Certificate, received or to be received by the Company in connection with such exchange in addition to such Property Additions. If and to the extent that the release of property is in whole or in part based upon the right to the authentication and delivery of Securities under Section 16.03 (as permitted under the provisions of clause (d)(iii) in the first paragraph of this Section), the Company shall, except as hereafter in this paragraph provided, comply with all applicable provisions of Section 16.03 relating to such authentication and delivery. Notwithstanding the foregoing provisions of this paragraph, in no event shall the Company be required to deliver the documents specified in Section 3.03.

If the release of property is, in whole or in part, based upon the delivery to the Trustee or the trustee or other holder of a Lien prior to the Lien of this Indenture of obligations secured by Purchase Money Lien, the Company shall deliver to the Trustee:

(x) an Officer's Certificate (i) stating that no event has occurred and is continuing which entitles the holder of such Purchase Money Lien to accelerate the maturity of the obligations, if any, outstanding thereunder and (ii) reciting the aggregate principal amount of obligations, if any, then outstanding thereunder in addition to the obligations then being delivered in connection with the release of such property and the terms and conditions, if any, on which additional obligations secured by such Purchase Money Lien are permitted to be issued; and

(y) an Opinion of Counsel stating that, in the opinion of the signer, (i) such obligations are valid obligations, entitled to the benefit of such Purchase Money Lien equally and ratably with all other obligations, if any, then outstanding thereunder, (ii) that such Purchase Money Lien constitutes, or, upon the delivery of, and/or the filing and/or recording in the proper places and manner of, the instruments of conveyance, assignment or transfer, if any, specified in such opinion, will constitute, a Lien upon the property to be released, subject to no Lien prior thereto except Liens generally of the character of Permitted Liens and such Liens, if any, as shall have existed thereon immediately prior to such release as Liens prior to the Lien of this Indenture, (iii) if any obligations in addition to the obligations being delivered in connection with such release of property are then outstanding, or are permitted to be issued, under such Purchase Money Lien, (A) that such Purchase Money Lien constitutes, or, upon the delivery of, and/or the filing and/or recording in the proper places and manner of, the instruments of conveyance, assignment or transfer, if any, specified in such opinion, will constitute, a Lien upon all other property, if any, purporting to be subject thereto, subject to no Lien prior thereto except Liens generally of the character of Permitted Liens and (B) that the terms of such Purchase Money Lien, as then in

effect, do not permit the issuance of obligations thereunder except on the basis of property generally of the character of Property Additions, the retirement or deposit of outstanding obligations, the deposit of prior Lien obligations or the deposit of cash.

If the Opinion of Counsel provided to the Trustee pursuant to clause (y) above is conditioned upon the filing and/or recording of any instruments of conveyance, assignment or transfer, the Company shall promptly cause such instruments to be filed and/or recorded in the proper places and manner and shall deliver to the Trustee evidence of such filing and/or recording promptly upon receipt of such evidence by the Company.

If (a) any property to be released from the Lien of this Indenture under any provision of this Article (other than Section 17.07) is subject to a Lien prior to the Lien hereof and is to be sold, exchanged, dedicated or otherwise disposed of subject to such prior Lien and (b) after such release, such prior Lien will not be a Lien on any property subject to the Lien hereof, then the Fair Value of such property to be released shall be deemed, for all purposes of this Indenture, to be the value thereof unencumbered by such prior Lien less the principal amount of the indebtedness secured by such prior Lien.

Any Outstanding Securities delivered to the Trustee pursuant to clause (d) in the first paragraph of this Section shall, upon receipt of a Company Order, forthwith be canceled by the Trustee. Any cash and/or obligations deposited with the Trustee pursuant to the provisions of this Section 17.03, and the proceeds of any such obligations, shall be held as part of the Mortgaged Property and shall be withdrawn, released, used or applied in the manner, to the extent and for the purposes, and subject to the conditions, provided in Section 17.06.

Anything in this Indenture to the contrary notwithstanding, if property to be released constitutes Funded Property in part only, the Company shall obtain the release of the part of such property which constitutes Funded Property under this Section 17.03 and obtain the release of the part of such property which does not constitute Funded Property under Section 17.04. In such event, (a) the application of Property Additions in the release under this Section 17.03 as contemplated in clause (d)(ii) in the first paragraph thereof shall be taken into account in clause (v) or clause (vi), whichever may be applicable, of the Expert's Certificate described in clause (c) in Section 17.04 and (b) the Trustee shall, at the election of the Company, execute and deliver a separate instrument of release with respect to the property released under each of such Sections or a consolidated instrument of release with respect to the property released under both of such Sections considered as a whole.

SECTION 17.04. RELEASE OF MORTGAGED PROPERTY NOT CONSTITUTING FUNDED PROPERTY.

Unless an Event of Default shall have occurred and be continuing, the Company may obtain the release of any part of the Mortgaged Property, or any interest therein, which does not constitute Funded Property, and the Trustee shall release all its right, title and interest in and to the same from the Lien hereof, upon receipt by the Trustee of:

(a) a Company Order requesting the release of such property and transmitting therewith a form of instrument or instruments to effect such release;

(b) an Officer's Certificate describing the property to be released and stating that, to the knowledge of the signer, no Event of Default has occurred and is continuing;

(c) an Expert's Certificate, made and dated not more than ninety (90) days prior to the date of such Company Order:

(i) describing the property to be released;

(ii) stating the Fair Value, in the judgment of the signers, of the property to be released;

(iii) stating the Cost of the property to be released;

(iv) stating that the property to be released does not constitute Funded Property;

(v) if true, stating either (A) that the aggregate amount of the Cost or Fair Value to the Company (whichever is less) of all Property Additions which do not constitute Funded Property (excluding the property to be released), after making deductions therefrom and additions thereto of the character contemplated by Section 1.03, is not less than zero (0) or (B) that the Cost or Fair Value (whichever is less) of the property to be released does not exceed the aggregate Cost or Fair Value to the Company (whichever is less) of Property Additions acquired, made or constructed on or after the ninetieth (90th) day prior to the date of the Company Order requesting such release;

(vi) if neither of the statements contemplated in subclause (v) above can be made, stating the amount by which zero (0) exceeds the amount referred to in subclause (v)(A) above (showing in reasonable detail the calculation thereof); and

(vii) stating that, in the judgment of the signers, such release will not impair the security under this Indenture in contravention of the provisions hereof; and

(d) if the Expert's Certificate required by clause (c) above contains neither of the statements contemplated in subclause (c)(v) above, an amount in cash, to be held by the Trustee as part of the Mortgaged Property, equal to the amount, if any, by which the lower of (i) the Cost or Fair Value (whichever shall be less) of the property to be released and (ii) the amount shown in subclause (c)(vi) above exceeds the aggregate of items of the character described in subclauses (iii) and (v) of clause (d) in the first paragraph of Section 17.03 that the Company then elects to use as a credit under this Section 17.04 (subject, however, to the same limitations and conditions with respect to such items as are set forth in Section 17.03).

Any Outstanding Securities delivered to the Trustee pursuant to clause (d) above shall forthwith be canceled by the Trustee.

SECTION 17.05. RELEASE OF MINOR PROPERTIES.

Notwithstanding the provisions of Sections 17.03 and 17.04, unless an Event of Default shall have occurred and be continuing, the Company may obtain the release from the Lien hereof

of any part of the Mortgaged Property, or any interest therein, and the Trustee shall whenever from time to time requested by the Company in a Company Order transmitting therewith a form of instrument or instruments to effect such release, and without requiring compliance with any of the provisions of Section 17.03 or 17.04, release from the Lien hereof all the right, title and interest of the Trustee in and to the same provided that the lower of the aggregate Cost or Fair Value of the property to be so released on any date in a given calendar year, together with all other property theretofore released pursuant to this Section 17.05 in such calendar year, shall not exceed the greater of (a) Ten Million Dollars ($10,000,000) and (b) three percent (3%) of the aggregate principal amount of Securities then Outstanding. Prior to the granting of any such release, there shall be delivered to the Trustee (x) an Officer's Certificate stating that, to the knowledge of the signer, no Event of Default has occurred and is continuing and (y) an Expert's Certificate stating, in the judgment of the signers, the Fair Value of the property to be released, the aggregate Fair Value of all other property theretofore released pursuant to this Section in such calendar year and, as to Funded Property, the Cost thereof (or, if the Fair Value to the Company of such property at the time the same became Funded Property was certified to be an amount less than the Cost thereof, then such Fair Value, as so certified, in lieu of Cost), and that, in the judgment of the signers, the release thereof will not impair the security under this Indenture in contravention of the provisions hereof. On or before December 31st of each calendar year, the Company shall deposit with the Trustee an amount in cash equal to the aggregate Cost of the properties constituting Funded Property so released during such year (or, if the Fair Value to the Company of any particular property at the time the same became Funded Property was certified to be an amount less than the Cost thereof, then such Fair Value, as so certified, in lieu of Cost); provided, however, that no such deposit shall be required to be made hereunder to the extent that cash or other consideration shall, as indicated in an Officer's Certificate delivered to the Trustee, have been deposited with the trustee or other holder of a Lien prior to the Lien of this Indenture in accordance with the provisions thereof; and provided, further, that the amount of cash so required to be deposited may be reduced, at the election of the Company, by the items specified in clause (d) in the first paragraph of Section 17.03, subject to all of the limitations and conditions specified in such Section, to the same extent as if such property were being released pursuant to Section 17.03. Any cash deposited with the Trustee under this Section may thereafter be withdrawn, used or applied in the manner, to the extent and for the purposes, and subject to the conditions, provided in Section 17.06.

SECTION 17.06. WITHDRAWAL OR OTHER APPLICATION OF FUNDED CASH; PURCHASE MONEY OBLIGATIONS.

Subject to the provisions of Section 16.04 and except as hereafter in this Section provided, unless an Event of Default shall have occurred and be continuing, any Funded Cash held by the Trustee, and any other cash which is required to be withdrawn, used or applied as provided in this Section,

(a) may be withdrawn from time to time by the Company to the extent of an amount equal to the Cost or the Fair Value to the Company (whichever is less) of Property Additions not constituting Funded Property, after making any deductions and additions pursuant to Section 1.03, described in an Expert's Certificate, dated not more than ninety (90) days prior to the date of the Company Order requesting such withdrawal and complying with clause (ii) and, to the extent applicable, clause (iii) in Section 16.02(b), delivered to the Trustee; provided, however,

that the deductions and additions contemplated by Section 1.03 shall not be required to be made if such Property Additions were acquired, made or constructed on or after the ninetieth (90th) day preceding the date of such Company Order;

(b) may be withdrawn from time to time by the Company in an amount equal to the aggregate principal amount of Securities to the authentication and delivery of which the Company shall be entitled under the provisions of Section 16.03 hereof, by virtue of compliance with all applicable provisions of Section 16.03 (except as hereinafter in this Section otherwise provided); provided, however, that such withdrawal of cash shall operate as a waiver by the Company of the right to the authentication and delivery of such Securities and, to such extent, no such Securities may thereafter be authenticated and delivered hereunder; and any such Securities which were the basis of such right to the authentication and delivery of Securities so waived shall be deemed to have been made the basis of such withdrawal of cash;

(c) may be withdrawn from time to time by the Company in an amount equal to the aggregate principal amount of any Outstanding Securities delivered to the Trustee;

(d) may, upon the request of the Company, be used by the Trustee for the purchase of Securities in the manner, at the time or times, in the amount or amounts, at the price or prices and otherwise as directed or approved by the Company, all subject to the limitations hereafter in this Section set forth; or

(e) may, upon the request of the Company, be applied by the Trustee to the payment (or provision therefor pursuant to Article Eight) at Stated Maturity of any Securities or to the redemption (or similar provision therefor) of any Securities which are, by their terms, redeemable, in each case of such series as may be designated by the Company, any such redemption to be in the manner and as provided in Article Five and in such Securities, all subject to the limitations hereafter in this Section set forth.

Such moneys shall, from time to time, be paid or used or applied by the Trustee, as aforesaid, upon the request of the Company in a Company Order, and upon receipt by the Trustee of an Officer's Certificate stating that, to the knowledge of the signer, no Event of Default has occurred and is continuing. If and to the extent that the withdrawal of cash is based upon Property Additions (as permitted under the provisions of clause (a) above), the Company shall, subject to the provisions of said clause (a) and except as hereafter in this paragraph provided, comply with all applicable provisions of this Indenture as if such Property Additions were made the basis for the authentication and delivery of Securities equal in principal amount to the cash so to be withdrawn. If and to the extent that the withdrawal of cash is based upon the right to the authentication and delivery of Securities (as permitted under the provisions of clause (b) above), the Company shall, except as hereafter in this paragraph provided, comply with all applicable provisions of Section 16.03 relating to such authentication and delivery. Notwithstanding the foregoing provisions of this paragraph, in no event shall the Company be required to deliver the documents specified in Section 3.03.

Notwithstanding the generality of clauses (d) and (e) above, no cash to be applied pursuant to such clauses shall be applied to the payment of an amount in excess of the principal amount of any Securities to be purchased, paid or redeemed except to the extent that the

aggregate principal amount of all Securities theretofore, and of all Securities then to be, purchased, paid or redeemed pursuant to such clauses is not less than the aggregate cost for principal of, premium, if any, and accrued interest, if any, on and brokerage commissions, if any, with respect to, such Securities.

Any Outstanding Securities delivered to the Trustee pursuant to clause (c) in the first paragraph of this Section shall, upon request by the Company, forthwith be canceled by the Trustee.

Any obligations secured by Purchase Money Lien delivered to the Trustee in consideration of the release of property from the Lien of this Indenture, together with any evidence of such Purchase Money Lien held by the Trustee, shall be released from the Lien of this Indenture and delivered to or upon the order of the Company upon payment by the Company to the Trustee of an amount in cash equal to the aggregate principal amount of such obligations less the aggregate amount theretofore paid to the Trustee (by the Company, the obligor or otherwise) in respect of the principal of such obligations.

The principal of and interest on any such obligations secured by Purchase Money Lien held by the Trustee shall be paid to the Trustee as and when the same become payable. The interest received by the Trustee on any such obligations shall be deemed not to constitute Funded Cash and shall be remitted to the Company; provided, however, that if an Event of Default shall have occurred and be continuing, such proceeds shall be held as part of the Mortgaged Property until such Event of Default shall have been cured or waived.

The Trustee shall have and may exercise all the rights and powers of any owner of such obligations and of all substitutions therefor and, without limiting the generality of the foregoing, may collect and receive all insurance moneys payable to it under any of the provisions thereof and apply the same in accordance with the provisions thereof, may consent to extensions thereof at a higher or lower rate of interest, may join in any plan or plans of voluntary or involuntary reorganization or readjustment or rearrangement and may accept and hold hereunder new obligations, stocks or other securities issued in exchange therefor under any such plan. Any discretionary action which the Trustee may be entitled to take in connection with any such obligations or substitutions therefor shall be taken, so long as no Event of Default shall have occurred and be continuing, in accordance with a Company Order, and, during the continuance of an Event of Default, in its own discretion.

Anything herein to the contrary notwithstanding, the Company may irrevocably waive all right to the withdrawal pursuant to this Section of, and any other rights with respect to, any obligations secured by Purchase Money Lien held by the Trustee, and the proceeds of any such obligations, by delivery to the Trustee of a Company Order:

(x) specifying such obligations and stating that the Company thereby waives all rights to the withdrawal thereof and of the proceeds thereof pursuant to this Section, and any other rights with respect thereto; and

(y) directing that the principal of such obligations be applied as provided in clause (e) in the first paragraph of this Section, specifying the Securities to be paid or redeemed or for the payment or redemption of which payment is to be made.

Following any such waiver, the interest on any such obligations shall be applied to the payment of interest, if any, on the Securities to be paid or redeemed or for the payment or redemption of which provision is to be made, as specified in the aforesaid Company Order, as and when such interest shall become due from time to time, and any excess funds remaining from time to time after such application shall be applied to the payment of interest on any other Securities as and when the same shall become due. Pending any such application, the interest on such obligations shall be invested in Investment Securities as shall be selected by the Company and specified in written instructions delivered to the Trustee. The principal of any such obligations shall be applied solely to the payment of principal of the Securities to be paid or redeemed or for the payment or redemption of which provision is to be made, as specified in the aforesaid Company Order. Pending such application, the principal of such obligations shall be invested in Eligible Obligations as shall be selected by the Company and specified in written instructions delivered to the Trustee. The obligation of the Company to pay the principal of such Securities when the same shall become due at maturity, shall be offset and reduced by the amount of the proceeds of such obligations then held, and to be applied, by the Trustee in accordance with this paragraph.

SECTION 17.07. RELEASE OF PROPERTY TAKEN BY EMINENT DOMAIN, ETC.

Should any of the Mortgaged Property, or any interest therein, be taken by exercise of the power of eminent domain or be sold to an entity possessing the power of eminent domain under a threat to exercise the same, and should the Company elect not to obtain the release of such property pursuant to other provisions of this Article, the Trustee shall, upon request of the Company evidenced by a Company Order transmitting therewith a form of instrument or instruments to effect such release, release from the Lien hereof all its right, title and interest in and to the property so taken or sold (or with respect to an interest in property, subordinate the Lien hereof to such interest), upon receiving (a) an Opinion of Counsel to the effect that such property has been taken by exercise of the power of eminent domain or has been sold to an entity possessing the power of eminent domain under threat of an exercise of such power, (b) an Officer's Certificate stating the amount of net proceeds received or to be received for such property so taken or sold, and the amount so stated shall be deemed to be the Fair Value of such property for the purpose of any notice to the Holders of Securities, (c) if any portion of such property constitutes Funded Property, an Expert's Certificate stating the Cost thereof (or, if the Fair Value to the Company of such portion of such property at the time the same became Funded Property was certified to be an amount less than the Cost thereof, then such Fair Value, as so certified, in lieu of Cost) and (d) if any portion of such property constitutes Funded Property, a deposit by the Company of an amount in cash equal to the Cost or Fair Value stated in the Expert's Certificate delivered pursuant to clause (c) above; provided, however, that the amount required to be so deposited shall not exceed the portion of the net proceeds received or to be received for such property so taken or sold which is allocable on a pro-rata or other reasonable basis to the portion of such property constituting Funded Property; and provided, further, that no such deposit shall be required to be made hereunder if the proceeds of such taking or sale shall, as indicated in an Officer's Certificate delivered to the Trustee, have been deposited with the

trustee or other holder of a Lien prior to the Lien of this Indenture. Any cash deposited with the Trustee under this Section may thereafter be withdrawn, used or applied in the manner, to the extent and for the purposes, and subject to the conditions, provided in Section 17.06.

SECTION 17.08. DISCLAIMER OR QUITCLAIM.

In case the Company has sold, exchanged, dedicated or otherwise disposed of, or has agreed or intends to sell, exchange, dedicate or otherwise dispose of, or a Governmental Authority has ordered the Company to divest itself of, any Excepted Property or any other property not subject to the Lien hereof, or the Company desires to disclaim or quitclaim title to property to which the Company does not purport to have title, the Trustee shall, from time to time, disclaim or quitclaim such property upon receipt by the Trustee of the following:

(a) a Company Order requesting such disclaimer or quitclaim and transmitting therewith a form of instrument to effect such disclaimer or quitclaim;

(b) an Officer's Certificate describing the property to be disclaimed or quitclaimed; and

(c) an Opinion of Counsel stating the signer's opinion that such property is not subject to the Lien hereof or required to be subject thereto by any of the provisions hereof and complying with the requirements of Section 1.04 of this Indenture.

SECTION 17.09. MISCELLANEOUS.

(a) The Expert's Certificate as to the Fair Value of property to be released from the Lien of this Indenture in accordance with any provision of this Article, and as to the non-impairment, by reason of such release, of the security under this Indenture in contravention of the provisions hereof, shall be made by an Independent Expert if the Fair Value of such property and of all other property released since the commencement of the then current calendar year, as set forth in the certificates required by this Indenture, is ten percent (10%) or more of the aggregate principal amount of the Securities at the time Outstanding; but such Expert's Certificate shall not be required to be made by an Independent Expert in the case of any release of property if the Fair Value thereof, as set forth in the certificates required by this Indenture, is less than Twenty-five Thousand Dollars ($25,000) or less than one percent (1%) of the aggregate principal amount of the Securities at the time Outstanding. To the extent that the Fair Value of any property to be released from the Lien of this Indenture shall be stated in an Independent Expert's Certificate, such Fair Value shall not be required to be stated in any other Expert's Certificate delivered in connection with such release.

(b) No release of property from the Lien of this Indenture effected in accordance with the provisions, and in compliance with the conditions, set forth in this Article and in Sections 1.04 and 1.05 shall be deemed to impair the security of this Indenture in contravention of any provision hereof.

(c) If the Mortgaged Property shall be in the possession of a receiver or trustee, lawfully appointed, the powers hereinbefore conferred upon the Company with respect to the release of any part of the Mortgaged Property or any interest therein or the withdrawal of cash

may be exercised, with the approval of the Trustee, by such receiver or trustee, notwithstanding that an Event of Default may have occurred and be continuing, and any request, certificate, appointment or approval made or signed by such receiver or trustee for such purposes shall be as effective as if made by the Company or any of its officers or appointees in the manner herein provided; and if the Trustee shall be in possession of the Mortgaged Property under any provision of this Indenture, then such powers may be exercised by the Trustee in its discretion notwithstanding that an Event of Default may have occurred and be continuing.

(d) If the Company shall retain any interest in any property released from the Lien of this Indenture as provided in Section 17.03, 17.04 or 17.05, this Indenture shall not become or be, or be required to become or be, a Lien upon such property or such interest therein or any improvements, extensions or additions to such property or renewals, replacements or substitutions of or for such property or any part or parts thereof unless the Company shall execute and deliver to the Trustee an indenture supplemental hereto, in recordable form, containing a grant, conveyance, transfer and mortgage thereof. As used in this subsection, the terms "improvements", "extensions" and "additions" shall be limited as set forth in Section 12.01.

(e) Notwithstanding the occurrence and continuance of an Event of Default, the Trustee, in its discretion, may release from the Lien hereof any part of the Mortgaged Property or permit the withdrawal of cash, upon compliance with the other conditions specified in this Article in respect thereof.

(f) No purchaser or grantee of property purporting to have been released hereunder shall be bound to ascertain the authority of the Trustee to execute the instrument or instruments of release, or to inquire as to any facts required by the provisions hereof for the exercise of such authority; nor shall any purchaser or grantee of any property or rights permitted by this Article to be sold, granted, exchanged, dedicated or otherwise disposed of, be under obligation to ascertain or inquire into the authority of the Company to make any such sale, grant, exchange, dedication or other disposition.

SECTION 17.10. PRESERVATION OF LIEN.

The Company shall maintain and preserve the Lien of this Indenture so long as any Securities shall remain Outstanding, subject, however, to the provisions of Article Thirteen and Article Seventeen.

SECTION 17.11. MAINTENANCE OF PROPERTIES.

The Company shall cause (or, with respect to property owned in common with others, make reasonable effort to cause) the Mortgaged Property, considered as a whole, to be maintained and kept in good condition, repair and working order and shall cause (or, with respect to property owned in common with others, make reasonable effort to cause) to be made such repairs, renewals, replacements, betterments and improvements thereof, as, in the judgment of the Company, may be necessary in order that the operation of the Mortgaged Property, considered as a whole, may be conducted in accordance with common industry practice; provided, however, that nothing in this Section shall prevent the Company from discontinuing, or

causing the discontinuance of, the operation and maintenance of any portion of the Mortgaged Property if such discontinuance is in the judgment of the Company desirable in the conduct of its business; and provided, further, that nothing in this Section shall prevent the Company from selling, transferring or otherwise disposing of, or causing the sale, transfer or other disposition of, any portion of the Mortgaged Property in compliance with the other Sections of this Indenture.

SECTION 17.12. PAYMENT OF TAXES; DISCHARGE OF LIENS.

The Company shall pay all taxes and assessments and other governmental charges lawfully levied or assessed upon the Mortgaged Property, or upon any part thereof, or upon the interest of the Trustee in the Mortgaged Property, before the same shall become delinquent, and shall observe and conform in all material respects to all valid requirements of any Governmental Authority relative to the Mortgaged Property and all covenants, terms and conditions upon or under which any of the Mortgaged Property is held; and the Company shall not suffer any Lien to be created upon the Mortgaged Property, or any part thereof, prior to or on parity with the Lien of this Indenture, other than Permitted Liens; provided, however, that nothing in this Section contained shall require the Company (i) to observe or conform to any requirement of Governmental Authority or to cause to be paid or discharged, or to make provision for, any such Lien, or to pay any such tax, assessment or governmental charge so long as the validity thereof shall be contested in good faith and by appropriate legal proceedings or (ii) to pay, discharge or make provisions for any tax, assessment or other governmental charge, the validity of which shall not be so contested if adequate security for the payment of such tax, assessment or other governmental charge and for any penalties or interest which may reasonably be anticipated from failure to pay the same shall be given to the Trustee; and provided, further, that nothing in this Section shall prohibit the issuance or other incurrence of additional indebtedness, or the refunding of outstanding indebtedness, secured by any Lien prior to the Lien hereof which is permitted under this Section to continue to exist.

SECTION 17.13. INSURANCE.

(a) The Company shall (i) keep or cause to be kept all the Mortgaged Property insured against loss by fire, to the extent that property of similar character is usually so insured by companies similarly situated and operating like properties, to a reasonable amount, by reputable insurance companies, the proceeds of such insurance (except as to any loss of Excepted Property and except as to any particular loss less than the greater of (A) Twenty Million Dollars ($20,000,000) and (B) three percent (3%) of the principal amount of Securities Outstanding on the date of such particular loss) to be made payable, subject to applicable law, to the Trustee as the interest of the Trustee may appear, or to the trustee or other holder of any Lien prior hereto upon property subject to the Lien hereof, if the terms thereof require such payment or (ii) in lieu of or supplementing such insurance in whole or in part, adopt some other method or plan of protection against loss by fire at least equal in protection to the method or plan of protection against loss by fire of companies similarly situated and operating properties subject to similar fire hazards or properties on which an equal primary fire insurance rate has been set by reputable insurance companies; and if the Company shall adopt such other method or plan of protection, it shall, subject to applicable law (and except as to any loss of Excepted Property and except as to any particular loss less than the greater of (X) Twenty Million Dollars ($20,000,000) and (Y)

three percent (3%) of the principal amount of Securities Outstanding on the date of such particular loss) pay to the Trustee on account of any loss covered by such method or plan an amount in cash equal to the amount of such loss less any amounts otherwise paid to the Trustee in respect of such loss or paid to the trustee or other holder of any Lien prior hereto upon property subject to the Lien hereof in respect of such loss if the terms thereof require such payment. Any cash so required to be paid by the Company pursuant to any such method or plan shall for the purposes of this Indenture be deemed to be proceeds of insurance. In case of the adoption of such other method or plan of protection, the Company shall furnish to the Trustee a certificate of an actuary or other qualified person appointed by the Company with respect to the adequacy of such method or plan.

Anything herein to the contrary notwithstanding, the Company may have fire insurance policies with (i) a deductible provision in a dollar amount per occurrence not exceeding the greater of (A) Twenty Million Dollars ($20,000,000) and (B) three percent (3%) of the principal amount of the Securities Outstanding on the date such policy goes into effect, and/or (ii) co-insurance or self insurance provisions with a dollar amount per occurrence not exceeding thirty percent (30%) of the loss proceeds otherwise payable; provided, however, that the dollar amount described in clause (i) above may be exceeded to the extent such dollar amount per occurrence is below the deductible amount in effect as to fire insurance (X) on property of similar character insured by companies similarly situated and operating like property or (Y) on property as to which an equal primary fire insurance rate has been set by reputable insurance companies.

(b) All moneys paid to the Trustee by the Company in accordance with this Section or received by the Trustee as proceeds of any insurance, in either case on account of a loss on or with respect to Funded Property, shall, subject to any Lien prior hereto upon property subject to the Lien hereof, be held by the Trustee and, subject as aforesaid, shall be paid by it to the Company to reimburse the Company for an equal amount expended or committed for expenditure in the rebuilding, renewal and/or replacement of or substitution for the property destroyed or damaged, upon receipt by the Trustee of:

(i) a Company Request requesting such payment,

(ii) an Expert's Certificate:

(A) describing the property so damaged or destroyed;

(B) stating the Cost of such property (or, if the Fair Value to the Company of such property at the time the same became Funded Property was certified to be an amount less than the Cost thereof, then such Fair Value, as so certified, in lieu of Cost) or, if such damage or destruction shall have affected only a portion of such property, stating the allocable portion of such Cost or Fair Value;

(C) stating the amounts so expended or committed for expenditure in the rebuilding, renewal, replacement of and/or substitution for such property; and

(D) stating the Fair Value to the Company of such property as rebuilt or renewed or as to be rebuilt or renewed and/or of the replacement or substituted property, and if

(a) within six months prior to the date of acquisition thereof by the Company, such property has been used or operated, by a person or persons other than the Company, in a business similar to that in which it has been or is to be used or operated by the Company, and

(b) the Fair Value to the Company of such property as set forth in such Expert's Certificate is not less than Twenty-five Thousand Dollars ($25,000) and not less than one percent (1%) of the aggregate principal amount of the Securities at the time Outstanding,

the Expert making the statement required by this clause (D) shall be an Independent Expert, and

(iii) an Opinion of Counsel stating that, in the opinion of the signer, the property so rebuilt or renewed or to be rebuilt or renewed, and/or the replacement property, is or will be subject to the Lien hereof.

Any such moneys not so applied within thirty-six (36) months after its receipt by the Trustee, or in respect of which notice in writing of intention to apply the same to the work of rebuilding, renewal, replacement or substitution then in progress and uncompleted shall not have been given to the Trustee by the Company within such thirty-six (36) months, or which the Company shall at any time notify the Trustee is not to be so applied, shall thereafter be withdrawn, used or applied in the manner, to the extent and for the purposes, and subject to the conditions, provided in Section 17.06; provided, however, that if the amount of such moneys shall exceed the amount stated pursuant to clause (B) in the Expert's Certificate referred to above, the amount of such excess shall not be deemed to be Funded Cash, shall not be subject to Section 17.06 and shall be remitted to or upon the order of the Company upon the withdrawal, use or application of the balance of such moneys pursuant to Section 17.06.

Anything in this Indenture to the contrary notwithstanding, if property on or with respect to which a loss occurs constitutes Funded Property in part only, the Company may, at its election, obtain the reimbursement of insurance proceeds attributable to the part of such property which constitutes Funded Property under this subsection (b) and obtain the reimbursement of insurance proceeds attributable to the part of such property which does not constitute Funded Property under subsection (c) of this Section 17.13.

(c) All moneys paid to the Trustee by the Company in accordance with this Section or received by the Trustee as proceeds of any insurance, in either case on account of a loss on or with respect to property which does not constitute Funded Property, shall, subject to the requirements of any Lien prior hereto upon property subject to the Lien hereof, be held by the Trustee and, subject as aforesaid, shall be paid by it to the Company upon receipt by the Trustee of:

(i) a Company Request requesting such payment;

(ii) an Expert's Certificate stating:

(A) that such moneys were paid to or received by the Trustee on account of a loss on or with respect to property which does not constitute Funded Property; and

(B) if true, either (I) that the aggregate amount of the Cost or Fair Value to the Company (whichever is less) of all Property Additions which do not constitute Funded Property (excluding, to the extent of such loss, the property on or with respect to which such loss was incurred), after making deductions therefrom and additions thereto of the character contemplated by Section 1.03, is not less than zero (0) or (II) that the amount of such loss does not exceed the aggregate Cost or Fair Value to the Company (whichever is less) of Property Additions acquired, made or constructed on or after the ninetieth (90th) day prior to the date of the Company Request requesting such payment; or

(C) if neither of the statements contemplated in subclause (B) above can be made, the amount by which zero (0) exceeds the amount referred to in subclause (B)(I) above (showing in reasonable detail the calculation thereof); and

(iii) if the Expert's Certificate required by clause (ii) above contains neither of the statements contemplated in clause (ii)(B) above, an amount in cash, to be held by the Trustee as part of the Mortgaged Property, equal to the amount shown in clause (ii)(C) above.

To the extent that the Company shall be entitled to withdraw proceeds of insurance pursuant to this subsection (c), such proceeds shall be deemed not to constitute Funded Cash.

(d) Whenever under the provisions of this Section the Company is required to deliver moneys to the Trustee and at the same time shall have satisfied the conditions set forth herein for payment of moneys by the Trustee to the Company, there shall be paid to or retained by the Trustee or paid to the Company, as the case may be, only the net amount.

SECTION 17.14. RECORDING, FILING, ETC.

The Company shall cause this Indenture and all indentures and instruments supplemental hereto (or notices, memoranda or financing statements as may be recorded or filed to place third parties on notice thereof) to be promptly recorded and filed and re-recorded and re-filed in such manner and in such places, as may be required by law in order fully to preserve and protect the security of the Holders of the Securities and all rights of the Trustee and to perfect and maintain the perfection of any security interest granted to the Trustee hereunder or thereunder, and shall furnish to the Trustee:

(a) promptly after the execution and delivery of this Indenture and of each supplemental indenture, an Opinion of Counsel either stating that in the opinion of such counsel this Indenture or such supplemental indenture (or any other instrument, resolution, certificate, notice, memorandum or financing statement in connection therewith) has been properly recorded and filed, so as to make effective the Lien intended to be created hereby or thereby and to perfect

any security interest granted to the Trustee hereunder or thereunder, and reciting the details of such action, or stating that in the opinion of such counsel no such action is necessary to make such Lien effective or to perfect such security interest. The Company shall be deemed to be in compliance with this subsection (a) if (i) the Opinion of Counsel herein required to be delivered to the Trustee shall state that this Indenture or such supplemental indenture (or any other instrument, resolution, certificate notice, memorandum or financing statement in connection therewith) has been received for record or filing in each jurisdiction in which it is required to be recorded or filed and that, in the opinion of such counsel (if such is the case), such receipt for record or filing makes effective the Lien intended to be created by this Indenture or such supplemental indenture or perfects such security interest, and (ii) such opinion is delivered to the Trustee within such time, following the Execution Date or the date of execution and delivery of such supplemental indenture, as shall be practicable having due regard to the number and distance of the jurisdictions in which this Indenture or such supplemental indenture (or such other instrument, resolution, certificate, notice, memorandum or financing statement in connection therewith) is required to be recorded or filed; and

(b) on or before October 1 of each year, beginning October 1, 2009, an Opinion of Counsel stating either (i) that in the opinion of such counsel such action has been taken, since the date of the most recent Opinion of Counsel furnished pursuant to this subsection (b) or the first Opinion of Counsel furnished pursuant to subsection (a) of this Section, with respect to the recording, filing, re-recording, and re-filing of this Indenture and of each indenture supplemental to this Indenture (or any other instrument, resolution, certificate, notice, memorandum or financing statement in connection therewith), as is necessary to maintain the effectiveness of the Lien hereof and to maintain the perfection of any security interest granted to the Trustee hereunder, and reciting such action, or (ii) that in the opinion of such counsel no such action is necessary to maintain the effectiveness of such Lien or the perfection of such security interest.

The Company shall execute and deliver such supplemental indenture or indentures and such further instruments and do such further acts as may be necessary or proper to carry out the purposes of this Indenture and to make subject to the Lien hereof any property hereafter acquired, made or constructed and intended to be subject to the Lien hereof, and to transfer to any new trustee or trustees or co-trustee or co-trustees, the estate, powers, instruments or funds held in trust hereunder.

This Indenture is a "utility mortgage" as defined in Ohio Revised Code Section 1701.66 and, as more fully set forth in the Second Granting Clause above, is intended to encumber after-acquired property.

This Indenture constitutes a fixture filing within the meaning of Ohio Revised Code Section 1309.502 and covers goods which are or may become fixtures related to the real property encumbered by this Indenture and any amendments or supplements hereto.

[END OF ARTICLE SEVENTEEN]

This instrument may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Indenture to be duly executed as of the day and year first above written.

DUKE ENERGY OHIO, INC.

By _____
M. Allen Carrick
Assistant Treasurer

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., as Trustee

By _____
[Name]
Vice President

Acknowledged and agreed solely as to the matters set forth in clauses (a) and (d) of the "Recitals of the Company":

THE BANK OF NEW YORK MELLON,
as Resigning Trustee

By _____
[Name]
Vice President

STATE OF NORTH CAROLINA)
) ss:
COUNTY OF MECKLENBURG)

BE IT REMEMBERED, that on this ___ day of March, 2009, before me, the undersigned, a notary public in and for the County and State aforesaid, duly commissioned and qualified, personally appeared M. Allen Carrick, personally known to me to be the same person whose name is subscribed to the foregoing instrument, and personally known to me to be an Assistant Treasurer of Duke Energy Ohio, Inc., an Ohio corporation, and acknowledged that he signed and delivered said instrument as his free and voluntary act as such Assistant Treasurer, and as the free and voluntary act of said Duke Energy Ohio, Inc., for the uses and purposes therein set forth; in pursuance of the power and authority granted to him by resolution of the Board of Directors of said Company.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my notarial seal the day and year aforesaid.

(NOTARIAL SEAL)

_____
Notary Public

[Name], Notary
My commission expires:
County of residence:

STATE OF GEORGIA)
) ss:
COUNTY OF FULTON)

BE IT REMEMBERED, that on this ___ day of March, 2009, before me, the undersigned, a notary public in and for the County and State aforesaid, duly commissioned and qualified, personally appeared _____, personally known to me to be the same person whose name is subscribed to the foregoing instrument, and personally known to me to be a Vice President of The Bank of New York Mellon Trust Company, N.A., a national banking association, and acknowledged that [he/she] signed and delivered said instrument as [his/her] free and voluntary act as such Vice President, and as the free and voluntary act of said The Bank of New York Mellon Trust Company, N.A., for the uses and purposes therein set forth; in pursuance of the power and authority granted to [him/her] by the bylaws of said association.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my notarial seal the day and year aforesaid.

(NOTARIAL SEAL)

_____
Notary Public

[Name], Notary
My commission expires:
County of residence:

EXHIBIT A

RECORDING DATA

DUKE ENERGY OHIO, INC.
(formerly The Cincinnati Gas & Electric Company)

MORTGAGE AND SUPPLEMENTAL INDENTURES
A-1

EXHIBIT B

REAL PROPERTY ACQUIRED BETWEEN DECEMBER 1, 1985,
THE DATE OF THE TWENTY-FIFTH SUPPLEMENTAL INDENTURE,
AND THE DATE OF THIS FORTIETH SUPPLEMENTAL INDENTURE

EXHIBIT C

SCHEDULE OF REAL PROPERTY HOLDINGS

C-1

This instrument was prepared by:

Bradley C. Arnett, Esq.
Frost Brown Todd LLC
2200 PNC Center
201 East Fifth Street
Cincinnati, Ohio 45202

FORM 8-K

Duke Energy Ohio, Inc. - N/A

Filed: December 22, 2008 (period: December 17, 2008)

Report of unscheduled material events or corporate changes.

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the

Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): **December 17, 2008**

DUKE ENERGY CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Delaware	**1-32853**	**20-2777218**
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

526 South Church Street, Charlotte, North Carolina 28202
(Address of Principal Executive Offices, including Zip code)

(704) 594-6200
(Registrant's telephone number, including area code)

DUKE ENERGY OHIO, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware	**001-1232**	**31-0240030**
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

139 East Fourth Street, Cincinnati, Ohio 45202
(Address of Principal Executive Offices, including Zip code)

(704) 594-6200
(Registrant's telephone number, including area code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240. 13e-4(c))

Item 8.01. Other Events.

On December 17, 2008, Duke Energy Ohio, Inc. announced that the Public Utilities Commission of Ohio (PUCO) approved the settlement agreement on its electric security plan under Ohio's new energy law. The agreement establishes generation rates for 2009 through 2011. The settlement agreement was reached with most intervening parties, the Staff of the PUCO and the Ohio Consumers' Counsel in October and was then sent to the PUCO for approval. Under the settlement terms, the base cost for generation service will increase by approximately 2 percent of the total bill annually in 2009 and in 2010 for residential customers, and each year from 2009 through 2011 for non-residential customers. Additionally, the bill for generation service will continue to include cost-based trackers for fuel and purchased power, capacity purchases and environmental compliance expenditures.

An overview providing additional detail on the settlement is attached to this Form 8-K as Exhibit 10.1.

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Item 9.01. Financial Statements and Exhibits

(d) *Exhibits.*

10.1 Electric Security Plan (ESP) Settlement Overview.

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

DUKE ENERGY CORPORATION

Date: December 22, 2008

By: /s/Myron L. Caldwell
Name: Myron L. Caldwell
Title: Senior Vice President, Rates and Regulatory Accounting

DUKE ENERGY OHIO, INC.

Date: December 22, 2008

By: /s/ Myron L. Caldwell
Name: Myron L. Caldwell
Title: Senior Vice President, Rates and Regulatory Accounting

EXHIBIT INDEX

Exhibit	Description
10.1	Electric Security Plan (ESP) Overview.

Exhibit 10.1

Duke Energy Ohio
Electric Security Plan (ESP) Settlement Overview

Background – Ohio Electric Market (Past and Present)
- Ohio Amended Substitute Senate Bill No. 221 (SB221) signed May 1, 2008 (effective July 31, 2008)
- Duke Energy Ohio filed its ESP on July 31, 2008

Settlement and PUCO Order
- Settlement agreement filed on October 27, 2008
- PUCO Order issued December 17, 2008
- 3-year Plan: January 1, 2009 — December 31, 2011

- Pricing and Customer Impacts
  - Pricing Impacts

($ in millions)	2009 Revenue	2010 Revenue	2011 Revenue
Base Price Increase	$ 83	$ 121	$ 219
RTC Termination (Note)	$ (47)	$ (47)	$ (121)
Net Revenue Increase	$ 36	$ 74	$ 98
Original Proposal	*$ 110*	*$ 130*	*$ 75*

Note: Residential and non-residential RTC revenue and equivalent amortization expense terminates 12/31/08 and 12/31/10, respectively.

- Deferral of up to $50MM Beckjord Station O&M, amortized over 3 years (no revenue impact — only amortization expense)

($ in millions)	2009	2010	2011
Planned 2009 Beckjord O&M	$ 50		
Amortization Expense	$ (17)	$ (17)	$ (16)
Deferred Beckjord O&M Balance	$ 33	$ 16	$ 0

- Customer Impacts (as % of total bill)
  - Overall annual average increase = 2% in 2009 and 2010, and 1.2% in 2011
  - Average impact by customer class(excluding distribution rate case impacts):
    - Residential = 2% in 2009 and 2010, and 0% in 2011
    - Commercial and Industrial = 2% in each year

- Cost-Based Trackers
  - Retain existing trackers for:
    - Fuel, purchased power and emission allowances (currently FPP, new name PTC-FPP)
    - Environmental, homeland security & change in tax law (currently AAC, new name PTC-AAC)
    - Capacity purchases (currently SRT, new name SRA-SRT)
  - Replaces DSM tracker with new energy efficiency tracker (Save-A-Watt) (Rider DR-SAW)
  - New unavoidable trackers for:
    - Infrastructure modernization (SmartGrid) (Rider DR-IM) - Provides for deferral of costs and accumulation of carrying charges between point of expenditure and inclusion of such costs in the rider;
    - Economic competitiveness (customer incentives approved by PUCO) (Rider DR-ECF)

- Settlement withdrew the proposed inflation adjustment rider and the unavoidable newly dedicated capacity rider

- Projected Average Price-to-Compare ($/MWh)

	2009	2010	2011
Base Generation (PTC-BG)	$ 29.20	$ 31.10	$ 36.00
Fuel and Purchased Power (Rider PTC-FPP)	$ 23.80	$ 27.10	$ 30.10
Environmental (Rider PTC-AAC)	$ 5.70	$ 5.50	$ 5.00
Total Price-to-Compare (PTC)	$ 58.70	$ 63.70	$ 71.10
PTC in Original ESP Filing	*$ 62.50*	*$ 67.30*	*$ 71.50*

- Settlement allows the gas generation assets to be sold or transferred to an affiliated GenCo

Source: Duke Energy Ohio, In, 8-K, December 22, 2008

- Existing dedicated assets to continue serving Duke Energy Ohio customers during the 3-year term of the ESP

- Earnings Test
  - ROE threshold = 15%
  - ROE excludes purchase accounting & goodwill, mark-to-market accounting, and material non-recurring gains and losses

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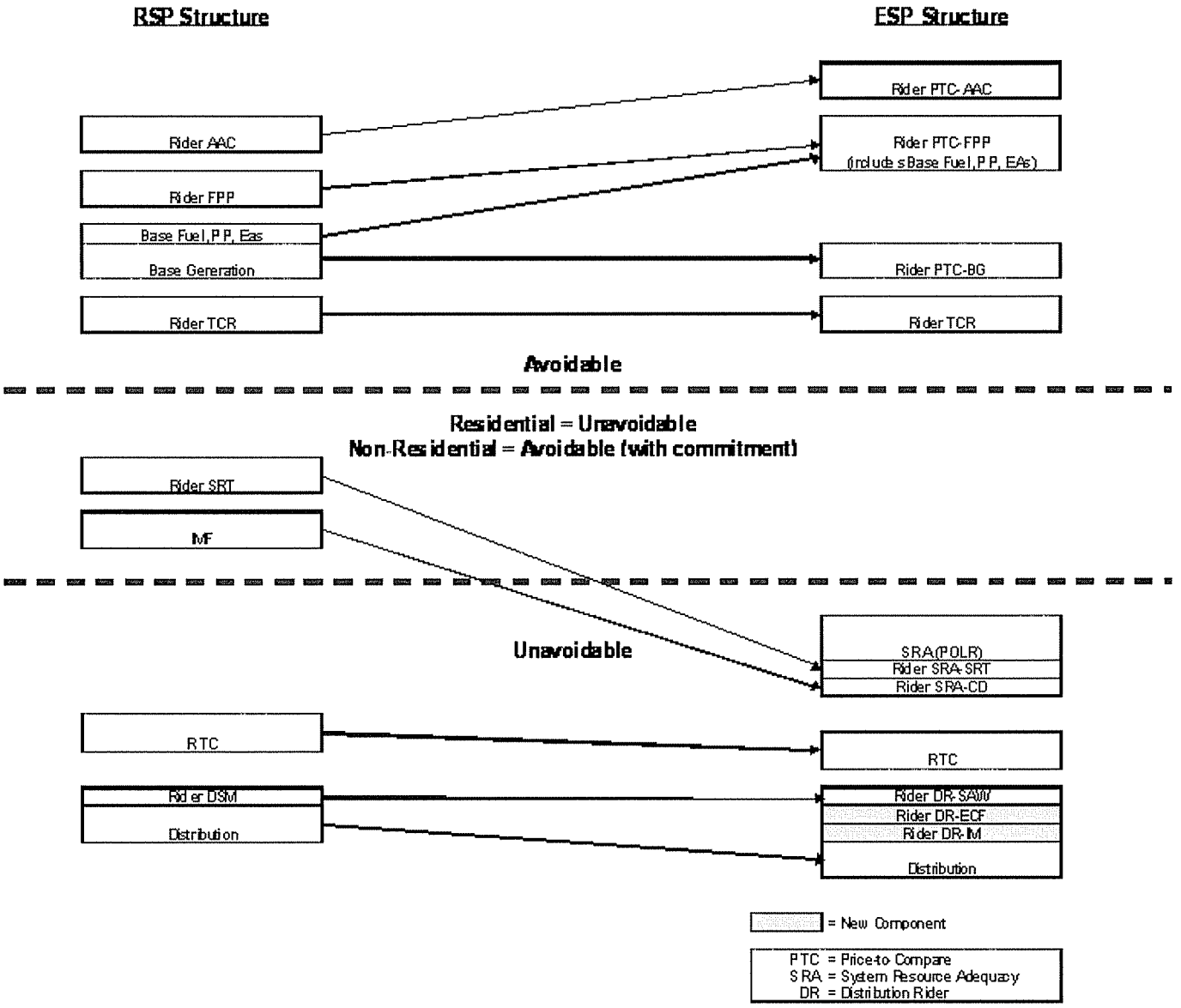
Source: Duke Energy Ohio, In, 8-K, December 22, 2008

Duke Energy Ohio

Price Structure Transition From RSP to ESP



Source: Duke Energy Ohio, In, 8-K, December 22, 2008

FORM 10-Q

Duke Energy Ohio, Inc. - N/A

Filed: November 13, 2008 (period: September 30, 2008)

Quarterly report which provides a continuing view of a company's financial position

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2008 Or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from_____ to_____

Commission file number 1-1232

DUKE ENERGY OHIO, INC.

(Exact Name of Registrant as Specified in its Charter)

Ohio	31-0240030
(State or Other Jurisdiction of Incorporation)	(IRS Employer Identification No.)
139 East Fourth Street Cincinnati, OH (Address of Principal Executive Offices)	45202 (Zip code)

704-594-6200
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes☒ No☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐	Accelerated filer☐
Non-accelerated filer ☒	Smaller reporting company ☐
(Do not check if a smaller reporting company)	

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934).
Yes☐ No☒

All of the registrant's common stock is indirectly owned by Duke Energy Corporation (File No. 1-32853) which is a reporting company under the Securities Exchange Act of 1934, as amended.

The registrant meets the conditions set forth in General Instructions H(1)(a) and (b) of Form 10-Q and is therefore filing this form with the reduced disclosure format specified in General Instructions H(2) of Form 10-Q.

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DUKE ENERGY OHIO, INC.
FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2008

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

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

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

In light of these risks, uncertainties and assumptions, the events described in the forward-looking statements might not occur or might occur to a different extent or at a different time than Duke Energy Ohio has described. Duke Energy Ohio undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

DUKE ENERGY OHIO, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In millions)

Item 1. *Financial Statements.*

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Operating Revenues				
Non-regulated electric and other	$ 446	$ 613	$ 1,292	$ 1,381
Regulated electric	286	278	756	742
Regulated natural gas	86	64	556	511
Total operating revenue	818	955	2,604	2,634
Operating Expenses				
Fuel used in electric generation and purchased power—non-regulated	332	310	612	728
Fuel used in electric generation and purchased power—regulated	49	49	116	116
Cost of natural gas and coal sold	42	32	341	356
Operation, maintenance and other	205	186	571	553
Depreciation and amortization	106	107	305	295
Property and other taxes	62	60	197	195
Impairments and other charges	82	—	82	—
Total operating expenses	878	744	2,224	2,243
(Losses) Gains on Sales of Other Assets and Other, net	—	(1)	46	(12)
Operating (Loss) Income	(60)	210	426	379
Other Income and Expenses, net	8	5	23	22
Interest Expense	23	28	72	73
(Loss) Income Before Income Taxes	(75)	187	377	328
Income Tax (Benefit) Expense	(21)	69	141	124
Net (Loss) Income	$ (54)	$ 118	$ 236	$ 204

See Notes to Unaudited Consolidated Financial Statements

DUKE ENERGY OHIO, INC.
CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In millions)

	September 30, 2008	December 31, 2007
ASSETS		
Current Assets		
Cash and cash equivalents	$ 341	$ 33
Receivables (net of allowance for doubtful accounts of $18 at September 30, 2008 and $3 at December 31, 2007)	186	334
Inventory	270	212
Unrealized gains on mark-to-market and hedging transactions	104	22
Other	172	94
Total current assets	1,073	695
Investments and Other Assets		
Restricted funds held in trust	60	62
Goodwill	2,324	2,325
Intangibles, net	416	551
Unrealized gains on mark-to-market and hedging transactions	30	17
Other	33	33
Total investments and other assets	2,863	2,988
Property, Plant and Equipment		
Cost	9,954	9,577
Less accumulated depreciation and amortization	2,277	2,097
Net property, plant and equipment	7,677	7,480
Regulatory Assets and Deferred Debits		
Deferred debt expense	23	23
Regulatory assets related to income taxes	100	90
Other	318	401
Total regulatory assets and deferred debits	441	514
Total Assets	$ 12,054	$ 11,677

See Notes to Unaudited Consolidated Financial Statements

DUKE ENERGY OHIO, INC.
CONSOLIDATED BALANCE SHEETS—(Continued)
(Unaudited)
(In millions, except share and per-share amounts)

	September 30, 2008	December 31, 2007
LIABILITIES AND COMMON STOCKHOLDER'S EQUITY		
Current Liabilities		
Accounts payable	$ 400	$ 602
Notes payable and commercial paper	492	189
Taxes accrued	231	172
Interest accrued	23	24
Current maturities of long-term debt	27	126
Unrealized losses on mark-to-market and hedging transactions	76	24
Other	70	86
Total current liabilities	1,319	1,223
Long-term Debt	1,856	1,810
Deferred Credits and Other Liabilities		
Deferred income taxes	1,482	1,436
Investment tax credit	14	16
Accrued pension and other post-retirement benefit costs	242	259
Unrealized losses on mark-to-market and hedging transactions	28	25
Asset retirement obligations	33	31
Other	296	343
Total deferred credits and other liabilities	2,095	2,110
Commitments and Contingencies		
Common Stockholder's Equity		
Common Stock, $8.50 par value, 120,000,000 shares authorized; 89,663,086 shares outstanding at September 30, 2008 and December 31, 2007	762	762
Additional paid-in capital	5,570	5,570
Retained earnings	463	227
Accumulated other comprehensive loss	(11)	(25)
Total common stockholder's equity	6,784	6,534
Total Liabilities and Common Stockholder's Equity	$ 12,054	$ 11,677

See Notes to Unaudited Consolidated Financial Statements

DUKE ENERGY OHIO, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In millions)

	Nine Months Ended September 30,	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 236	$ 204
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	308	295
(Gains) losses on sales of other assets and other, net	(46)	12
Impairment charges	82	—
Deferred income taxes	(37)	45
Accrued pension and other post-retirement benefit costs	16	28
Contribution to company-sponsored pension and other post-retirement benefit plans	—	(92)
(Increase) decrease in:		
Net realized and unrealized mark-to-market and hedging transactions	(19)	31
Receivables	168	71
Inventory	(58)	(14)
Other current assets	(36)	(1)
Increase (decrease) in:		
Accounts payable	(209)	(56)
Taxes accrued	70	(153)
Other current liabilities	(10)	(6)
Regulatory asset/liability deferrals	(24)	(20)
Other assets	21	141
Other liabilities	(73)	(46)
Net cash provided by operating activities	389	439
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(381)	(461)
Purchases of emission allowances	(15)	(14)
Sales of emission allowances	60	25
Change in restricted funds held in trust	2	21
Other	3	(1)
Net cash used in investing activities	(331)	(430)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of long-term debt	73	6
Redemption of long-term debt	(139)	(5)
Notes payable and commercial paper	276	—
Notes payable to affiliate, net	40	74
Dividends to parent	—	(135)
Capital contribution from parent	—	29
Net cash provided by (used in) financing activities	250	(31)
Net increase (decrease) in cash and cash equivalents	308	(22)
Cash and cash equivalents at beginning of period	33	45
Cash and cash equivalents at end of period	$ 341	$ 23
Supplemental Disclosures		
Significant non-cash transactions:		
Purchase accounting adjustments	$ —	$ (8)
Accrued capital expenditures	$ 60	$ 13

See Notes to Unaudited Consolidated Financial Statements

DUKE ENERGY OHIO, INC.

CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDER'S EQUITY AND COMPREHENSIVE INCOME
(Unaudited)
(In millions)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss): Net Gains (Losses) on Cash Flow Hedges	Accumulated Other Comprehensive Income (Loss): Pension and OPEB Related Adjustments to AOCI	Total
Balance at December 31, 2006	$ 762	$ 5,601	$ 55	$ (36)	$ (2)	$ 6,380
Net income	—	—	204	—	—	204
Other comprehensive income						
Cash flow hedges[a]	—	—	—	1	—	1
Pension and OPEB-related Adjustments to AOCI	—	—	—	—	1	1
Total comprehensive income						206
Capital contribution from parent	—	29	—	—	—	29
Push-down accounting adjustments	—	(8)	—	—	—	(8)
Adoption of SFAS No. 158—measurement[b] date provision	—	—	(3)	—	(2)	(5)
Dividend to parent	—	(46)	(89)	—	—	(135)
Balance at September 30, 2007	$ 762	$ 5,576	$ 167	$ (35)	$ (3)	$ 6,467
Balance at December 31, 2007	$ 762	$ 5,570	$ 227	$ (32)	$ 7	$ 6,534
Net income	—	—	236	—	—	236
Other comprehensive income						
Cash flow hedges[c]	—	—	—	12	—	12
Pension and OPEB-related Adjustments to AOCI[d]	—	—	—	—	2	2
Total comprehensive income						250
Balance at September 30, 2008	$ 762	$ 5,570	$ 463	$ (20)	$ 9	$ 6,784

(a) Net of $1 tax expense in 2007.

(b) Net of $2 tax benefit in 2007.

(c) Net of $7 tax expense in 2008.

(d) Net of insignificant tax expense in 2008.

See Notes to Unaudited Consolidated Financial Statements

DUKE ENERGY OHIO, INC.

Notes To Unaudited Consolidated Financial Statements

1. Basis of Presentation

Nature of Operations and Basis of Consolidation. Duke Energy Ohio, Inc. (Duke Energy Ohio), an Ohio corporation organized in 1837, is a wholly-owned subsidiary of Cinergy Corp. (Cinergy). Cinergy is a wholly-owned subsidiary of Duke Energy Corporation (Duke Energy). Duke Energy Ohio is a combination electric and gas public utility company that provides service in the southwestern portion of Ohio and through its wholly-owned subsidiary, Duke Energy Kentucky, Inc. (Duke Energy Kentucky), in nearby areas of Kentucky, as well as unregulated electric generation in parts of Ohio, Illinois, Indiana and Pennsylvania. Duke Energy Ohio's principal lines of business include generation, transmission and distribution of electricity, the sale of and/or transportation of natural gas, and energy marketing. Duke Energy Kentucky's principal lines of business include generation, transmission and distribution of electricity as well as the sale of and/or transportation of natural gas. Except where separately noted, references to Duke Energy Ohio herein relate to the consolidated operations of Duke Energy Ohio, including Duke Energy Kentucky. These Unaudited Consolidated Financial Statements include, after eliminating intercompany transactions and balances, the accounts of Duke Energy Ohio and all majority-owned subsidiaries where Duke Energy Ohio has control, as well as Duke Energy Ohio's proportionate share of certain generation and transmission facilities in Ohio, Kentucky and Indiana.

These Unaudited Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles (GAAP) in the United States of America (U.S.) for interim financial information and with the instructions to Form 10-Q and Regulation S-X. Accordingly, these Unaudited Consolidated Financial Statements do not include all of the information and notes required by GAAP in the U.S. for annual financial statements. Because the interim Unaudited Consolidated Financial Statements and Notes do not include all of the information and notes required by GAAP in the U.S. for annual financial statements, the Unaudited Consolidated Financial Statements and other information included in this quarterly report should be read in conjunction with the Unaudited Consolidated Financial Statements and Notes in Duke Energy Ohio's Form 10-K for the year ended December 31, 2007.

These Unaudited Consolidated Financial Statements reflect all normal recurring adjustments that are, in the opinion of management, necessary to fairly present Duke Energy Ohio's financial position and results of operations. Amounts reported in the interim Unaudited Consolidated Statements of Operations are not necessarily indicative of amounts expected for the respective annual periods due to the effects of seasonal temperature variations on energy consumption, regulatory rulings, the timing of maintenance on electric generating units, changes in mark-to-market valuations, changing commodity prices and other factors.

Use of Estimates. To conform to GAAP in the U.S., management makes estimates and assumptions that affect the amounts reported in the Unaudited Consolidated Financial Statements and Notes. Although these estimates are based on management's best available information at the time, actual results could differ.

Reclassifications. Certain prior period amounts on the Consolidated Balance Sheets have been reclassified in connection with the adoption of Financial Accounting Standards Board (FASB) Staff Position (FSP) No. FIN 39-1, "*Amendment of FASB Interpretation No. (FIN) 39, Offsetting of Amounts Related to Certain Contracts*," (FSP No. FIN 39-1) on January 1, 2008, as discussed below, the effects of which require retrospective application to the Consolidated Balance Sheets.

Netting of Cash Collateral and Derivative Assets and Liabilities Under Master Netting Arrangements. *On January 1, 2008, Duke Energy Ohio adopted FSP No. FIN* 39-1. In accordance with FSP No. FIN 39-1, Duke Energy Ohio offsets fair value amounts (or amounts that approximate fair value) recognized on its Consolidated Balance Sheets related to cash collateral amounts receivable or payable against fair value amounts recognized for derivative instruments executed with the same counterparty under the same master netting agreement. Prior to the adoption of FSP No. FIN 39-1, Duke Energy Ohio offset the fair value amounts recognized for derivative instruments executed with the same counterparty under the same master netting agreement in accordance with FIN 39, "*Offsetting of Amounts Related to Certain Contracts*," but presented cash collateral on a gross basis within the Consolidated Balance Sheets. At September 30, 2008 and December 31, 2007, Duke Energy Ohio had receivables related to the right to reclaim cash collateral of approximately $9 million and $5 million, respectively, and had payables related to obligations to return cash collateral of an insignificant amount at each balance sheet date that have been offset against net derivative positions in the Consolidated Balance Sheets. Duke Energy Ohio had cash collateral receivables of approximately $64 million and $15 million under master netting arrangements that have not been offset against net derivative positions at September 30, 2008 and December 31, 2007 respectively, as these amounts primarily represent initial margin deposits related to NYMEX futures contracts. Duke Energy Ohio had insignificant cash collateral payables under master netting arrangements that have not been offset against net derivative positions at September 30, 2008 and December 31, 2007.

Unbilled Revenue. Revenues on sales of electricity and gas are recognized when either the service is provided or the product is delivered. Unbilled revenues are estimated by applying an average revenue per kilowatt-hour or per thousand cubic feet (Mcf) for all customer classes to the number of estimated kilowatt-hours or Mcf's delivered but not billed. The amount of unbilled revenues can vary sig-

nificantly period to period as a result of factors including seasonality, weather, customer usage patterns and customer mix. Unbilled revenues, which are included in Receivables on the Consolidated Balance Sheets, primarily relate to wholesale sales at Commercial Power and were approximately $36 million and $38 million at September 30, 2008 and December 31, 2007, respectively. Additionally, receivables for unbilled revenues of approximately $105 million and $145 million at September 30, 2008 and December 31, 2007, respectively, related to retail accounts receivable at Duke Energy Ohio and Duke Energy Kentucky are included in the sales of accounts receivable to Cinergy Receivables Company, LLC (Cinergy Receivables). Duke Energy Ohio and Duke Energy Kentucky sell, on a revolving basis, nearly all of their retail accounts receivable and related collections to Cinergy Receivables, a bankruptcy remote, special purpose entity that is a wholly-owned limited liability company of Cinergy. The securitization transaction was structured to meet the criteria for sale treatment under Statement of Financial Accounting Standards (SFAS) No. 140, "*Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities-a replacement of FASB Statement No. 125*," and, accordingly, Cinergy does not consolidate Cinergy Receivables and the transfers of receivables are accounted for as sales.

Other Regulatory Assets and Deferred Debits. The state of Ohio passed comprehensive electric deregulation legislation in 1999, and in 2000, the Public Utilities Commission of Ohio (PUCO) approved a stipulation agreement relating to Duke Energy Ohio's transition plan creating a Regulatory Transition Charge (RTC) designed to recover Duke Energy Ohio's generation-related regulatory assets and transition costs over a ten-year period beginning January 1, 2001 and ending December 2010. Accordingly, application of SFAS No. 71, "*Accounting for Certain Types of Regulation*" (SFAS No. 71), was discontinued for the generation portion of Duke Energy Ohio's business. Duke Energy Ohio has a RTC related regulatory asset balance of approximately $162 million and $239 million as of September 30, 2008 and December 31, 2007, respectively, which is classified in Other within Regulatory Assets and Deferred Debits on the Consolidated Balance Sheets.

2. Business Segments

Duke Energy Ohio operates the following business segments, which are considered reportable business segments under SFAS No. 131, "*Disclosures about Segments of an Enterprise and Related Information*": Franchised Electric and Gas and Commercial Power. Duke Energy Ohio's chief operating decision maker regularly reviews financial information about each of these business segments in deciding how to allocate resources and evaluate performance. There is no aggregation within Duke Energy Ohio's reportable business segments.

Franchised Electric and Gas, which conducts operations primarily through Duke Energy Ohio and its wholly-owned subsidiary Duke Energy Kentucky, generates, transmits, distributes and sells electricity in southwestern Ohio and northern Kentucky, as well as transports and sells natural gas in southwestern Ohio and northern Kentucky.

Commercial Power owns, operates and manages non-regulated power plants and engages in the wholesale marketing and procurement of electric power, fuel and emission allowances related to these plants as well as other contractual positions. Commercial Power's generation asset fleet consists of Duke Energy Ohio's non-regulated generation in Ohio and five Midwestern gas-fired non-regulated generation assets that were transferred from Duke Energy in connection with Duke Energy's merger with Cinergy in April 2006. Commercial Power's assets comprise approximately 7,600 megawatts of power generation primarily located in the Midwestern U.S. The asset portfolio has a diversified fuel mix with baseload and mid-merit coal-fired units as well as combined cycle and peaking natural gas-fired units. Most of the generation asset output in Ohio has been contracted through the rate stabilization plan (RSP) (see Note 11).

The remainder of Duke Energy Ohio's operations is presented as Other. While it is not considered a business segment, Other primarily includes certain allocated governance costs (see Note 9).

Duke Energy Ohio's reportable segments offer different products and services and are managed separately as business units. Accounting policies for Duke Energy Ohio's segments are the same as those described in the Notes to the Consolidated Financial Statements in Duke Energy Ohio's Annual Report on Form 10-K for the year ended December 31, 2007. Management evaluates segment performance based on earnings before interest and taxes from continuing operations (EBIT). On a segment basis, EBIT excludes discontinued operations and represents all profits from continuing operations (both operating and non-operating and excluding corporate governance costs) before deducting interest and taxes.

Cash, cash equivalents, and short-term investments, if any, are managed centrally by Duke Energy, so the interest and dividend income on those balances are excluded from segment EBIT. Transactions between reportable segments, if any, are included in segment EBIT.

DUKE ENERGY OHIO, INC.

Notes To Unaudited Consolidated Financial Statements—(Continued)

Business Segment Data

	Unaffiliated Revenues[a]	Segment EBIT/ Consolidated (Loss) Income Before Income Taxes	Depreciation and Amortization
		(In millions)	
Three Months Ended September 30, 2008			
Franchised Electric and Gas	$ 372	$ 59	$ 65
Commercial Power	446	(105)	41
Total reportable segments	818	(46)	106
Other	—	(11)	—
Interest expense	—	(23)	—
Interest income and other	—	5	—
Total consolidated	$ 818	$ (75)	$ 106
Three Months Ended September 30, 2007			
Franchised Electric and Gas	$ 344	$ 54	$ 65
Commercial Power	611	175	42
Total reportable segment	955	229	107
Other	—	(19)	—
Interest expense	—	(28)	—
Interest income and other	—	5	—
Total consolidated	$ 955	$ 187	$ 107
Nine Months Ended September 30, 2008			
Franchised Electric and Gas	$ 1,312	$ 197	$ 181
Commercial Power	1,292	282	124
Total reportable segment	2,604	479	305
Other	—	(48)	—
Interest expense	—	(72)	—
Interest income and other	—	18	—
Total consolidated	$ 2,604	$ 377	$ 305
Nine Months Ended September 30, 2007			
Franchised Electric and Gas	$ 1,255	$ 183	$ 172
Commercial Power	1,379	255	123
Total reportable segment	2,634	438	295
Other	—	(58)	—
Interest expense	—	(73)	—
Interest income and other	—	21	—
Total consolidated	$ 2,634	$ 328	$ 295

(a) There were no intersegment revenues for the three and nine months ended September 30, 2008 and 2007.

DUKE ENERGY OHIO, INC.
Notes To Unaudited Consolidated Financial Statements—(Continued)

Segment Assets

	September 30, 2008	December 31, 2007
	(in millions)	
Franchised Electric and Gas	$ 5,689	$ 5,530
Commercial Power	6,352	6,147
Total reportable segments	12,041	11,677
Other	13	—
Total consolidated assets	$ 12,054	$ 11,677

3. Sales of Other Assets

For the three months ended September 30, 2008, the sale of other assets resulted in approximately $4 million in proceeds and net pre-tax gains of an insignificant amount. For the nine months ended September 30, 2008, the sale of other assets resulted in approximately $64 million in proceeds and net pre-tax gains of approximately $46 million recorded in (Losses) Gains on Sales of Other Assets and Other, net on the Consolidated Statements of Operations. These gains primarily relate to Commercial Power's sales of zero cost basis emission allowances.

For the three months ended September 30, 2007, the sale of other assets resulted in approximately $1 million in proceeds and net pre-tax losses of approximately $1 million recorded in (Losses) Gains on Sales of Other Assets and Other, net on the Consolidated Statements of Operations. For the nine months ended September 30, 2007, the sale of other assets resulted in approximately $25 million in proceeds and net pre-tax losses of approximately $12 million recorded in (Losses) Gains on Sales of Other Assets and Other, net on the Consolidated Statements of Operations. These amounts primarily relate to Commercial Power's sales of emission allowances acquired in connection with Duke Energy's merger with Cinergy in April 2006, which were written up to fair value as part of purchase accounting.

4. Inventory

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

	September 30, 2008	December 31, 2007
	(in millions)	
Coal held for electric generation	$ 85	$ 77
Materials and supplies	84	66
Natural gas	101	69
Total inventory	$ 270	$ 212

5. Debt and Credit Facilities

Available Credit Facilities and Capacity Utilized Under Available Credit Facilities. In March 2008, Duke Energy entered into an amendment to its $2.65 billion master credit facility whereby the borrowing capacity was increased by $550 million to $3.2 billion. Duke Energy has the unilateral ability under the master credit facility to increase or decrease the borrowing sub limits of each borrower, subject to maximum cap limitation, at any time. At September 30, 2008, Duke Energy Ohio and Duke Energy Kentucky had borrowing sub limits under Duke Energy's master credit facility of $700 million and $100 million, respectively. In October 2008, Duke Energy reallocated the borrowing sub limits under the master credit facility, which resulted in the reduction of Duke Energy Ohio's borrowing sub limit by $50 million to $650 million. Additionally, in October 2008, Duke Energy terminated the participation of one of the financial institutions supplying approximately $63 million of credit commitment under its master credit facility, which reduced the total credit facility capacity under Duke Energy's master credit facility to approximately $3.14 billion. This termination reduced Duke Energy Ohio's and Duke Energy Kentucky's borrowing sub limits by approximately $13 million and $2 million, respectively. The amount available to Duke Energy Ohio and Duke Energy Kentucky under their sub limits to Duke Energy's master credit facility has been reduced by drawdowns of cash, borrowings through the money pool arrangement, and the use of the master credit facility to backstop issuances of letters of credit and pollution control bonds, as discussed below.

DUKE ENERGY OHIO, INC.

Notes To Unaudited Consolidated Financial Statements—(Continued)

In September 2008, Duke Energy and its wholly-owned subsidiaries, including Duke Energy Ohio and Duke Energy Kentucky, borrowed a total of approximately $1 billion under Duke Energy's master credit facility. Of the approximate $1 billion, Duke Energy Ohio's and Duke Energy Kentucky's portions are approximately $276 million and $73 million, respectively. The loan, which is a revolving credit loan, bears interest at the bank prime rate and is due in September 2009; however, Duke Energy Ohio and Duke Energy Kentucky have the ability under the master credit facility to renew the loan up through the date the master credit facility matures, which is in June 2012. As Duke Energy Kentucky has the intent and ability to refinance this obligation on a long-term basis, either through renewal of the terms of the loan through the master credit facility, which has non-cancelable terms in excess of one-year, or through issuance of long-term debt to replace the amounts drawn under the master credit facility, Duke Energy Kentucky's borrowing is reflected as Long-Term Debt on the Consolidated Balance Sheets at September 30, 2008. Since Duke Energy Ohio does not have the intent to refinance these obligations on a long-term basis, Duke Energy Ohio's borrowing is reflected in Current Liabilities within Notes Payable and Commercial Paper on the Consolidated Balance Sheets at September 30, 2008. These borrowings reduce Duke Energy Ohio's and Duke Energy Kentucky's available credit capacity under Duke Energy's Master Credit Facility, as discussed above.

Duke Energy Ohio and its wholly-owned subsidiary, Duke Energy Kentucky, receive support for their short-term borrowing needs through their participation with Duke Energy and other Duke Energy subsidiaries in a money pool arrangement. Under this arrangement, those companies with short-term funds may provide short-term loans to affiliates participating under this arrangement. The money pool is structured such that Duke Energy Ohio and Duke Energy Kentucky separately manage their cash needs and working capital requirements. Accordingly, there is no net settlement of receivables and payables of Duke Energy Ohio and Duke Energy Kentucky, as each of these entities independently participate in the money pool. As of September 30, 2008, Duke Energy Kentucky had net receivables of approximately $1 million, which are classified within Receivables in the accompanying Consolidated Balance Sheets, and Duke Energy Ohio had net borrowings of approximately $229 million, of which approximately $216 million is classified within Notes Payable and Commercial Paper, and approximately $13 million is classified as Long-Term Debt in the accompanying Consolidated Balance Sheets, as discussed below. As of December 31, 2007, Duke Energy Ohio and Duke Energy Kentucky had combined net borrowings of approximately $189 million, which are classified within Notes Payable and Commercial Paper in the accompanying Consolidated Balance Sheets. The $40 million and $74 million increases in the money pool borrowings during the nine months ended September 30, 2008 and 2007, respectively, are reflected in Notes Payable to Affiliate, net within Net cash provided by (used in) financing activities on the Consolidated Statements of Cash Flows. The $1 million increase in the money pool receivables during the nine months ended September 30, 2008 is reflected in Other within Net cash used in investing activities on the Consolidated Statements of Cash Flows.

At September 30, 2008 and December 31, 2007, approximately $84 million and $96 million, respectively, of certain pollution control bonds, which are short-term obligations by nature, are classified as Long-Term Debt on the Consolidated Balance Sheets due to Duke Energy Ohio's intent and ability to utilize such borrowings as long-term financing. Duke Energy's credit facilities with non-cancelable terms in excess of one year as of the balance sheet date give Duke Energy Ohio the ability to refinance these short-term obligations on a long-term basis. Additionally, at September 30, 2008, approximately $13 million of borrowings via the money pool are classified as Long-Term Debt on the Consolidated Balance Sheets due to Duke Energy Ohio's intent and ability to utilize such borrowings as long-term financing. Of the $84 million of pollution control bonds outstanding at September 30, 2008, approximately $72 million were backstopped by Duke Energy's master credit facility, with the remaining balance backstopped by other specific credit facilities separate from the master credit facility.

In September 2008, Duke Energy Kentucky and Duke Energy Indiana, Inc., a wholly-owned subsidiary of Duke Energy, collectively entered into a $330 million letter of credit agreement with a syndicate of banks. Under this letter of credit agreement, Duke Energy Kentucky may request the issuance of letters of credit up to approximately $51 million on its behalf to support various series of variable rate demand bonds issued or to be issued on behalf of Duke Energy Kentucky. This credit facility, which is not part of Duke Energy's master credit facility, may not be used for any purpose other than to support variable rate demand bonds issued by Duke Energy Kentucky and Duke Energy Indiana, Inc.

Restrictive Debt Covenants. Duke Energy's credit agreement contains various financial and other covenants, including, but not limited to, a covenant regarding the debt-to-total capitalization ratio at Duke Energy, Duke Energy Ohio and Duke Energy Kentucky to not exceed 65%. Duke Energy Ohio's debt agreements also contain various financial and other covenants. Failure to meet these covenants beyond applicable grace periods could result in accelerated due dates and/or termination of the agreements. As of September 30, 2008, Duke Energy, Duke Energy Ohio and Duke Energy Kentucky were in compliance with all covenants that would impact Duke Energy Ohio's or Duke Energy Kentucky's ability to borrow funds under the debt and credit facilities. In addition, some credit agreements may allow for

DUKE ENERGY OHIO, INC.

Notes To Unaudited Consolidated Financial Statements—(Continued)

acceleration of payments or termination of the agreements due to nonpayment, or the acceleration of other significant indebtedness of the borrower or some of its subsidiaries. None of the debt or credit agreements contain material adverse change clauses.

6. Employee Benefit Obligations

Duke Energy Ohio participates in pension and other post-retirement benefit plans sponsored by Cinergy. Duke Energy Ohio's net periodic benefit costs, as allocated by Cinergy, were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(in millions)			
Qualified Pension Benefits[a]	$ 3	$ 5	$ 9	$ 12
Other Post-retirement Benefits[b]	$ (2)	$ 4	$ 3	$ 9

(a) These amounts exclude approximately $1 million and $(2) million for the three months ended September 30, 2008 and 2007, respectively, and approximately $3 million and $5 million for the nine months ended September 30, 2008 and 2007, respectively, of regulatory asset amortization resulting from purchase accounting.

(b) These amounts exclude insignificant amounts for the three months ended September 30, 2008 and 2007, respectively, and approximately $1 million and $2 million for the nine months ended September 30, 2008 and 2007, respectively, of regulatory asset amortization resulting from purchase accounting.

During the third quarter of 2008, Duke Energy Ohio recorded pre-tax income of approximately $23 million related to the correction of errors related to the accounting for Duke Energy Ohio's other post-retirement benefit plans. Of this amount, approximately $20 million relates to errors in actuarial valuations prior to 2008 that would have reduced amounts recorded as other post-retirement benefit expense recorded during those historical periods and approximately $3 million relates to an error reflected in other post-retirement benefit expense for the first six months of 2008.

Duke Energy's policy is to fund amounts for its U.S. qualified pension plans on an actuarial basis to provide assets sufficient to meet benefit payments to be paid to plan participants. Duke Energy did not require Duke Energy Ohio to make contributions to the legacy Cinergy qualified or non-qualified pension plans during the three and nine months ended September 30, 2008 and Duke Energy does not anticipate requiring Duke Energy Ohio to make contributions to the legacy Cinergy qualified or non-qualified pension plans during the remainder of 2008. During the nine months ended September 30, 2007, approximately $350 million of qualified pension plan contributions were made to the legacy Cinergy qualified pension plans, of which approximately $83 million represents contributions made by Duke Energy Ohio. During the three and nine months ended September 30, 2007, approximately $32 million of other post-retirement plan contributions were made to the legacy Cinergy other post-retirement plans, of which approximately $9 million represents contributions made by Duke Energy Ohio. Additionally, Duke Energy Ohio participates in Cinergy sponsored employee savings plans that cover substantially all Duke Energy Ohio employees. Duke Energy Ohio made its proportionate share of pre-tax employer matching contributions of approximately $2 million and $5 million during the three and nine months ended September 30, 2008, respectively. Duke Energy Ohio made its proportionate share of pre-tax employer matching contributions of approximately $1 million and $3 million during the three and nine months ended September 30, 2007, respectively.

7. Goodwill and Intangibles

Carrying Amount of Goodwill

Duke Energy Ohio evaluates the carrying amount of its recorded goodwill for impairment under the guidance of SFAS No. 142, "*Goodwill and Other Intangible Assets*" (SFAS No. 142). At a minimum, SFAS No. 142 requires a goodwill impairment test to be performed annually as of the same date each year. Duke Energy Ohio performs its annual impairment testing of goodwill as of August 31 of each year, or more frequently if events or circumstances occur that would indicate the probability of impairment. As the fair value of each of Duke Energy Ohio's reporting units exceeded their respective carrying values at August 31, 2008, Duke Energy Ohio did not record any impairment charges in the third quarter of 2008 as a result of its annual impairment test. However, in light of recent market and economic events, management is reassessing the potential for any impairments to recorded goodwill balances. These assessments are in their early stages and management cannot yet predict the outcome, but it is possible that the current assessments could result in goodwill impairments being recorded at one or more reporting units.

DUKE ENERGY OHIO, INC.

Notes To Unaudited Consolidated Financial Statements—(Continued)

The following table shows the components of goodwill by reportable business segment at September 30, 2008 and December 31, 2007:

	Balance December 31, 2007	Changes	Balance September 30, 2008
		(in millions)	
Commercial Power	$ 1,188	$ (1)	$ 1,187
Franchised Electric and Gas	1,137	—	1,137
Total Goodwill	$ 2,325	$ (1)	$ 2,324

Intangible Assets

The carrying amount and accumulated amortization of intangible assets as of September 30, 2008 and December 31, 2007 are as follows:

	September 30, 2008	December 31, 2007
	(in millions)	
Emission allowances	$ 246	$ 365
Gas, coal, and power contracts	271	271
Other	9	9
Total gross carrying amount	526	645
Accumulated amortization—gas, coal, and power contracts	(105)	(89)
Accumulated amortization—other	(5)	(5)
Total accumulated amortization	(110)	(94)
Total intangible assets, net	$ 416	$ 551

Emission allowances in the table above include emission allowances which were recorded at fair value on the date of Duke Energy's merger with Cinergy and emission allowances purchased by Duke Energy Ohio. Additionally, Duke Energy Ohio is allocated certain zero cost emission allowances on an annual basis. The change in the gross carrying value of emission allowances during the nine months ended September 30, 2008 is as follows:

	(in millions)
Gross carrying value at January 1, 2008	$ 365
Purchases of emission allowances	15
Sales and consumption of emission allowances[a][b]	(59)
Impairment of emission allowances[c]	(82)
Other changes	7
Gross carrying value at September 30, 2008	$ 246

(a) Carrying value of emission allowances are recognized via a charge to expense when consumed. Carrying value of emission allowances sold or consumed during the three months ended September 30, 2008 and 2007 were $17 million and $34 million, respectively. Carrying value of emission allowances sold or consumed during the nine months ended September 30, 2008 and 2007 were $59 million and $134 million, respectively.

(b) See Note 3 for a discussion of gains and losses on sales of emission allowances by Commercial Power during the three and nine months ended September 30, 2008 and 2007.

(c) See Note 8 for discussion of impairments of the carrying value of emission allowances of approximately $82 million during the three months ended September 30, 2008.

Amortization expense for gas, coal and power contracts and other intangible assets for the three months ended September 30, 2008 and 2007 was approximately $6 million and $13 million, respectively. Amortization expense for gas, coal and power contracts and other intangible assets for the nine months ended September 30, 2008 and 2007 was approximately $16 million and $38 million, respectively.

DUKE ENERGY OHIO, INC.

Notes To Unaudited Consolidated Financial Statements—(Continued)

Intangible Liabilities

In connection with the Duke Energy and Cinergy merger in April 2006, Duke Energy Ohio recorded an intangible liability of approximately $113 million associated with the market based standard service offer (MBSSO) in Ohio, which is being recognized in earnings over the remaining regulatory period that ends on December 31, 2008. The carrying amount of this intangible liability was approximately $17 million and $67 million at September 30, 2008 and December 31, 2007, respectively. Duke Energy Ohio also recorded approximately $56 million of intangible liabilities associated with other power sale contracts in connection with the Duke Energy and Cinergy merger. The carrying amount of this intangible liability was approximately $18 million and $22 million at September 30, 2008 and December 31, 2007, respectively. During the three and nine months ended September 30, 2008, Duke Energy Ohio amortized approximately $18 million and $54 million, respectively, to income related to these intangible liabilities. During the three and nine months ended September 30, 2007, Duke Energy Ohio amortized approximately $15 million and $29 million, respectively, to income related to these intangible liabilities. Intangible liabilities are classified as Other within Deferred Credits and Other Liabilities on the Consolidated Balance Sheets.

8. Impairment Charges

Emission Allowances. On July 11, 2008, the U.S. Court of Appeals for the District of Columbia issued a decision vacating the Clean Air Interstate Rule (CAIR). See Note 12 for further discussion of the decision, which resulted in sharp declines in market prices of sulfur dioxide (SO_2) and nitrogen oxide (NO_x) allowances in the third quarter of 2008 due to uncertainty associated with future federal requirements to reduce emissions. Accordingly, pursuant to SFAS No. 144, "*Accounting for the Impairment or Disposal of Long-Lived Assets*," Duke Energy Ohio evaluated the carrying value of emission allowances held by its non-regulated businesses for impairment at September 30, 2008.

Prior to its repeal, the CAIR required 50% reductions in SO_2 emissions beginning in 2010 and further 30% reductions in SO_2 emissions in 2015 beyond specified requirements. These reductions were to be achieved by requiring the surrender of SO_2 allowances in a ratio of two allowances per ton of SO_2 emitted beginning in 2010, up from a current one-to-one ratio, escalating to 2.86 allowances per ton of SO_2 emitted beginning in 2015. Taking into account these increases in emission allowance requirements under CAIR, Commercial Power's forecasted SO_2 emissions needed through 2037 exceeded the number of emission allowances held prior to the vacating of the CAIR. Subsequent to the decision to vacate CAIR, Commercial Power determined that it had SO_2 allowances in excess of forecasted emissions and those allowances held in excess of forecasted emissions from future generation required an impairment evaluation. In performing the impairment evaluation for SO_2 allowances at September 30, 2008, management compared quoted market prices for each vintage year allowance to the carrying value of the related allowances in excess of forecasted emissions through 2038. Due to the sharp decline in market prices of SO_2 allowances, as discussed above, Commercial Power recorded pre-tax impairment charges of approximately $77 million related to forecasted excess SO_2 allowances held at September 30, 2008. Additionally, Commercial Power recorded pre-tax impairment charges of approximately $5 million related to annual NO_x allowances during the three months ended September 30, 2008 as these were also affected by the decision to vacate the CAIR. These impairment charges are recorded in Impairments and Other Charges within Operating Expenses on the Consolidated Statements of Operations.

Management will continue to assess the forecasted usage and carrying value of emission allowances going forward to determine if further impairment write-downs are necessary. See Note 7 for further information regarding the carrying value of emission allowances.

9. Related Party Transactions

Duke Energy Ohio engages in related party transactions, which are generally performed at cost and in accordance with the applicable state and federal commission regulations. Balances due to or due from related parties included in the Consolidated Balance Sheets as of September 30, 2008 and December 31, 2007 are as follows:

	September 30, 2008	December 31, 2007
	(In millions)	
Current assets due from affiliated companies[a][b]	$ 30	$ 58
Current liabilities due to affiliated companies[a][c]	$ (197)	$ (266)
Non-current liabilities due to affiliated companies[a][d]	$ (5)	$ —
Net deferred tax liabilities to Duke Energy[a][e]	$ (1,399)	$ (1,401)

DUKE ENERGY OHIO, INC.
Notes To Unaudited Consolidated Financial Statements—(Continued)

(a) Balances exclude assets or liabilities associated with accrued pension and other post-retirement benefits, Cinergy Receivables and money pool arrangements, all of which are discussed below.

(b) Of the balance at September 30, 2008, approximately $26 million is classified as Receivables, and approximately $4 million is classified as Other within Current Assets on the Consolidated Balance Sheets. The balance at December 31, 2007 is classified as Receivables on the Consolidated Balance Sheets.

(c) Of the balance at September 30, 2008, approximately $(125) million is classified as Accounts Payable, approximately $(70) million is classified as Taxes Accrued, and approximately $(2) million is classified as Unrealized Losses on Mark-to-Market and Hedging Transactions on the Consolidated Balance Sheets. Of the balance at December 31, 2007, approximately $(256) million is classified as Accounts Payable and approximately $(10) million is classified as Taxes Accrued on the Consolidated Balance Sheets.

(d) The balance at September 30, 2008 is classified as Unrealized Losses on Mark-to-Market and Hedging Transactions on the Consolidated Balance Sheets.

(e) Of the balance at September 30, 2008, approximately $(1,458) million is classified as Deferred Income Taxes, approximately $(14) million is classified as Investment Tax credit, and approximately $73 million is classified as Other within Current Assets on the Consolidated Balance Sheets. Of the balance at December 31, 2007, approximately $(1,409) million is classified as Deferred Income Taxes, approximately $(16) million is classified as Investment Tax Credit, and approximately $24 million is classified as Other within Current Assets on the Consolidated Balance Sheets.

Duke Energy Ohio is allocated its proportionate share of corporate governance and other costs by a consolidated affiliate of Duke Energy and a consolidated affiliate of Cinergy. Corporate governance and other shared services costs are primarily allocations of corporate costs, such as human resources, legal and accounting fees, as well as other third party costs. The expenses associated with certain allocated corporate governance and other service costs for Duke Energy Ohio, which are recorded in Operation, maintenance and other within Operating Expenses on the Consolidated Statements of Operations were approximately $83 million and $67 million for the three months ended September 30, 2008 and 2007, respectively, and approximately $203 million and $183 million for the nine months ended September 30, 2008 and 2007, respectively.

Duke Energy Ohio incurs expenses related to its property insurance coverage through Bison Insurance Company Limited, Duke Energy's wholly-owned captive insurance subsidiary. These expenses, which are recorded in Operation, maintenance and other within Operating Expenses on the Consolidated Statements of Operations, were approximately $4 million and $3 million for the three months ended September 30, 2008 and 2007, respectively, and approximately $11 million and $17 million for the nine months ended September 30, 2008 and 2007, respectively. Additionally, Duke Energy Ohio records income associated with the rental of office space to a consolidated affiliate of Duke Energy. Rental income was approximately $2 million for each of the three months ended September 30, 2008 and 2007, respectively, and approximately $7 million for each of the nine months ended September 30, 2008 and 2007, respectively.

Duke Energy Ohio participates in Cinergy's qualified pension plan, non-qualified pension plan and other post-retirement benefit plans and is allocated its proportionate share of expenses associated with these plans (see Note 6). Additionally, Duke Energy Ohio has been allocated accrued pension and other post-retirement benefit obligations from Cinergy of approximately $252 million at September 30, 2008 and approximately $266 million at December 31, 2007. These amounts have been classified in the Consolidated Balance Sheets as follows:

	September 30, 2008	December 31, 2007
	(in millions)	
Other current liabilities	$ 5	$ 5
Accrued pension and other post-retirement benefit costs	$ 242	$ 259
Other deferred credits and other liabilities	$ 5	$ 2

As discussed in Note 1, certain trade receivables have been sold by Duke Energy Ohio to Cinergy Receivables. The proceeds obtained from the sales of receivables are largely cash, but do include a subordinated note from Cinergy Receivables for a portion of the purchase price. This subordinated note is classified as Receivables in the Consolidated Balance Sheets and was approximately $118 million and $189 million, as of September 30, 2008 and December 31, 2007, respectively. The interest income associated with the subordinated note, which is recorded in Other Income and Expenses, net on the Consolidated Statements of Operations, was approximately $5 million and $6 million for three months ended September 30, 2008 and 2007, respectively, and approximately $17 million and $19 million for the nine months ended September 30, 2008 and 2007, respectively.

During the nine months ended September 30, 2007, Duke Energy Ohio received a $29 million capital contribution from its parent, Cinergy. Additionally, during the nine months ended September 30, 2007, Duke Energy Ohio paid dividends to its parent, Cinergy, of $135 million.

As discussed further in Note 5, Duke Energy Ohio participates in a money pool arrangement with Duke Energy and other Duke Energy subsidiaries. The expenses associated with money pool activity, which are recorded in Interest Expense on the Consolidated Statements of Operations, were approximately $2 million and $4 million for the three months ended September 30, 2008 and 2007, respectively, and approximately $3 million and $7 million for the nine months ended September 30, 2008 and 2007, respectively.

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10. Risk Management Instruments

As discussed in Note 1, on January 1, 2008, Duke Energy Ohio adopted FSP No. FIN 39-1. In accordance with FSP No. FIN 39-1, Duke Energy Ohio offsets fair value amounts (or amounts that approximate fair value) recognized on its Consolidated Balance Sheets related to cash collateral amounts receivable or payable against fair value amounts recognized for derivative instruments executed with the same counterparty under the same master netting agreement. Amounts presented in the table below exclude cash collateral amounts which are disclosed separately in Note 1.

The following table shows the carrying value of Duke Energy Ohio's derivative portfolio as of September 30, 2008, and December 31, 2007.

Net Derivative Portfolio Assets (Liabilities) reflected in the Consolidated Balance Sheets:

	September 30, 2008	December 31, 2007
	(In millions)	
Hedging	$ (14)	$ (23)
Undesignated	35	7
Total	$ 21	$ (16)

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

The $9 million change in the fair value of the hedging portfolio is due primarily to a gain on cash flow hedges at Commercial Power.

The $28 million increase in the undesignated derivative portfolio fair value is due primarily to unrealized mark-to-market gains within Commercial Power, which primarily consists of in-the-money contracts to purchase coal as a result of higher coal prices at September 30, 2008 as compared to December 31, 2007.

During the three and nine months ended September 30, 2008, Duke Energy Ohio included in earnings approximately $128 million of pre-tax losses and approximately $28 million of pre-tax gains, respectively, related to mark-to-market adjustments on derivative contracts that do not qualify for hedge accounting. Duke Energy Ohio included in earnings approximately $4 million of pre-tax gains and an insignificant amount during the three and nine months ended September 30, 2007, respectively, related to mark-to-market adjustments on derivative contracts that do not qualify for hedge accounting. These amounts, which relate to the balances included within undesignated in the above table, primarily represent the mark-to-market impacts of derivative contracts used in Duke Energy Ohio's hedging of a portion of the economic value of its generation assets in Commercial Power.

Commodity Cash Flow Hedges. As of September 30, 2008, approximately $30 million of the pre-tax unrealized net losses on derivative instruments related to commodity cash flow hedges included on the Consolidated Balance Sheet in Accumulated Other Comprehensive Loss are expected to be recognized in earnings during the next 12 months as the hedged transactions occur. However, due to the volatility of the commodities markets, the corresponding values in Accumulated Other Comprehensive Loss will likely change prior to their reclassification into earnings.

No gains or losses due to hedge ineffectiveness were recorded during the three and nine months ended September 30, 2008 and 2007, respectively. The amount recognized for transactions that no longer qualified as cash flow hedges was insignificant for the three and nine months ended September 30, 2008 and September 30, 2007, respectively.

See Note 13 for additional information related to the fair value of Duke Energy Ohio's derivative instruments.

11. Regulatory Matters

Regulatory Merger Approvals

On April 3, 2006, the merger between Duke Energy and Cinergy was consummated to create a newly formed company, Duke Energy Holding Corp. (subsequently renamed Duke Energy Corporation). As a condition to the merger approval, the PUCO and the Kentucky Public Service Commission (KPSC) required that certain merger related savings be shared with consumers in Ohio and Kentucky, respectively. The commissions also required Duke Energy Ohio and Duke Energy Kentucky to meet additional conditions. Key elements of these conditions include:

- The PUCO required that Duke Energy Ohio provide (i) a rate reduction of approximately $15 million for one year to facilitate economic development in a time of increasing rates and market prices and (ii) a reduction of approximately $21 million to its gas and electric consumers in Ohio for one year, with both credits beginning January 1, 2006. During the first quarter of 2007, Duke Energy Ohio completed its merger related rate reductions and filed a report with the PUCO to terminate the merger credit riders. Approximately $2 million of the rate reductions was passed through to customers during the nine months ended September 30, 2007.

- The KPSC required that Duke Energy Kentucky provide $8 million in rate reductions to its customers over five years, ending when new rates are established in the next rate case after January 1, 2008. Less than $1 million and approximately $2 million of the rate reduction was passed through to customers during the three and nine months ended both September 30, 2008 and 2007, respectively.

- The FERC approved the merger without conditions.

Restrictions on the Ability of Duke Energy Ohio to Make Dividends, Advances and Loans to Duke Energy Corporation. As a condition of approving the merger of Duke Energy and Cinergy, the state utility commissions imposed conditions (the Merger Conditions) on the ability of Duke Energy Ohio and Duke Energy Kentucky to transfer funds to Duke Energy through loans or advances, as well as restricted amounts available to pay dividends to Duke Energy. Duke Energy Ohio will not declare and pay dividends out of capital or unearned surplus without the prior authorization of the PUCO. Duke Energy Kentucky is required to pay dividends solely out of retained earnings and to maintain a minimum of 35% equity in its capital structure. At September 30, 2008, Duke Energy Ohio had restricted net assets of approximately $6.3 billion that may not be transferred to Duke Energy without appropriate approval based on the aforementioned Merger Conditions.

Franchised Electric and Gas

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

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

In October 2007, the PUCO issued its ruling affirming the MBSSO, with certain modifications, and maintained the current price. The ruling provided for continuation of the existing rate components, including the recovery of costs related to new pollution control equipment and capacity costs associated with power purchase contracts to meet customer demand, but provided customers an enhanced opportunity to avoid certain pricing components if they are served by a competitive supplier. The ruling also attempted to modify the statutory requirement that Duke Energy Ohio transfer its generating assets to an exempt wholesale generator (EWG) and ordered Duke Energy Ohio to retain ownership for the remainder of the RSP period. The ruling also incorrectly implied that Duke Energy Ohio's nonresidential RTC will terminate at the end of 2008. On November 23, 2007, Duke Energy Ohio filed an application for rehearing on the portions of the PUCO's ruling relating to whether certain pricing components may be avoided by customers, the right to transfer generating assets, and the termination date of the RTC. On December 19, 2007, the PUCO issued its Entry on Rehearing granting in part and

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denying in part Duke Energy Ohio's Application for Rehearing. Among other things, the PUCO modified and clarified the applicability of various rate riders during customer shopping situations. It also clarified that the residential RTC terminates at the end of 2008 and that the nonresidential RTC terminates at the end of 2010 and agreed to give further consideration to whether Duke Energy Ohio may transfer its generating assets to an EWG.

On February 15, 2008, Duke Energy Ohio filed a notice of appeal with the Ohio Supreme Court challenging a portion of the PUCO's decision on remand regarding Duke Energy Ohio's RSP. The October 2007 order permits non-residential customers to avoid certain charges associated with the costs of Duke Energy Ohio standing ready to serve such customers if they return after being served by another supplier. Duke Energy Ohio believes the PUCO exceeded its authority in modifying the charges that may be avoided, resulting in Duke Energy Ohio having to subsidize Ohio's competitive electric market. Duke Energy Ohio has asked the Ohio Supreme Court to reverse the PUCO ruling and require that non-residential customers pay the charges associated with Duke Energy Ohio standing ready to serve them should they return from a competitive supplier. On March 28, 2008, Duke Energy Ohio voluntarily withdrew its appeal. The OCC filed a notice of appeal challenging the PUCO's October 2007 decision as unlawful and unreasonable. The OCC and Ohio Partners for Affordable Energy (OPAE) also filed appeals from the PUCO's November 20, 2007 order approving Duke Energy Ohio's MBSSO riders. Duke Energy Ohio has intervened in each appeal. Pending the Ohio Supreme Court's consideration of its initial appeal, the OCC requested that the PUCO stay implementation of the Infrastructure Maintenance Fund charge to be collected from customers approved in the October 2007 order. The Commission denied the OCC's request and the OCC filed a similar request with the Ohio Supreme Court. On July 9, 2008, the court denied the OCC's request to stay implementation of the Infrastructure Maintenance Fund. On April 30, 2008, the Ohio Supreme Court granted Duke Energy Ohio's motion to intervene in the OCC's appeal. At this time, Duke Energy Ohio cannot predict whether the Ohio Supreme Court will reverse the PUCO's October 2007 decision. Additionally, Duke Energy Ohio cannot predict the outcome of the MBSSO rider appeal.

New legislation (SB 221) was passed on April 23, 2008 and signed by the Governor of Ohio on May 1, 2008. The new law codifies the PUCO's authority to approve an electric utility's standard service offer through an electric security plan (ESP), which would allow for pricing structures similar to the current MBSSO. Electric utilities are required to file an ESP and may also file an application for a market rate option (MRO) at the same time. The MRO is a price determined through a competitive bidding process. If a MRO price is approved, the utility would blend in the MBSSO or ESP price with the MRO price over a six- to ten-year period, subject to the PUCO's discretion. SB 221 provides for the PUCO to approve non-by-passable charges for new generation, including construction work-in-process from the outset of construction, as part of an ESP. The new law grants the PUCO discretion to approve single issue rate adjustments to distribution and transmission rates and establishes new alternative energy resources (including renewable energy) portfolio standards, such that the utility's portfolio must consist of at least 25% of these resources by 2025. SB 221 also provides a separate requirement for energy efficiency, which must reduce 22% of a utility's load by 2025. The utility's earnings under the ESP can be subject to an annual earnings test and the PUCO must order a refund if it finds that the utility's earnings significantly exceed the earnings of benchmark companies with similar business and financial risks. The earnings test acts as a cap to the ESP price. SB 221 also limits the ability of a utility to transfer its designated generating assets to an EWG absent PUCO approval.

On July 31, 2008, Duke Energy Ohio filed a new generation pricing formula to be effective January 1, 2009, when the current RSP is scheduled to expire. Among other things, the plan provides pricing mechanisms for compensation related to the advanced energy, renewables and energy efficiency portfolio standards established by SB 221.

On October 27, 2008, Duke Energy Ohio filed a Stipulation and Recommendation (Stipulation) for consideration by the PUCO regarding Duke Energy Ohio's July 31, 2008 ESP filing. The Stipulation reflects agreement on all but two issues in this proceeding and is filed with the support of most of the parties to this proceeding. In addition to the Stipulation, the ability for residential governmental aggregation customers to avoid certain charges and to receive a shopping credit will be presented to the PUCO for a ruling. Parties to this proceeding who do not support the Stipulation may litigate any, or all, issues.

The Stipulation agrees to a net increase in base generation revenues of approximately $36 million, $74 million and $98 million in 2009, 2010 and 2011, respectively, including termination of the residential and non-residential RTC. Such amounts result in a residential net rate increase of 2% in 2009 and in 2010, and a non-residential net rate increase of 2% in 2009, 2010 and 2011. The Stipulation also allows the recovery of expenditures incurred to deploy SmartGrid infrastructure modernization technology on the distribution system. The recovery of such expenditures, net of savings, is subject to an annual residential revenue cap. Further, the Stipulation allows for the implementation of a new energy efficiency compensation model, referred to as Save-A-Watt, to achieve the energy efficiency mandate

pursuant to the recent electric energy legislation. The criteria customers must meet to be exempt from Duke Energy Ohio's program will also be presented to the PUCO for a ruling in this case. Also, under the Stipulation, Duke Energy Ohio may defer up to $50 million of certain operation and maintenance costs incurred at the W.C. Beckjord generating station and amortize such costs over a three-year period.

The PUCO will consider the Stipulation and hear evidence beginning on November 10, 2008.

Duke Energy Ohio Gas Rate Case. In July 2007, Duke Energy Ohio filed an application with the PUCO for an increase in its base rates for gas service. Duke Energy Ohio sought an increase of approximately $34 million in revenue, or approximately 5.7%, to be effective in the spring of 2008. The application also requested approval to continue tracker recovery of costs associated with the accelerated gas main replacement program. The staff of the PUCO issued a Staff Report in December 2007 recommending an increase of approximately $14 million to $20 million in revenue. The Staff Report also recommended approval for Duke Energy Ohio to continue tracker recovery of costs associated with the accelerated gas main replacement program. On February 28, 2008, Duke Energy Ohio reached a settlement agreement with the PUCO Staff and all of the intervening parties on its request for an increase in natural gas base rates. The settlement called for an annual revenue increase of approximately $18 million in base revenue, or 3% over current revenue, permitted continued recovery of costs through 2018 for Duke Energy Ohio's accelerated gas main replacement program and permitted recovery of carrying costs on gas stored underground via its monthly gas cost adjustment filing. The settlement did not resolve a proposed rate design for residential customers, which involved moving more of the fixed charges of providing gas service, such as capital investment in pipes and regulating equipment, billing and meter reading, from the per unit charges to the monthly charge. On May 28, 2008, the PUCO approved the settlement in its entirety and the proposed rate design. On June 28, 2008, the OCC and OPAE filed Applications for Rehearing opposing the rate design. On July 23, 2008, the Ohio Commission issued an Entry denying the rehearing requests of OCC and OPAE. On September 16 and 19, 2008 respectively, OCC and OPAE filed their notices of appeal to the Ohio Supreme Court opposing the residential rate design issue.

Duke Energy Ohio Electric Distribution Rate Case. On June 25, 2008, Duke Energy Ohio filed notice with the PUCO that it will seek a rate increase for electric delivery service of approximately $86 million, or 4.8% on total electric revenues, to be effective in the second quarter of 2009. Among other things, the rate request includes a proposal to increase the monthly residential customer charge from $4.50 to $10, with an offsetting reduction in the usage-based charge. This change in rate design will make customer bills more even throughout the year. Duke Energy Ohio also proposes a distribution modernization tracker that would allow smaller annual increases to reflect increased investment in the delivery system. The rate case test period may be updated to reflect certain expenses, such as costs related to storm damage.

Duke Energy Kentucky Gas Rate Cases. In 2002, the KPSC approved Duke Energy Kentucky's gas base rate case which included, among other things, recovery of costs associated with an accelerated gas main replacement program. The approval authorized a tracking mechanism to recover certain costs including depreciation and a rate of return on the program's capital expenditures. The Kentucky Attorney General appealed to the Franklin Circuit Court the KPSC's approval of the tracking mechanism as well as the KPSC's subsequent approval of annual rate adjustments under this tracking mechanism. In 2005, both Duke Energy Kentucky and the KPSC requested that the court dismiss these cases.

In February 2005, Duke Energy Kentucky filed a gas base rate case with the KPSC requesting approval to continue the tracking mechanism and for a $14 million annual increase in base rates. A portion of the increase is attributable to recovery of the current cost of the accelerated gas main replacement program in base rates. In December 2005, the KPSC approved an annual rate increase of $8 million and re-approved the tracking mechanism through 2011. In February 2006, the Kentucky Attorney General appealed the KPSC's order to the Franklin Circuit Court, claiming that the order improperly allows Duke Energy Kentucky to increase its rates for gas main replacement costs in between general rate cases, and also claiming that the order improperly allows Duke Energy Kentucky to earn a return on investment for the costs recovered under the tracking mechanism which permits Duke Energy Kentucky to recover its gas main replacement costs.

In August 2007, the Franklin Circuit Court consolidated all the pending appeals and ruled that the KPSC lacks legal authority to approve the gas main replacement tracking mechanism, and any other annual rate adjustments under the tracking mechanism. To date, Duke Energy Kentucky has collected approximately $9 million in annual rate adjustments under the tracking mechanism and continues to utilize tracking mechanisms in its billed rates to customers. Duke Energy Kentucky and the KPSC appealed these cases to the Kentucky Court of Appeals. In November 2008, the Kentucky Court of Appeals ruled that the KPSC had no legal authority to approve tracker recovery of gas main replacement costs prior to 2005. Duke Energy Kentucky is evaluating this ruling and cannot predict the outcome of these proceedings.

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Energy Efficiency. *On July 11, 2007, the PUCO approved Duke Energy Ohio's Demand Side Management/Energy Efficiency Program (DSM Program).* A series of DSM Programs were first proposed in 2006 and were endorsed by the Duke Energy Community Partnership, which is a collaborative group made up of representatives of organizations interested in energy conservation, efficiency and assistance to low-income customers. The program costs are recouped through a cost recovery mechanism that will be adjusted annually to reflect the previous year's activity. Duke Energy Ohio is permitted to recover lost revenues, program costs and shared savings (once the programs reach 65% of the targeted savings level) through the cost recovery mechanism based upon impact studies to be provided to the Staff of the PUCO. Duke Energy Ohio filed the Save-A-Watt Energy Efficiency Plan as part of its ESP filed with the PUCO on July 31, 2008 (discussed above). A Stipulation and Recommendation for consideration by the PUCO regarding Duke Energy Ohio's ESP filing, including implementation of Save-A-Watt, was filed on October 27, 2008. The ESP hearing occurred on November 10, 2008. A decision on the stipulation is expected by the end of the year.

On November 15, 2007, Duke Energy Kentucky filed its annual application to continue existing energy efficiency programs, consisting of nine residential and two commercial and industrial programs, and to true-up its gas and electric tracking mechanism for recovery of lost revenues, program costs and shared savings. On February 11, 2008, Duke Energy Kentucky filed a motion to amend its energy efficiency programs and applied to reinstitute a low income Home Energy Assistance Program. The KPSC bifurcated the proposed Home Energy Assistance Program from the other energy efficiency programs. On May 14, 2008, the KPSC approved the energy efficiency programs. On September 25, 2008, the KPSC approved Duke Energy Kentucky's Home Energy Assistance program, making it available for customers at or below 150% of the federal poverty level.

Other Matters

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

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

Midwest Independent Transmission System Operator, Inc. (Midwest ISO) Resource Adequacy Filing. On December 28, 2007, the Midwest ISO filed its Electric Tariff Filing Regarding Resource Adequacy in compliance with the FERC's request of Midwest ISO to file Phase II of its long-term Resource Adequacy plan by December 2007. The proposal includes establishment of a resource adequacy requirement in the form of planning reserve margin. On March 26, 2008, the FERC ruled on the Midwest ISO's Resource Adequacy filing and ordered that the new Module E tariff be effective March 27, 2008. This action established a Midwest ISO-wide resource adequacy requirement for the first Planning Year, which begins June 2009. In the Order, the FERC, among other things, clarified that States have the authority to set their own Planning Reserve Margins, as long as they are not inconsistent with any reliability standard approved by the FERC. Duke Energy Ohio does not believe the resource adequacy requirement will have a material impact on its consolidated results of operations, cash flows or financial position.

Midwest ISO's Establishment of an Ancillary Services Market. On February 25, 2008, the FERC conditionally accepted the Midwest ISO proposal to implement a day-ahead and real-time ancillary services market (ASM), including a scarcity pricing proposal. By approving the ASM proposal, the FERC essentially approved the transfer and consolidation of Balancing Authority for the entire Midwest

ISO area. This will allow the Midwest ISO to determine operating reserve requirements and procure operating reserves from all qualified resources from an organized market, in place of the current system of local management and procurement of reserves by the 24 Balancing Authorities. The Midwest ISO delayed the ASM launch date, previously scheduled for September 9, 2008 to January 6, 2009. At this time, Duke Energy Ohio does not believe the establishment of the Midwest ASM will have a material impact on its consolidated results of operations, cash flows or financial position.

Commercial Power

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

FERC 203 Application. On April 23, 2008 (supplemented on May 6, 2008), Duke Energy Ohio and certain affiliates filed an application with the FERC requesting approval to transfer Duke Energy Ohio's electric generating facilities, some of which are designated to serve Ohio customers, to affiliate companies. The FERC filing, if approved, does not obligate Duke Energy to make the transfer of the electric generating facilities, and does not impact Duke Energy Ohio's current rates. On October 10, 2008, Duke Energy Ohio and affiliates filed a notice with the FERC reporting that Duke Energy Ohio is in settlement discussions with all parties in the Ohio proceeding regarding Duke Energy Ohio's application to establish an ESP, as discussed above. Duke Energy Ohio advised the FERC that it believes that in light of those discussions good cause exists for the FERC to extend the time to consider Duke Energy Ohio's Section 203 application. On October 17, 2008, the FERC issued an order extending the time for the FERC to act on the application by 180 additional days, and ordered Duke Energy Ohio to inform the FERC of the status of settlement discussions by November 16, 2008. The settlement in Ohio has been agreed to by most parties and was filed with the PUCO on October 27, 2008. Pursuant to the settlement, if approved by the PUCO, Duke Energy Ohio agrees to withdraw that portion of its application for approval related to the transfer of its generating facilities designated to serve Ohio customers. Acceptance of the settlement by the PUCO would constitute its approval of the transfer for the remaining generating facilities.

PJM Interconnection Reliability Pricing Model (RPM) Buyers' Complaint. On May 30, 2008, a group of public utility commissions, state consumer counsels, industrial power customers and load serving entities, known collectively as the RPM Buyers, filed a complaint at FERC. The complaint asks FERC to find that the results of the three transitional base residual auctions conducted by PJM to procure capacity for its RPM capacity market during the years 2008-2011 are unjust and unreasonable because, allegedly, they have produced excessive capacity prices, have failed to prevent suppliers from exercising market power, and have not produced benefits commensurate with costs. In their complaint, the RPM Buyers propose revised, administratively determined auction clearing prices. Certain Duke Energy Ohio revenues during the years 2008-2011 are at risk, as Duke Energy Ohio planned to supply capacity to this market. On July 11, 2008, Duke Energy Ohio filed a response to the complaint with the FERC. On September 19, 2008, the FERC issued an Order denying the Buyer's complaint. The FERC dismissed the RPM Buyers' complaint, finding that, for the transition auctions, no party violated PJM's tariff and the prices determined during the auctions were in accordance with the tariff provisions governing the auctions. On October 20, 2008, the RPM buyers filed a Request for Rehearing with the FERC that raised the same issues as in the initial complaint that was denied by the FERC.

12. Commitments and Contingencies

Environmental

Duke Energy Ohio is subject to federal, state and local regulations regarding air and water quality, hazardous and solid waste disposal and other environmental matters. These regulations can be changed from time to time, imposing new obligations on Duke Energy Ohio.

Remediation Activities. Duke Energy Ohio and its affiliates are responsible for environmental remediation at various contaminated sites. These include some properties that are part of ongoing Duke Energy Ohio operations, sites formerly owned or used by Duke Energy Ohio entities, and sites owned by third parties. Remediation typically involves management of contaminated soils and may involve groundwater remediation. Managed in conjunction with relevant federal, state and local agencies, activities vary with site conditions and locations, remedial requirements, complexity and sharing of responsibility. If remediation activities involve statutory joint and several liability provisions, strict liability, or cost recovery or contribution actions, Duke Energy Ohio or its affiliates could potentially be held

responsible for contamination caused by other parties. In some instances, Duke Energy Ohio may share liability associated with contamination with other potentially responsible parties, and may also benefit from insurance policies or contractual indemnities that cover some or all cleanup costs. All of these sites generally are managed in the normal course of business or affiliate operations. Management, in the normal course of business, continually assesses the nature and extent of known or potential environmental-related contingencies and records liabilities when losses become probable and are reasonably estimable.

Clean Water Act 316(b). The U.S. Environmental Protection Agency (EPA) finalized its cooling water intake structures rule in July 2004. The rule established aquatic protection requirements for existing facilities that withdraw 50 million gallons or more of water per day from rivers, streams, lakes, reservoirs, estuaries, oceans, or other U.S. waters for cooling purposes. Three of six coal-fired generating facilities in which Duke Energy Ohio is either a whole or partial owner are affected sources under that rule. On January 25, 2007, the U.S. Court of Appeals for the Second Circuit issued its opinion in *Riverkeeper, Inc. v. EPA*, Nos. 04-6692-ag(L) et. al. (2d Cir. 2007) remanding most aspects of the EPA's rule back to the agency. The court effectively disallowed those portions of the rule most favorable to industry, and the decision creates a great deal of uncertainty regarding future requirements and their timing. On April 14, 2008, the U.S. Supreme Court issued an order granting review of the case and briefs were filed on July 14, 2008. Oral argument is scheduled for December 2, 2008. A decision is not likely until 2009. If the Supreme Court upholds the lower court decision, it is expected that costs will increase as a result of the court's decision, although Duke Energy Ohio is unable to estimate its costs to comply.

Clean Air Interstate Rule (CAIR). The EPA finalized its CAIR in May 2005. The CAIR was to have limited total annual and summertime NO_x emissions and annual SO_2 emissions from electric generating facilities across the Eastern U.S. through a two-phased cap-and-trade program. Phase 1 was to begin in 2009 for NO_x and in 2010 for SO_2. Phase 2 was to begin in 2015 for both NO_x and SO_2. On March 25, 2008, the U.S. Court of Appeals for the District of Columbia (D.C. Circuit) heard oral argument in a case involving multiple challenges to the CAIR. On July 11, 2008, the D.C. Circuit issued its decision in *North Carolina v. EPA* No. 05-1244 vacating the CAIR. The EPA filed a petition for rehearing on September 24, 2008 with the D.C. Circuit asking the court to reconsider various parts of its ruling vacating CAIR. A decision is pending on that petition. Subsequent to the filing of the rehearing petitions, the D.C. Circuit ordered all Petitioners (including Duke Energy) to file briefs on the petition for rehearing. The D.C. Circuit directed the parties to address whether any party is seeking vacatur of CAIR, and whether the Court should stay its mandate until the EPA promulgates a revised rule. Duke Energy has responded to the request accordingly. The D.C. Circuit's decision creates uncertainty regarding future NO_x and SO_2 emission reductions requirements and their timing. Although as a result of the decision there may be a delay in the timing of federal requirements to reduce emissions, it is expected that electric sector emission reductions at least as stringent as those imposed by CAIR will be required in the near future, through new federal rules and/or individual state requirements. CAIR remains in effect until the Court issues its mandate, which will not be before it decides whether to grant rehearing. Duke Energy Ohio's plan had been to spend approximately $150 million between 2008 and 2012 to comply with Phase 1 of CAIR. It has not been determined how the court's decision will affect these planned expenditures but each of the states in which Duke Energy Ohio operates is considering adopting state regulations to address the court's decision. Duke Energy Ohio did not expect to incur any significant costs for complying with Phase 2 of CAIR. Duke Energy Ohio receives partial recovery of depreciation and financing costs related to environmental compliance projects for 2005-2008 through its RSP (see Note 11).

Duke Energy Ohio is unable to estimate the costs to comply with any new rule the EPA or states may issue as a result of this decision. See Note 8 for a discussion of the impacts of the D.C. Circuit Court's decision to vacate CAIR on the carrying value of emission allowances.

Clean Air Mercury Rule (CAMR). The EPA finalized its CAMR in May 2005. The CAMR was to have limited total annual mercury emissions from coal-fired power plants across the U.S. through a two-phased cap-and-trade program beginning in 2010. On February 8, 2008, the D.C. Circuit issued its opinion in *New Jersey v. EPA*, No. 05-1097 vacating the CAMR. Requests for rehearing were denied. The U.S. EPA and the Utility Air Regulatory Group have requested that the U.S. Supreme Court review the D.C. Circuit's decision. The D.C. Circuit's decision creates uncertainty regarding future mercury emission reduction requirements and their timing, but makes it fairly certain that there will be a delay in the implementation of federal mercury requirements for existing coal-fired power plants. At this point, Duke Energy Ohio is unable to estimate the costs to comply with any future mercury regulations that might result from the D.C. Circuit's decision.

Coal Combustion Product (CCP) Management. Duke Energy Ohio currently estimates that it will spend approximately $50 million over the period 2008-2012 to install synthetic caps and liners at existing and new CCP landfills and to convert CCP handling systems from wet to dry systems.

DUKE ENERGY OHIO, INC.

Notes To Unaudited Consolidated Financial Statements—(Continued)

Comprehensive Environmental Response, Compensation, and Liability Act Matter. In August 2008, Duke Energy Ohio received a notice from the EPA that it has been identified as a potentially responsible party under the Comprehensive Environmental Response, Compensation, and Liability Act at the LWD, Inc., Superfund Site in Calvert City, Kentucky. At this time, Duke Energy Ohio does not have any further information regarding the scope of potential liability associated with this matter.

Extended Environmental Activities and Accruals. Included in Other within Deferred Credits and Other Liabilities on the Consolidated Balance Sheets were total accruals related to extended environmental-related activities of approximately $8 million as of both September 30, 2008 and December 31, 2007. These accruals represent Duke Energy Ohio's provisions for costs associated with remediation activities at some of its current and former sites, as well as other relevant environmental contingent liabilities. Management, in the normal course of business, continually assesses the nature and extent of known or potential environmental-related contingencies and records liabilities when losses become probable and are reasonably estimable.

Litigation

New Source Review (NSR). In 1999-2000, the U.S. Department of Justice (DOJ), acting on behalf of the EPA and joined by various citizen groups and states, filed a number of complaints and notices of violation against multiple utilities across the country for alleged violations of the NSR provisions of the Clean Air Act (CAA). Generally, the government alleges that projects performed at various coal-fired units were major modifications, as defined in the CAA, and that the utilities violated the CAA when they undertook those projects without obtaining permits and installing the best available emission controls for SO_2, NO_x and particulate matter. The complaints seek injunctive relief to require installation of pollution control technology on various generating units that allegedly violated the CAA, and unspecified civil penalties in amounts of up to $32,500 per day for each violation. Two of Duke Energy Ohio's plants have been subject to these allegations. Duke Energy Ohio asserts that there were no CAA violations because the applicable regulations do not require permitting in cases where the projects undertaken are "routine" or otherwise do not result in a net increase in emissions.

In November 1999, the U.S. brought a lawsuit in the U.S. Federal District Court for the Southern District of Indiana against Duke Energy Ohio alleging various violations of the CAA at Duke Energy Ohio's W.C. Beckjord and Miami Fort Stations. Three northeast states and two environmental groups have intervened in the case. A jury trial commenced on May 5, 2008 and jury verdict was returned on May 22, 2008. The jury found in favor of Cinergy, Duke Energy Ohio and Duke Energy Indiana, Inc. on all but three units at Wabash River. Additionally, the plaintiffs had claimed that Duke Energy Ohio violated an Administrative Consent Order entered into in 1998 between the EPA and Cinergy relating to alleged violations of Ohio's State Implementation Plan (SIP) provisions governing particulate matter at Duke Energy Ohio's W.C. Beckjord Station. The judge previously granted summary judgment against Duke Energy Ohio with respect to this allegation and it will be considered during the February 2009 remedy phase as well.

Duke Energy Ohio has been informed by Dayton Power and Light (DP&L) that in June 2000, the EPA issued a Notice of Violation (NOV) to DP&L for alleged violations of CAA requirements at a station operated by DP&L and jointly-owned by DP&L, Columbus Southern Power Company (CSP), and Duke Energy Ohio. The NOV indicated the EPA may issue an order requiring compliance with the requirements of the Ohio SIP, or bring a civil action seeking injunctive relief and civil penalties of up to $27,500 per day for each violation. In September 2004, Marilyn Wall and the Sierra Club brought a lawsuit against Duke Energy Ohio, DP&L and CSP for alleged violations of the CAA at this same generating station. The parties reached an agreement to settle this matter in the form of a consent decree which was submitted for comment to the EPA and ultimately approved and entered by the court on October 23, 2008. The consent decree will not have a material adverse effect on Duke Energy Ohio's consolidated results of operations, cash flows or financial position.

Section 126 Petitions. In March 2004, the state of North Carolina filed a petition under Section 126 of the CAA in which it alleges that sources in 13 upwind states, including Ohio, significantly contribute to North Carolina's non-attainment with certain ambient air quality standards. In August 2005, the EPA issued a proposed response to the petition. The EPA proposed to deny the ozone portion of the petition based upon a lack of contribution to air quality by the named states. The EPA also proposed to deny the particulate matter portion of the petition based upon the CAIR Federal Implementation Plan (FIP), that would address the air quality concerns from neighboring states. On April 28, 2006, the EPA denied North Carolina's petition based upon the final CAIR FIP described above. North Carolina has filed a legal challenge to the EPA's denial. Briefing in that case is under way. At this time, Duke Energy Ohio cannot predict the outcome of this proceeding.

Carbon Dioxide (CO_2) Litigation. In July 2004, the states of Connecticut, New York, California, Iowa, New Jersey, Rhode Island, Vermont, Wisconsin and the City of New York brought a lawsuit in the U.S. District Court for the Southern District of New York

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Notes To Unaudited Consolidated Financial Statements—(Continued)

against Cinergy, American Electric Power Company, Inc., American Electric Power Service Corporation, The Southern Company, Tennessee Valley Authority, and Xcel Energy Inc. A similar lawsuit was filed in the U.S. District Court for the Southern District of New York against the same companies by Open Space Institute, Inc., Open Space Conservancy, Inc., and The Audubon Society of New Hampshire. These lawsuits allege that the defendants' emissions of CO_2 from the combustion of fossil fuels at electric generating facilities contribute to global warming and amount to a public nuisance. The complaints also allege that the defendants could generate the same amount of electricity while emitting significantly less CO_2. The plaintiffs are seeking an injunction requiring each defendant to cap its CO_2 emissions and then reduce them by a specified percentage each year for at least a decade. In September 2005, the District Court granted the defendants' motion to dismiss the lawsuit. The plaintiffs have appealed this ruling to the Second Circuit Court of Appeals. Oral arguments were held before the Second Circuit Court of Appeals on June 7, 2006. It is not possible to predict with certainty whether Duke Energy Ohio will incur any liability or to estimate the damages, if any, that Duke Energy Ohio might incur in connection with this matter.

Zimmer Generating Station (Zimmer Station) Lawsuit. In November 2004, a citizen of the Village of Moscow, Ohio, the town adjacent to Duke Energy Ohio's Zimmer Station, brought a purported class action in the U.S. District Court for the Southern District of Ohio seeking monetary damages and injunctive relief against Duke Energy Ohio for alleged violations of the CAA, the Ohio SIP, and Ohio laws against nuisance and common law nuisance. The plaintiffs have filed a number of additional notices of intent to sue and two lawsuits raising claims similar to those in the original claim. One lawsuit was dismissed on procedural grounds, and the remaining two have been consolidated. On December 28, 2006, the District Court certified this case as a class action. Discovery in the case continues. At this time, Duke Energy Ohio cannot predict whether the outcome of this matter will have a material impact on its consolidated results of operations, cash flows or financial position. Duke Energy Ohio intends to defend this lawsuit vigorously in court.

Hurricane Katrina Lawsuit. In April 2006, Cinergy was named in the third amended complaint of a purported class action lawsuit filed in the U.S. District Court for the Southern District of Mississippi. Plaintiffs claim that Cinergy, along with numerous other utilities, oil companies, coal companies and chemical companies, are liable for damages relating to losses suffered by victims of Hurricane Katrina. Plaintiffs claim that defendants' greenhouse gas emissions contributed to the frequency and intensity of storms such as Hurricane Katrina. On August 30, 2007, the court dismissed the case. The plaintiffs have filed their appeal to the Fifth Circuit Court of Appeals and oral argument was heard on August 6, 2008. Due to the late recusal of one of the judges on the Fifth Circuit panel, the Court has scheduled the second oral argument for the week of November 3, 2008. It is not possible to predict with certainty whether Duke Energy Ohio will incur any liability or to estimate the damages, if any, that Duke Energy Ohio might incur in connection with this matter.

Ohio Antitrust Lawsuit. In January 2008, four plaintiffs, including individual, industrial and non-profit customers, filed a lawsuit against Duke Energy Ohio in federal court in the Southern District of Ohio. Plaintiffs allege that Duke Energy Ohio (then The Cincinnati Gas & Electric Company (CG&E)), conspired to provide inequitable and unfair price advantages for certain large business consumers by entering into non-public option agreements with such consumers in exchange for their withdrawal of challenges to Duke Energy Ohio's (then CG&E's) pending RSP, which was implemented in early 2005. Duke Energy Ohio denies the allegations made in the lawsuit. Following Duke Energy Ohio's filing of a motion to dismiss plaintiffs' claims, plaintiffs amended their complaint on May 30, 2008. Plaintiffs now contend that the contracts at issue were an illegal rebate which violate antitrust and Racketeer Influenced and Corrupt Organizations (RICO) statutes. Defendants have again moved to dismiss the claims. It is not possible to predict with certainty whether Duke Energy Ohio will incur any liability or to estimate the damages, if any, that Duke Energy Ohio might incur in connection with this matter.

Asbestos-related Injuries and Damages Claims. Duke Energy Ohio has been named as a defendant or co-defendant in lawsuits related to asbestos at its electric generating stations. The impact on Duke Energy Ohio's consolidated results of operations, cash flows or financial position of these cases to date has not been material. Based on estimates under varying assumptions concerning uncertainties, such as, among others: (i) the number of contractors potentially exposed to asbestos during construction or maintenance of Duke Energy Ohio's generating plants; (ii) the possible incidence of various illnesses among exposed workers; and (iii) the potential settlement costs without federal or other legislation that addresses asbestos tort actions, Duke Energy Ohio estimates that the range of reasonably possible exposure in existing and future suits over the foreseeable future is not material. This estimated range of exposure may change as additional settlements occur and claims are made and more case law is established.

Other Litigation and Legal Proceedings. Duke Energy Ohio and its subsidiaries are involved in other legal, tax and regulatory proceedings arising in the ordinary course of business, some of which involve substantial amounts. Duke Energy Ohio believes that the final disposition of these proceedings will not have a material adverse effect on its consolidated results of operations, cash flows or financial position.

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Notes To Unaudited Consolidated Financial Statements—(Continued)

Duke Energy Ohio has exposure to certain legal matters that are described herein. As of September 30, 2008 and December 31, 2007, Duke Energy Ohio has recorded insignificant reserves for these proceedings and exposures. Duke Energy Ohio expenses legal costs related to the defense of loss contingencies as incurred.

Other Commitments and Contingencies

General. Duke Energy Ohio enters into various fixed-price, non-cancelable commitments to purchase or sell power (tolling arrangements or power purchase contracts) that may or may not be recognized on the Consolidated Balance Sheets.

13. Fair Value of Financial Assets and Liabilities

On January 1, 2008, Duke Energy Ohio adopted SFAS No. 157, "*Fair Value Measurements*" (SFAS No. 157). Duke Energy Ohio's adoption of SFAS No. 157 is currently limited to financial instruments and to non-financial derivatives as, in February 2008, the FASB issued FSP No. 157-2, which delayed the effective date of SFAS No. 157 for one year for non-financial assets and liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. There was no cumulative effect adjustment to retained earnings for Duke Energy Ohio as a result of the adoption of SFAS No. 157.

SFAS No. 157 defines fair value, establishes a framework for measuring fair value in GAAP in the U.S. and expands disclosure requirements about fair value measurements. Under SFAS No. 157, fair value is considered to be the exchange price in an orderly transaction between market participants to sell an asset or transfer a liability at the measurement date. The fair value definition under SFAS No. 157 focuses on an exit price, which is the price that would be received by Duke Energy Ohio to sell an asset or paid to transfer a liability versus an entry price, which would be the price paid to acquire an asset or received to assume a liability. Although SFAS No. 157 does not require additional fair value measurements, it applies to other accounting pronouncements that require or permit fair value measurements.

Duke Energy Ohio determines fair value of financial assets and liabilities based on the following fair value hierarchy, as prescribed by SFAS No. 157, which prioritizes the inputs to valuation techniques used to measure fair value into three levels:

Level 1 inputs—unadjusted quoted prices in active markets for identical assets or liabilities that Duke Energy Ohio has the ability to access. An active market for the asset or liability is one in which transactions for the asset or liability occur with sufficient frequency and volume to provide ongoing pricing information. Duke Energy Ohio does not adjust quoted market prices on Level 1 inputs for any blockage factor.

Level 2 inputs—inputs other than quoted market prices included in Level 1 that are observable, either directly or indirectly, for the asset or liability. Level 2 inputs include, but are not limited to, quoted prices for similar assets or liabilities in an active market, quoted prices for identical or similar assets or liabilities in markets that are not active and inputs other than quoted market prices that are observable for the asset or liability, such as interest rate curves and yield curves observable at commonly quoted intervals, volatilities, credit risk and default rates.

Level 3 inputs—unobservable inputs for the asset or liability.

In February 2007, the FASB issued SFAS No. 159, "*The Fair Value Option for Financial Assets and Financial Liabilities-including an amendment of FASB Statement No. 115*" (SFAS No. 159), which permits entities to elect to measure many financial instruments and certain other items at fair value. For Duke Energy Ohio, SFAS No. 159 was effective as of January 1, 2008 and had no impact on amounts presented for periods prior to the effective date. Duke Energy Ohio does not currently have any financial assets or financial liabilities for which the provisions of SFAS No. 159 have been elected. However, in the future, Duke Energy Ohio may elect to measure certain financial instruments at fair value in accordance with this standard.

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Notes To Unaudited Consolidated Financial Statements—(Continued)

The following table provides the fair value measurement amounts for assets and liabilities recorded in both current and non-current Unrealized gains on mark-to-market and hedging transactions and Unrealized losses on mark-to-market and hedging transactions on Duke Energy Ohio's Consolidated Balance Sheets at fair value at September 30, 2008. Amounts presented in the table below exclude cash collateral amounts which are disclosed separately in Note 1.

	Total Fair Value Amounts at September 30, 2008	Level 1	Level 2	Level 3
		(in millions)		
Description				
Derivative assets	$ 133	$ 10	$ —	$ 123
Derivative liabilities	$ (112)	$ (25)	$ (2)	$ (85)

The following table provides a reconciliation of beginning and ending balances of assets and liabilities measured at *fair value on a recurring basis* where the determination of fair value includes significant unobservable inputs (Level 3):

Rollforward of Level 3 Measurements

	Derivatives (net)
	(In millions)
Three Months Ended September 30, 2008	
Balance at July 1, 2008	$ 29
Total pre-tax realized or unrealized gains included in earnings:	
Revenue, non-regulated electric and other	10
Fuel used in electric generation and purchased power—non-regulated	4
Total pre-tax gains included in other comprehensive income	9
Net purchases, sales, issuances and settlements	(14)
Balance at September 30, 2008	$ 38
Nine Months Ended September 30, 2008	
Balance at January 1, 2008	$ (22)
Total pre-tax realized or unrealized gains (losses) included in earnings:	
Revenue, non-regulated electric and other	(14)
Fuel used in electric generation and purchased power—non-regulated	105
Net purchases, sales, issuances and settlements	(31)
Balance at September 30, 2008	$ 38
Pre-tax amounts included in the Consolidated Statements of Operations related to Level 3 measurements outstanding at September 30, 2008:	
Revenue, non-regulated electric and other	$ (4)
Fuel used in electric generation and purchased power—non-regulated	62
Total	$ 58

The valuation method of the primary fair value measurements disclosed above is as follows:

Commodity derivatives: The pricing for commodity derivatives is primarily a calculated value which incorporates the forward price and is adjusted for liquidity (bid-ask spread), credit or non-performance risk (after reflecting credit enhancements such as collateral) and discounted to present value. The primary difference between a Level 2 and a Level 3 measurement has to do with the level of activity in forward markets for the commodity. If the market is relatively inactive, the measurement is deemed to be a Level 3 *measurement. Some commodity derivatives are* NYMEX contracts, which Duke Energy Ohio classifies as Level 1 measurements.

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Notes To Unaudited Consolidated Financial Statements—(Continued)

14. New Accounting Standards

The following new accounting standards were adopted by Duke Energy Ohio subsequent to September 30, 2007 and the impact of such adoption, if applicable, has been presented in the accompanying Consolidated Financial Statements:

SFAS No. 157. Refer to Note 13 for a discussion of Duke Energy Ohio's adoption of SFAS No. 157.

SFAS No. 159. Refer to Note 13 for a discussion of Duke Energy Ohio's adoption of SFAS No. 159.

FSP No. FIN 39-1. Refer to Notes 1 and 10 for a discussion of Duke Energy Ohio's adoption of FSP No. FIN 39-1.

The following new accounting standards have been issued, but have not yet been adopted by Duke Energy Ohio as of September 30, 2008:

SFAS No. 141 (revised 2007), "Business Combinations" (SFAS No. 141R). In December 2007, the FASB issued SFAS No. 141R, which replaces SFAS No. 141, "*Business Combinations.*" SFAS No. 141R retains the fundamental requirements in SFAS No. 141 that the acquisition method of accounting be used for all business combinations and that an acquirer be identified for each business combination. This statement also establishes *principles and requirements for how an acquirer recognizes and* measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling (minority) interests in an acquiree, and any goodwill acquired in a business combination or gain recognized from a bargain purchase. For Duke Energy Ohio, SFAS No. 141R must be applied prospectively to business combinations for which the acquisition date occurs on or after January 1, 2009. The impact to Duke Energy Ohio of applying SFAS No. 141R for periods subsequent to implementation will be dependent upon the nature of any transactions within the scope of SFAS No. 141R. SFAS No. 141R changes the accounting for income taxes related to prior business combinations, such as Duke Energy's merger with Cinergy. Subsequent to the effective date of SFAS No. 141R, the resolution of tax contingencies relating to Cinergy that existed as of the date of the merger will be required to be reflected in the Consolidated Statements of Operations instead of being reflected as an adjustment to the purchase price via an adjustment to goodwill.

SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities—an amendment to FASB Statement No. 133" (SFAS No. 161). In March 2008, the FASB issued SFAS No. 161, which amends and expands the disclosure requirements for derivative instruments and hedging activities prescribed by SFAS No. 133, "*Accounting for Derivative Instruments and Hedging Activities.*" SFAS No. 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. Duke Energy Ohio will adopt SFAS No. 161 as of January 1, 2009 and SFAS No. 161 encourages, but does not require, comparative disclosure for earlier periods at initial adoption. The adoption of SFAS No. 161 will not have any impact on Duke Energy Ohio's consolidated results of operations, cash flows or financial position.

15. Income Taxes and Other Taxes

The taxable income of Duke Energy Ohio is reflected in Duke Energy's U.S. federal and state income tax returns. Duke Energy Ohio has a tax sharing agreement with Duke Energy, where the separate return method is used to allocate tax expenses and benefits to the subsidiaries whose investments or results of operations provide these tax expenses and benefits. The accounting for income taxes essentially represents the income taxes that Duke Energy Ohio would incur if Duke Energy Ohio were a separate company filing its own tax return as a C-Corporation.

At September 30, 2008, Duke Energy Ohio has approximately $46 million recorded for unrecognized tax benefits and no portion of the total unrecognized tax benefits, if recognized, would affect the effective tax rate. Additionally, at September 30, 2008, Duke Energy Ohio has approximately $7 million of unrecognized tax benefits related to pre-merger tax positions that, if recognized prior to the adoption of SFAS No. 141R, would affect goodwill. It is reasonably possible that Duke Energy Ohio will reflect an approximate $35 million reduction in unrecognized tax benefits within the next twelve months due to expected settlements.

Duke Energy Ohio has the following tax years open:

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

DUKE ENERGY OHIO, INC.

Notes To Unaudited Consolidated Financial Statements—(Continued)

The effective tax rate for the three months ended September 30, 2008 was approximately 28% as compared to the effective tax rate of approximately 37% for the same period in 2007. The decrease in the effective tax rate for the three months ended September 30, 2008 is due primarily to adjustments related to prior year tax returns. The effective tax rate for the nine months ended September 30, 2008 was approximately 37% as compared to the effective tax rate of approximately 38% for the same period in 2007.

As of September 30, 2008 and December 31, 2007, approximately $80 million and $27 million, respectively, of deferred income taxes were included in Other within Current Assets in the Consolidated Balance Sheets. At September 30, 2008, this balance exceeded 5% of total current assets.

Excise Taxes. Certain excise taxes levied by state or local governments are collected by Duke Energy Ohio from its customers. These taxes, which are required to be paid regardless of Duke Energy Ohio's ability to collect from the customer, are accounted for on a gross basis. When Duke Energy Ohio acts as an agent, and the tax is not required to be remitted if it is not collected from the customer, the taxes are accounted for on a net basis. Duke Energy Ohio's excise taxes accounted for on a gross basis and recorded as Operating Revenues in the accompanying Consolidated Statements of Operations were approximately $27 million for both the three months ended September 30, 2008 and 2007, respectively, and approximately $95 million and $93 million for the nine months ended September 30, 2008 and 2007, respectively.

16. Comprehensive Income and Total Comprehensive Income

Comprehensive Income. Comprehensive income includes net income and all other non-owner changes in equity. The table below provides the components of other comprehensive income and total comprehensive income for the three months ended September 30, 2008 and 2007. Components of other comprehensive income and total comprehensive income for the nine months ended September 30, 2008 and 2007 are presented in the Consolidated Statements of Common Stockholder's Equity and Comprehensive Income.

Total Comprehensive (Loss) Income

	Three Months Ended September 30,	
	2008	2007
	(in millions)	
Net (Loss) Income	$ (54)	$ 118
Other comprehensive income (loss)		
Cash flow hedges[a]	11	(7)
Pension and OPEB-related Adjustments to AOCI[b]	2	1
Other comprehensive income (loss), net of tax	13	(6)
Total Comprehensive (Loss) Income	$ (41)	$ 112

(a) Cash flow hedges, net of $6 million tax expense and $4 million tax benefit for the three months ended September 30, 2008 and 2007, respectively.

(b) Pension and OPEB-related Adjustments to AOCI, net of an insignificant tax expense for each of the three months ended September 30, 2008 and 2007.

17. Subsequent Events

For information on subsequent events related to debt and credit facilities, regulatory matters and commitments and contingencies, see Notes 5, 11 and 12, respectively.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

INTRODUCTION

Management's Discussion and Analysis should be read in conjunction with the Unaudited Consolidated Financial Statements.

Duke Energy Ohio, Inc. (Duke Energy Ohio) is a wholly-owned subsidiary of Cinergy Corp. (Cinergy). Cinergy is a wholly-owned subsidiary of Duke Energy Corporation (Duke Energy). Duke Energy Ohio's principal lines of business include generation, transmission and distribution of electricity, the sale of and/or transportation of natural gas, and energy marketing.

BASIS OF PRESENTATION

The results of operations and variance discussion for Duke Energy Ohio is presented in a reduced disclosure format in accordance with General Instructions H(2) of Form 10-Q.

DUKE ENERGY OHIO

	Nine Months Ended September 30,		
	2008	2007	Increase (Decrease)
	(in millions)		
Operating revenues	$ 2,604	$ 2,634	$ (30)
Operating expenses	2,224	2,243	(19)
Gains (losses) on sales of other assets and other, net	46	(12)	58
Operating income	426	379	47
Other income and expenses, net	23	22	1
Interest expense	72	73	(1)
Income before income taxes	377	328	49
Income tax expense	141	124	17
Net income	$ 236	$ 204	$ 32

The $32 million increase in Duke Energy Ohio's Net Income was primarily due to the following factors:

Operating Revenues. The decrease was primarily due to:

- A $36 million decrease in volumes of coal sales due to expiration of contracts,
- A $22 million decrease in retail electric revenues primarily due to lower retail pricing principally related to timing of collections on the Fuel and Purchased Power rider of the Rate Stabilization Plan (RSP), net of increased amortization of purchase accounting valuation liability of the RSP,
- A $21 million decrease due to milder weather in 2008 compared to 2007, and
- A $19 million decrease in wholesale electric revenues due to lower generation volumes primarily resulting from higher plant outages and lower hedge realization in 2008 compared to 2007.

Partially offsetting these decreases were:

- A $23 million increase in regulated fuel revenues driven mainly by higher natural gas costs,
- A $13 million increase due to implementation of new gas rates in Ohio,
- A $9 million increase related to the Demand Side Management (DSM) rider implemented in the third quarter of 2007, and
- An $8 million increase in Ohio electric base transmission due to a change in the Transmission Cost Recovery rider.

Operating Expenses. The decrease was primarily due to:

- A $52 million decrease due primarily to lower sulfur dioxide emission allowance expenses due to installation of flue gas desulphurization equipment and lower generation volumes resulting from increased plant outages in 2008 as compared to 2007,
- A $36 million decrease in expenses associated with coal sales due to expiration of contracts,

- A $27 million decrease in fuel expense due to mark-to-market gains on non-qualifying fuel hedge contracts of $73 million in 2008 compared to gains of $46 million in 2007,
- A $20 million decrease in other post-employment benefits due to an adjustment to the liability recorded for these benefits,
- A $13 million decrease in corporate governance and administrative costs, partially offset by higher plant maintenance expenses resulting from increased plant outages in 2008 as compared to 2007,
- A $13 million decrease in short-term incentive costs, and
- A $7 million decrease in retail fuel and purchased power expenses due to realized gains from the settlement of certain fuel contracts, partially offset by higher purchased power as a result of increased plant outages.

Partially offsetting these decreases were:

- An $82 million impairment of emission allowances due to the invalidation of the Clean Air Interstate Rule in July 2008,
- A $34 million increase due to storm restoration work for damage caused by Hurricane Ike,
- A $23 million increase in regulated fuel expense primarily due to higher natural gas costs, and
- A $12 million increase in regulatory amortization of the Ohio DSM costs and regulatory transition charge.

Gains (Losses) on Sales of Other Assets and Other, net. The increase is attributable to gains on sales of emission allowances in 2008 compared to losses on sales of emission allowances in 2007. Gains in 2008 were primarily a result of sales of zero cost basis emission allowances. Losses in 2007 were a result of sales of emission allowances acquired in connection with Duke Energy's merger with Cinergy in April 2006 which were written up to fair value as part of purchase accounting.

Income Tax Expense. Income Tax Expense increased primarily as a result of higher pre-tax income.

MATTERS IMPACTING FUTURE RESULTS AND OTHER MATTERS

Duke Energy Ohio has approximately $440 million of auction rate pollution control bonds outstanding. The maximum auction rate for these pollution control bonds outstanding is 2.0 times one-month London Interbank Offered Rate (LIBOR). While Duke Energy Ohio intends to refund and refinance these tax exempt auction rate bonds, the timing of such refinancing transactions is uncertain and subject to market conditions.

Duke Energy Ohio evaluates the carrying amount of its recorded goodwill for impairment under the guidance of SFAS No. 142, "*Goodwill and Other Intangible Assets*". As the fair value of each of Duke Energy Ohio's reporting units exceeded their respective carrying values at August 31, 2008, Duke Energy Ohio did not record any impairment charges in the third quarter of 2008 as a result of its annual impairment test. However, in light of recent market and economic events, management is reassessing the potential for any impairments to recorded goodwill balances. These assessments are in their early stages and management cannot yet predict the outcome, but it is possible that the current assessments could result in goodwill impairments being recorded at one or more reporting units.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed by Duke Energy Ohio in the reports it files or submits under the Securities Exchange Act of 1934 (Exchange Act) is recorded, processed, summarized, and reported, within the time periods specified by the Securities and Exchange Commission's (SEC) rules and forms.

Disclosure controls and procedures include, without limitation, controls and procedures designed to provide reasonable assurance that information required to be disclosed by Duke Energy Ohio in the reports it files or submits under the Exchange Act is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, Duke Energy Ohio has evaluated the effectiveness of its disclosure controls and procedures (as such term is defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of September 30, 2008, and, based upon this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures are effective in providing reasonable assurance of compliance.

Changes in Internal Control over Financial Reporting

Under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, Duke Energy Ohio has evaluated changes in internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the fiscal quarter ended September 30, 2008 and other than the third quarter financial system changes described below, have concluded that no change has materially affected, or is reasonably likely to materially affect, internal control over financial reporting.

During the third quarter of 2008, Duke Energy Ohio converted the general ledger and consolidation systems to those currently used by other Duke Energy operations. Additionally, Duke Energy Ohio implemented a new income tax system and upgraded the asset accounting system. These system changes are a result of an evaluation of previous systems and related processes to support evolving operational needs, and are not the result of any identified deficiencies in the previous systems. Duke Energy Ohio reviewed the implementation effort as well as the impact on Duke Energy Ohio's internal control over financial reporting and where appropriate, made changes to internal controls over financial reporting to address these system changes.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

For information regarding legal proceedings that became reportable events or in which there were material developments in the third quarter of 2008, see Note 11 to the Consolidated Financial Statements, "Regulatory Matters" and Note 12 to the Consolidated Financial Statements, "Commitments and Contingencies."

Item 1A. Risk Factors

In addition to the other information set forth in this report, careful consideration should be given to the factors discussed in Part I, "Item 1A. Risk Factors" in Duke Energy Ohio's Annual Report on Form 10-K for the year ended December 31, 2007, which could materially affect Duke Energy Ohio's financial condition or future results. In addition to the risk factors included in Duke Energy Ohio's Annual Report on Form 10-K for the year ended December 31, 2007, Duke Energy Ohio has identified the following risk factor as of September 30, 2008:

Current Levels of Market Volatility are Unprecedented

The capital and credit markets have been experiencing extreme volatility and disruption. In recent months, the volatility and disruption have reached unprecedented levels. In some cases, the markets have exerted downward pressure on stock prices and credit capacity for certain issuers. If current levels of market disruption and volatility continue or worsen, Duke Energy Ohio may be forced to meet its other liquidity needs by further drawing upon contractually committed lending agreements primarily provided by global banks, although there is no assurance that the commitments made by lenders under Duke Energy's master credit facility will be available if needed due to the recent turmoil throughout the financial services industry. This could require Duke Energy Ohio to seek other funding sources. However, under such extreme market conditions, there can be no assurance other funding sources would be available or sufficient.

Additional risks and uncertainties not currently known to Duke Energy Ohio or that Duke Energy Ohio currently deems to be immaterial also may adversely affect Duke Energy Ohio's financial condition and/or results of operations.

Item 6. Exhibits

(a) Exhibits

Exhibits filed or furnished herewith are designated by an asterisk (*).

Exhibit Number	
*31.1	Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*31.2	Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

The total amount of securities of the registrant or its subsidiaries authorized under any instrument with respect to long-term debt not filed as an exhibit does not exceed 10% of the total assets of the registrant and its subsidiaries on a consolidated basis. The registrant agrees, upon request of the Securities and Exchange Commission, to furnish copies of any or all of such instruments to it.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DUKE ENERGY OHIO, INC.

Date: November 13, 2008

/s/ DAVID L. HAUSER

David L. Hauser
Group Executive and
Chief Financial Officer

Date: November 13, 2008

/s/ STEVEN K. YOUNG

Steven K. Young
Senior Vice President and
Controller

EXHIBIT 31.1

CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, James E. Rogers, certify that:

1) I have reviewed this quarterly report on Form 10-Q of Duke Energy Ohio, Inc.;

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Acts Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 13, 2008

/s/ JAMES E. ROGERS
James E. Rogers
Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION OF THE CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, David L. Hauser, certify that:

1) I have reviewed this quarterly report on Form 10-Q of Duke Energy Ohio, Inc.;

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Acts Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the *registrant's fourth fiscal quarter in the case of an annual report*) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 13, 2008

/s/ DAVID L. HAUSER
David L. Hauser
Group Executive and
Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Duke Energy Ohio, Inc. ("Duke Energy Ohio") on Form 10-Q for the period ending September 30, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James E. Rogers, Chief Executive Officer of Duke Energy Ohio, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Duke Energy Ohio.

/s/ JAMES E. ROGERS
James E. Rogers
Chief Executive Officer
November 13, 2008

EXHIBIT 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Duke Energy Ohio, Inc. ("Duke Energy Ohio") on Form 10-Q for the period ending September 30, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David L. Hauser, Group Executive and Chief Financial Officer of Duke Energy Ohio, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Duke Energy Ohio.

/s/ DAVID L. HAUSER
David L. Hauser
Group Executive and Chief Financial Officer
November 13, 2008

FORM 8-K

Duke Energy Ohio, Inc. - N/A

Filed: October 02, 2008 (period: September 30, 2008)

Report of unscheduled material events or corporate changes.

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): **September 30, 2008**

DUKE ENERGY CORPORATION
(Exact Name of Registrant as Specified in its Charter)

Delaware	**1-32853**	**20-2777218**
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

526 South Church Street, Charlotte, North Carolina 28202
(Address of Principal Executive Offices, including Zip code)

(704) 594-6200
(Registrant's telephone number, including area code)

DUKE ENERGY CAROLINAS, LLC
(Exact Name of Registrant as Specified in its Charter)

North Carolina	**001-04928**	**56-0205520**
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

526 South Church Street, Charlotte, North Carolina 28202-1904
(Address of Principal Executive Offices, including Zip code)

(704) 594-6200
(Registrant's telephone number, including area code)

DUKE ENERGY OHIO, INC.
(Exact Name of Registrant as Specified in its Charter)

Delaware	**001-1232**	**31-0240030**
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

139 East Fourth Street, Cincinnati, Ohio 45202
(Address of Principal Executive Offices, including Zip code)

(704) 594-6200
(Registrant's telephone number, including area code)

DUKE ENERGY INDIANA, INC.
(Exact Name of Registrant as Specified in its Charter)

Indiana	**1-3543**	**35-0594457**
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

1000 East Main Street, Plainfield, Indiana 46168
(Address of Principal Executive Offices, including Zip code)

(704) 594-6200
(Registrant's telephone number, including area code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240. 13e-4(c))

Item 2.03. Creation of a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement of a Registrant.

On September 30, 2008, Duke Energy Corporation and its wholly-owned subsidiaries, Duke Energy Carolinas, LLC, Duke Energy Ohio, Inc., Duke Energy Indiana, Inc. and Duke Energy Kentucky, Inc., borrowed a total of approximately $1,000,000,000 under the $3,200,000,000 Amended and Restated Credit Agreement dated June 28, 2007 (the "Credit Agreement"), among Duke Energy Corporation and such subsidiaries, as Borrowers, the banks listed therein, Wachovia Bank, National Association, as Administrative Agent, JPMorgan Chase Bank, National Association, Barclays Bank PLC, Bank of America, N.A. and Citibank, N.A., as Co-Syndication Agents and The Bank of Tokyo-Mitsubishi, Ltd., New York Branch and Credit Suisse, as Co-Documentation Agents. Commitments under the Credit Agreement expire on June 28, 2012. Subject to the terms and conditions of the Credit Agreement, funds are available for borrowing under the facility through the day prior to the expiration date. The Credit Agreement was further described in a Form 8-K filed July 5, 2007, and the amendment thereto was described in a Form 8-K filed March 12, 2008.

The loans are Revolving Credit Loans and bear interest at the Base Rate, as such terms are defined in the Credit Agreement. The loans are due and payable on September 30, 2009, with respect to each Borrower except Duke Energy Corporation, whose loan is due and payable on June 28, 2012. All or a portion of the loans may be prepaid in advance of the due date.

The borrowings were funded in the amounts listed below:

Borrower	Loan Amount
Duke Energy Corporation	$ 271,250,000
Duke Energy Carolinas, LLC	$ 256,718,750
Duke Energy Ohio, Inc.	$ 276,093,750
Duke Energy Indiana, Inc.	$ 121,093,750
Duke Energy Kentucky, Inc.	$ 72,656,250
Total	$ 997,812,500

Duke Energy announced this transaction in a press release dated September 30, 2008, a copy of which is filed as Exhibit 99.1 to this Form 8-K.

Item 9.01. Financial Statements and Exhibits

(d) *Exhibits.*

99.1 Press Release dated September 30, 2008.

SIGNATURE

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrants have duly caused this report to be signed on their behalf by the undersigned hereunto duly authorized.

DUKE ENERGY CORPORATION

Date: October 2, 2008

By: /s/ Stephen G. De May
Name: Stephen G. De May
Title: Vice President and Treasurer

DUKE ENERGY CAROLINAS, LLC

Date: October 2, 2008

By: /s/ Stephen G. De May
Name: Stephen G. De May
Title: Vice President and Treasurer

DUKE ENERGY OHIO, INC.

Date: October 2, 2008

By: /s/ Stephen G. De May
Name: Stephen G. De May
Title: Vice President and Treasurer

DUKE ENERGY INDIANA, INC.

Date: October 2, 2008

By: /s/ Stephen G. De May
Name: Stephen G. De May
Title: Vice President and Treasurer

EXHIBIT INDEX

Exhibit	Description
99.1	Press Release dated September 30, 2008.

Exhibit 99.1

NEWS RELEASE

Duke Energy Corporation
P.O. Box 1006
Charlotte, NC 28201

Sept. 30, 2008

MEDIA CONTACT: Tom Shiel
Telephone 704-382-2355
24-Hour: 704-382-8333

ANALYST CONTACT: Sean Trauschke
980-373-7905

Duke Energy Corporation Draws $1 Billion Under Its Master Credit Agreement

CHARLOTTE, N.C. – Duke Energy Corporation today announced it is drawing approximately $1 billion under its $3.2 billion Master Credit Agreement, which expires in June 2012.

"In light of the uncertain market environment, we made this proactive financial decision to increase our liquidity and cash position and to bridge our access to the debt capital markets," said David Hauser, group executive and chief financial officer. "This improves our flexibility as we continue to execute our business plans."

With this draw, the company expects to have approximately $2 billion of cash and cash equivalents at Sept. 30, 2008.

Duke Energy, one of the largest electric power companies in the United States, supplies and delivers electricity to approximately 4 million U.S. customers in its regulated jurisdictions. The company has approximately 35,000 megawatts of electric generating capacity in the Midwest and the Carolinas, and natural gas distribution services in Ohio and Kentucky. In addition, Duke Energy has more than 4,000 megawatts of electric generation in Latin America, and is a joint-venture partner in a U.S. real estate company.

- more -

Headquartered in Charlotte, N.C., Duke Energy is a Fortune 500 company traded on the New York Stock Exchange under the symbol DUK. More information about the company is available on the Internet at: www.duke-energy.com.

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FORM 10-Q

Duke Energy Ohio, Inc. - N/A

Filed: August 14, 2008 (period: June 30, 2008)

Quarterly report which provides a continuing view of a company's financial position

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2008 Or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from_____ to_____

Commission file number 1-1232

DUKE ENERGY OHIO, INC.

(Exact Name of Registrant as Specified in its Charter)

Ohio	31-0240030
(State or Other Jurisdiction of Incorporation)	(IRS Employer Identification No.)
139 East Fourth Street Cincinnati, OH	45202
(Address of Principal Executive Offices)	(Zip code)

704-594-6200
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes☒ No☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐	Accelerated filer☐
Non-accelerated filer ☒	Smaller reporting company ☐
(Do not check if a smaller reporting company)	

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934).
Yes☐ No☒

All of the registrant's common stock is indirectly owned by Duke Energy Corporation (File No. 1-32853) which is a reporting company under the Securities Exchange Act of 1934, as amended.

The registrant meets the conditions set forth in General Instructions H(1)(a) and (b) of Form 10-Q and is therefore filing this form with the reduced disclosure format specified in General Instructions H(2) of Form 10-Q.

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DUKE ENERGY OHIO, INC.
FORM 10-Q FOR THE QUARTER ENDED
JUNE 30, 2008

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

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

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

In light of these risks, uncertainties and assumptions, the events described in the forward-looking statements might not occur or might occur to a different extent or at a different time than Duke Energy Ohio has described. Duke Energy Ohio undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

DUKE ENERGY OHIO, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In millions)

Item 1. *Financial Statements.*

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Operating Revenues				
Non-regulated electric and other	$ 454	$ 422	$ 846	$ 768
Regulated electric	228	233	470	464
Regulated natural gas	113	108	470	447
Total operating revenues	795	763	1,786	1,679
Operating Expenses				
Fuel used in electric generation and purchased power	170	260	347	485
Cost of natural gas and coal sold	49	69	299	324
Operation, maintenance and other	184	182	366	367
Depreciation and amortization	100	95	199	188
Property and other taxes	62	62	135	135
Total operating expenses	565	668	1,346	1,499
Gains (Losses) on Sales of Other Assets and Other, net	33	—	46	(11)
Operating Income	263	95	486	169
Other Income and Expenses, net	6	8	15	17
Interest Expense	23	22	49	45
Income Before Income Taxes	246	81	452	141
Income Tax Expense	89	32	162	55
Net Income	$ 157	$ 49	$ 290	$ 86

See Notes to Unaudited Consolidated Financial Statements

DUKE ENERGY OHIO, INC.
CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In millions)

	June 30, 2008	December 31, 2007
ASSETS		
Current Assets		
Cash and cash equivalents	$ 32	$ 33
Receivables (net of allowance for doubtful accounts of $4 at June 30, 2008 and $3 at December 31, 2007)	263	334
Inventory	228	212
Unrealized gains on mark-to-market and hedging transactions	152	22
Other	56	94
Total current assets	731	695
Investments and Other Assets		
Restricted funds held in trust	60	62
Goodwill	2,325	2,325
Intangibles, net	514	551
Unrealized gains on mark-to-market and hedging transactions	95	17
Other	29	33
Total investments and other assets	3,023	2,988
Property, Plant and Equipment		
Cost	9,812	9,577
Less accumulated depreciation and amortization	2,213	2,097
Net property, plant and equipment	7,599	7,480
Regulatory Assets and Deferred Debits		
Deferred debt expense	23	23
Regulatory assets related to income taxes	97	90
Other	351	401
Total regulatory assets and deferred debits	471	514
Total Assets	$ 11,824	$ 11,677

See Notes to Unaudited Consolidated Financial Statements

DUKE ENERGY OHIO, INC.
CONSOLIDATED BALANCE SHEETS—(Continued)
(Unaudited)
(In millions, except share and per-share amounts)

	June 30, 2008	December 31, 2007
LIABILITIES AND COMMON STOCKHOLDER'S EQUITY		
Current Liabilities		
Accounts payable	$ 617	$ 602
Notes payable	8	189
Taxes accrued	156	172
Interest accrued	23	24
Current maturities of long-term debt	6	126
Unrealized losses on mark-to-market and hedging transactions	109	24
Other	94	86
Total current liabilities	1,013	1,223
Long-term Debt	1,807	1,810
Deferred Credits and Other Liabilities		
Deferred income taxes	1,492	1,436
Investment tax credits	15	16
Accrued pension and other post-retirement benefit costs	291	259
Unrealized losses on mark-to-market and hedging transactions	66	25
Asset retirement obligations	33	31
Other	282	343
Total deferred credits and other liabilities	2,179	2,110
Commitments and Contingencies		
Common Stockholder's Equity		
Common stock, $8.50 par value; 120,000,000 shares authorized and 89,663,086 shares outstanding at June 30, 2008 and December 31, 2007	762	762
Additional paid-in capital	5,570	5,570
Retained earnings	517	227
Accumulated other comprehensive loss	(24)	(25)
Total common stockholder's equity	6,825	6,534
Total Liabilities and Common Stockholder's Equity	$ 11,824	$ 11,677

See Notes to Unaudited Consolidated Financial Statements

DUKE ENERGY OHIO, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In millions)

	Six Months Ended June 30,	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 290	$ 86
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	201	188
(Gains) losses on sales of other assets and other, net	(46)	11
Deferred income taxes	47	(18)
Regulatory asset/liability amortization	11	13
Accrued pension and other postretirement benefit costs	14	21
Contribution to company-sponsored pension and other postretirement benefit plans	—	(83)
(Increase) decrease in:		
Net realized and unrealized mark-to-market and hedging transactions	(153)	9
Receivables	94	92
Inventory	(4)	12
Other current assets	88	2
Increase (decrease) in:		
Accounts payable	37	51
Taxes accrued	(23)	(120)
Other current liabilities	7	(13)
Regulatory asset/liability deferrals	(14)	(23)
Other assets	34	84
Other liabilities	(44)	(4)
Net cash provided by operating activities	539	308
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(285)	(302)
Purchases of emission allowances	(8)	(14)
Sales of emission allowances	56	24
Change in restricted funds held in trust	3	15
Other	(1)	—
Net cash used in investing activities	(235)	(277)
CASH FLOWS FROM FINANCING ACTIVITIES		
Redemption of long-term debt	(124)	(3)
Notes payable to affiliate, net	(181)	53
Dividends to parent	—	(135)
Capital contribution from parent	—	29
Net cash used in financing activities	(305)	(56)
Net decrease in cash and cash equivalents	(1)	(25)
Cash and cash equivalents at beginning of period	33	45
Cash and cash equivalents at end of period	$ 32	$ 20
Supplemental Disclosures		
Significant non-cash transactions:		
Purchase accounting adjustments	$ —	$ (8)
Accrued capital expenditures	$ 31	$ 26

See Notes to Unaudited Consolidated Financial Statements

DUKE ENERGY OHIO, INC.

CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDER'S EQUITY AND COMPREHENSIVE INCOME
(Unaudited)
(In millions)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)		Total
				Net Gains (Losses) on Cash Flow Hedges	SFAS No. 158 Adjustment	
Balance at December 31, 2006	$ 762	$ 5,601	$ 55	$ (36)	$ (2)	$ 6,380
Net income	—	—	86	—	—	86
Other comprehensive income						
Cash flow hedges[a]	—	—	—	8	—	8
Total comprehensive income						94
Capital contribution from parent	—	29	—	—	—	29
Push-down accounting adjustments	—	(8)	—	—	—	(8)
Adoption of SFAS No. 158—measurement date provision	—	—	(3)	—	(2)	(5)
Dividend to parent	—	(46)	(89)	—	—	(135)
Balance at June 30, 2007	$ 762	$ 5,576	$ 49	$ (28)	$ (4)	$ 6,355
Balance at December 31, 2007	$ 762	$ 5,570	$ 227	$ (32)	$ 7	$ 6,534
Net income	—	—	290	—	—	290
Other comprehensive income						
Cash flow hedges[b]	—	—	—	1	—	1
Total comprehensive income						291
Balance at June 30, 2008	$ 762	$ 5,570	$ 517	$ (31)	$ 7	$ 6,825

(a) Net of $4 tax expense in 2007.

(b) Net of $1 tax expense in 2008.

See Notes to Unaudited Consolidated Financial Statements

DUKE ENERGY OHIO, INC.

Notes To Unaudited Consolidated Financial Statements

1. Basis of Presentation

Nature of Operations and Basis of Consolidation. Duke Energy Ohio, Inc. (Duke Energy Ohio), an Ohio corporation organized in 1837, is a wholly-owned subsidiary of Cinergy Corp. (Cinergy). Cinergy is a wholly-owned subsidiary of Duke Energy Corporation (Duke Energy). Duke Energy Ohio is a combination electric and gas public utility company that provides service in the southwestern portion of Ohio and through its wholly-owned subsidiary, Duke Energy Kentucky, Inc. (Duke Energy Kentucky), in nearby areas of Kentucky, as well as unregulated electric generation in parts of Ohio, Illinois, Indiana and Pennsylvania. Duke Energy Ohio's principal lines of business include generation, transmission and distribution of electricity, the sale of and/or transportation of natural gas, and energy marketing. Duke Energy Kentucky's principal lines of business include generation, transmission and distribution of electricity as well as the sale of and/or transportation of natural gas. Except where separately noted, references to *Duke Energy Ohio herein relate to the consolidated operations of Duke Energy Ohio, including its wholly-owned subsidiary* Duke Energy Kentucky. These Unaudited Consolidated Financial Statements include, after eliminating intercompany transactions and balances, the accounts of Duke Energy Ohio and all majority-owned subsidiaries where Duke Energy Ohio has control, as well as Duke Energy Ohio's proportionate share of certain generation and transmission facilities in Ohio, Kentucky and Indiana.

These Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles (GAAP) in the United States of America (U.S.) for interim financial information and with the instructions to Form 10-Q and Regulation S-X. Accordingly, these Consolidated Financial Statements do not include all of the information and footnotes required by GAAP for annual financial statements. Because the interim Consolidated Financial Statements and Notes do not include all of the information and footnotes required by GAAP for annual financial statements, the Consolidated Financial Statements *and other information included in this quarterly report* should be read in conjunction with the Consolidated Financial Statements and Notes in Duke Energy Ohio's Form 10-K for the year ended December 31, 2007.

These Consolidated Financial Statements reflect all normal recurring adjustments that are, in the opinion of management, necessary to fairly present Duke Energy Ohio's financial position and results of operations. Amounts reported in the interim Consolidated Statements of Operations are not necessarily indicative of amounts expected for the respective annual periods due to the effects of seasonal temperature variations on energy consumption, regulatory rulings, the timing of maintenance on electric generating units, changes in mark-to-market valuations, changing commodity prices and other factors.

Use of Estimates. To conform to GAAP in the U.S., management makes estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements and Notes. Although these estimates are based on management's best available knowledge at the time, actual results could differ.

Reclassifications. Certain prior period amounts on the Consolidated Balance Sheets have been reclassified in connection with the adoption of Financial Accounting Standards Board (FASB) Staff Position (FSP) No. FIN 39-1, "*Amendment of FASB Interpretation No. 39, Offsetting of Amounts Related to Certain Contracts*," (FSP No. FIN 39-1) on January 1, 2008, as discussed below, the effects of which require retrospective application to the Consolidated Balance Sheets.

Netting of Cash Collateral and Derivative Assets and Liabilities Under Master Netting Arrangements. On January 1, 2008, Duke Energy Ohio adopted FSP No. FIN 39-1. In accordance with FSP No. FIN 39-1, Duke Energy Ohio offsets fair value amounts (or amounts that approximate fair value) recognized on its Consolidated Balance Sheets related to cash collateral amounts receivable or payable against fair value amounts recognized for derivative instruments executed with the same counterparty under the same master netting agreement. Prior to the adoption of FSP No. FIN 39-1, Duke Energy Ohio offset the fair value amounts recognized for derivative instruments executed with the same counterparty under the same master netting agreement in accordance with FIN 39, "*Offsetting of Amounts Related to Certain Contracts*," but presented cash collateral on a gross basis within the Consolidated Balance Sheets. At June 30, 2008 and December 31, 2007, Duke Energy Ohio had receivables related to the right to reclaim *cash collateral of approximately $16 million and $5 million, respectively,* and had payables related to obligations to return cash collateral of approximately $82 million and an insignificant amount, respectively, that have been offset against net derivative positions in the Consolidated Balance Sheets. Duke Energy Ohio had insignificant cash collateral receivables and payables under master netting arrangements that have not been offset against net derivative positions at June 30, 2008 or December 31, 2007.

Unbilled Revenue. Revenues on sales of electricity and gas are recognized when either the service is provided or the product is delivered. Unbilled revenues are estimated by applying an average revenue per kilowatt hour or per thousand cubic feet (Mcf) for all customer classes to the number of estimated kilowatt hours or Mcf's delivered but not billed. The amount of unbilled revenues can vary sig-

nificantly period to period as a result of factors including seasonality, weather, customer usage patterns and customer mix. Unbilled revenues, which are included in Receivables on the Consolidated Balance Sheets, primarily relate to wholesale sales at Commercial Power and were approximately $57 million and $38 million at June 30, 2008 and December 31, 2007, respectively. Additionally, receivables for unbilled revenues of approximately $104 million and $145 million at June 30, 2008 and December 31, 2007, respectively, related to retail accounts receivable at Duke Energy Ohio and Duke Energy Kentucky are included in the sales of accounts receivable to Cinergy Receivables Company, LLC (Cinergy Receivables). Duke Energy Ohio and Duke Energy Kentucky sell, on a revolving basis, nearly all of their retail accounts receivable and related collections to Cinergy Receivables, a bankruptcy remote, special purpose entity that is a wholly-owned limited liability company of Cinergy. The securitization transaction was structured to meet the criteria for sale treatment under Statement of Financial Accounting Standards (SFAS) No. 140, "*Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities-a replacement of FASB Statement No. 125*," and, accordingly, Cinergy does not consolidate Cinergy Receivables and the transfers of receivables are accounted for as sales.

Other Regulatory Assets and Deferred Debits. The state of Ohio passed comprehensive electric deregulation legislation in 1999, and in 2000, the Public Utilities Commission of Ohio (PUCO) approved a stipulation agreement relating to Duke Energy Ohio's transition plan creating a Regulatory Transition Charge (RTC) designed to recover Duke Energy Ohio's generation-related regulatory assets and transition costs over a ten-year period beginning January 1, 2001 and ending December 2010. Accordingly, application of SFAS No. 71, "*Accounting for Certain Types of Regulation*" (SFAS No. 71), was discontinued for the generation portion of Duke Energy Ohio's business. Duke Energy Ohio has a RTC related regulatory asset balance of approximately $191 million and $239 million as of June 30, 2008 and December 31, 2007, respectively, which is classified in Other Regulatory Assets and Deferred Debits on the Consolidated Balance Sheets.

2. Business Segments

Duke Energy Ohio operates the following business segments, which are considered reportable business segments under SFAS No. 131, "*Disclosures about Segments of an Enterprise and Related Information*": Franchised Electric and Gas and Commercial Power. Duke Energy Ohio's chief operating decision maker regularly reviews financial information about each of these business segments in deciding how to allocate resources and evaluate performance. There is no aggregation within Duke Energy Ohio's reportable business segments.

Franchised Electric and Gas, which conducts operations primarily through Duke Energy Ohio and its wholly-owned subsidiary Duke Energy Kentucky, generates, transmits, distributes and sells electricity in southwestern Ohio and northern Kentucky, as well as transports and sells natural gas in southwestern Ohio and northern Kentucky.

Commercial Power owns, operates and manages non-regulated power plants and engages in the wholesale marketing and procurement of electric power, fuel and emission allowances related to these plants as well as other contractual positions. Commercial Power's generation asset fleet consists of Duke Energy Ohio's non-regulated generation in Ohio and five Midwestern gas-fired non-regulated generation assets that were transferred from Duke Energy in connection with Duke Energy's merger with Cinergy in April 2006. Commercial Power's assets comprise approximately 7,600 megawatts of power generation primarily located in the Midwestern U.S. The asset portfolio has a diversified fuel mix with baseload and mid-merit coal-fired units as well as combined cycle and peaking natural gas-fired units. Most of the generation asset output in Ohio has been contracted through the rate stabilization plan (RSP) (see Note 10).

The remainder of Duke Energy Ohio's operations is presented as Other. While it is not considered a business segment, Other primarily includes certain allocated governance costs (see Note 8).

Duke Energy Ohio's reportable segments offer different products and services and are managed separately as business units. Accounting policies for Duke Energy Ohio's segments are the same as those described in the Notes to the Consolidated Financial Statements in Duke Energy Ohio's Annual Report on Form 10-K for the year ended December 31, 2007. Management evaluates segment performance based on earnings before interest and taxes from continuing operations (EBIT). On a segment basis, EBIT excludes discontinued operations and represents all profits from continuing operations (both operating and non-operating and excluding corporate governance costs) before deducting interest and taxes.

Cash, cash equivalents, and short-term investments, if any, are managed centrally by Duke Energy, so the interest and dividend income on those balances are excluded from segment EBIT. Transactions between reportable segments, if any, are included in segment EBIT.

DUKE ENERGY OHIO, INC.

Notes To Unaudited Consolidated Financial Statements—(Continued)

Business Segment Data

	Unaffiliated Revenues[a]	Segment EBIT/ Consolidated Income Before Income Taxes	Depreciation and Amortization
		(in millions)	
Three Months Ended June 30, 2008			
Franchised Electric and Gas	$ 341	$ 41	$ 58
Commercial Power	454	242	42
Total reportable segments	795	283	100
Other	—	(19)	—
Interest expense	—	(23)	—
Interest income and other	—	5	—
Total consolidated	$ 795	$ 246	$ 100
Three Months Ended June 30, 2007			
Franchised Electric and Gas	$ 341	$ 50	$ 54
Commercial Power	422	67	41
Total reportable segment	763	117	95
Other	—	(21)	—
Interest expense	—	(22)	—
Interest income and other	—	7	—
Total consolidated	$ 763	$ 81	$ 95
Six Months Ended June 30, 2008			
Franchised Electric and Gas	$ 940	$ 138	$ 116
Commercial Power	846	387	83
Total reportable segment	1,786	525	199
Other	—	(37)	—
Interest expense	—	(49)	—
Interest income and other	—	13	—
Total consolidated	$ 1,786	$ 452	$ 199
Six Months Ended June 30, 2007			
Franchised Electric and Gas	$ 911	$ 129	$ 107
Commercial Power	768	80	81
Total reportable segment	1,679	209	188
Other	—	(39)	—
Interest expense	—	(45)	—
Interest income and other	—	16	—
Total consolidated	$ 1,679	$ 141	$ 188

(a) There were no intersegment revenues for the three and six months ended June 30, 2008 and 2007.
Duke Energy Ohio's chief operating decision maker does not regularly review any asset information at a business segment level in deciding how to allocate resources.

DUKE ENERGY OHIO, INC.
Notes To Unaudited Consolidated Financial Statements—(Continued)

Segment Assets

	June 30, 2008	December 31, 2007
	(In millions)	
Franchised Electric and Gas	$ 5,463	$ 5,530
Commercial Power	6,361	6,147
Total reportable segments/consolidated assets	$ 11,824	$ 11,677

3. Sales of Other Assets

For the three months ended June 30, 2008, the sale of other assets resulted in approximately $44 million in proceeds and net pre-tax gains of approximately $33 million recorded in Gains (Losses) on Sales of Other Assets and Other, net on the Consolidated Statements of Operations. For the six months ended June 30, 2008, the sale of other assets resulted in approximately $60 million in proceeds and net pre-tax gains of approximately $46 million recorded in Gains (Losses) on Sales of Other Assets and Other, net on the Consolidated Statements of Operations. These amounts primarily relate to Commercial Power's sales of zero cost basis emission allowances.

For the three months ended June 30, 2007, the sale of other assets resulted in approximately $2 million in proceeds and net pre-tax gains of an insignificant amount recorded in Gains (Losses) on Sales of Other Assets and Other, net on the Consolidated Statements of Operations. For the six months ended June 30, 2007, the sale of other assets resulted in approximately $24 million in proceeds and net pre-tax losses of approximately $11 million recorded in Gains (Losses) on Sales of Other Assets and Other, net on the Consolidated Statements of Operations. These amounts primarily relate to Commercial Power's sales of emission allowances acquired in connection with Duke Energy's merger with Cinergy in April 2006, which were written up to fair value as part of purchase accounting.

4. Inventory

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

	June 30, 2008	December 31, 2007
	(In millions)	
Coal held for electric generation	$ 97	$ 77
Materials and supplies	69	66
Natural gas	62	69
Total inventory	$ 228	$ 212

5. Debt and Credit Facilities

Money Pool Arrangement. Duke Energy Ohio and its wholly-owned subsidiary, Duke Energy Kentucky, receive support for their short-term borrowing needs through their participation with Duke Energy and other Duke Energy subsidiaries in a money pool arrangement. Under this arrangement, those companies with short-term funds may provide short-term loans to affiliates participating under this arrangement. The money pool is structured such that Duke Energy Ohio and Duke Energy Kentucky separately manage their cash needs and working capital requirements. Accordingly, there is no net settlement of receivables and payables of Duke Energy Ohio and Duke Energy Kentucky, as each of these entities independently participate in the money pool. As of June 30, 2008, Duke Energy Ohio had net receivables of approximately $6 million, which are classified within Receivables in the accompanying Consolidated Balance Sheets, and Duke Energy Kentucky had net borrowings of approximately $8 million, which are classified within Notes payable in the accompanying Consolidated Balance Sheets. As of December 31, 2007, Duke Energy Ohio and Duke Energy Kentucky had combined net borrowings of approximately $189 million, which are classified within Notes payable in the accompanying Consolidated Balance Sheets. During the six months ended June 30, 2008 and 2007, the $181 million decrease and $53 million increase in the money pool borrowings, respectively, are reflected in Notes payable to affiliate, net within Net cash used in financing activities on the Consolidated Statements of Cash Flows. During the six months ended June 30, 2008, the $6 million increase in the money pool receivables is reflected in Other within Net cash used in investing activities on the Consolidated Statements of Cash Flows.

DUKE ENERGY OHIO, INC.

Notes To Unaudited Consolidated Financial Statements—(Continued)

At June 30, 2008 and December 31, 2007, approximately $96 million of certain pollution control bonds, which are short-term obligations by nature, are classified as Long-term Debt on the Consolidated Balance Sheets due to Duke Energy Ohio's intent and ability to utilize such borrowings as long-term financing. Duke Energy's credit facilities with non-cancelable terms in excess of one year as of the balance sheet date give Duke Energy Ohio the ability to refinance these short-term obligations on a long-term basis.

Available Credit Facilities and Restrictive Debt Covenants. In March 2008, Duke Energy entered into an amendment to its $2.65 billion master credit facility whereby the borrowing capacity was increased by $550 million to $3.2 billion. Pursuant to the amendment, the additional credit capacity of $550 million specifically increased the borrowing sub limit for Duke Energy Ohio (excluding Duke Energy Kentucky) by $250 million to $750 million. In May 2008, Duke Energy reallocated the borrowing sub limits under the master credit facility and reduced Duke Energy Ohio's borrowing sub limit by $50 million to $700 million. The borrowing sub limit of Duke Energy Kentucky did not change.

The amount available to Duke Energy Ohio and Duke Energy Kentucky under their sublimits to Duke Energy's master credit facility is reduced by borrowings through the money pool arrangement, issuances of letters of credit and other borrowings.

Duke Energy's credit agreement contains various financial and other covenants, including, but not limited to, a covenant regarding the debt-to-total capitalization ratio at Duke Energy, Duke Energy Ohio and Duke Energy Kentucky to not exceed 65%. Duke Energy Ohio's debt agreements also contain various financial and other covenants. Failure to meet these covenants beyond applicable grace periods could result in accelerated due dates and/or termination of the agreements. As of June 30, 2008, Duke Energy, Duke Energy Ohio and Duke Energy Kentucky were in compliance with all covenants that would impact Duke Energy Ohio's ability to borrow funds under its debt and credit facilities. In addition, some credit agreements may allow for acceleration of payments or termination of the agreements due to nonpayment, or the acceleration of other significant indebtedness of the borrower or some of its subsidiaries. None of the debt or credit agreements contain material adverse change clauses.

6. Employee Benefit Obligations

Duke Energy Ohio participates in pension and other post-retirement benefit plans sponsored by Cinergy. Duke Energy Ohio's net periodic benefit costs as allocated by Cinergy were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(In millions)			
Qualified Pension Benefits[a]	$ 4	$ 3	$ 6	$ 7
Other Post-retirement Benefits[b]	$ 2	$ 3	$ 5	$ 5

(a) These amounts exclude approximately $1 million and $4 million for the three months ended June 30, 2008 and 2007, respectively, and approximately $2 million and $7 million for the six months ended June 30, 2008 and 2007, respectively, of regulatory asset amortization resulting from purchase accounting.

(b) These amounts exclude approximately $1 million for each of the three months ended June 30, 2008 and 2007, respectively, and approximately $1 million and $2 million for the six months ended June 30, 2008 and 2007, respectively, of regulatory asset amortization resulting from purchase accounting.

Duke Energy's policy is to fund amounts for its U.S. qualified pension plans on an actuarial basis to provide assets sufficient to meet benefit payments to be paid to plan participants. Duke Energy did not require Duke Energy Ohio to make contributions to the legacy Cinergy qualified or non-qualified pension plans during the three and six months ended June 30, 2008 and Duke Energy does not anticipate requiring Duke Energy Ohio to make contributions to the legacy Cinergy qualified or non-qualified pension plans during the remainder of 2008. During the six months ended June 30, 2007, approximately $350 million of qualified pension plan contributions were made to the legacy Cinergy qualified pension plans, of which approximately $83 million represents contributions made by Duke Energy Ohio. Additionally, Duke Energy Ohio participates in Cinergy sponsored employee savings plans that cover substantially all Duke Energy Ohio employees. Duke Energy Ohio made its proportionate share of pre-tax employer matching contributions of approximately $2 million and $3 million during the three and six months ended June 30, 2008, respectively. Duke Energy Ohio made its proportionate share of pre-tax employer matching contributions of approximately $1 million and $2 million during the three and six months ended June 30, 2007, respectively.

DUKE ENERGY OHIO, INC.

Notes To Unaudited Consolidated Financial Statements—(Continued)

7. Goodwill and Intangibles

Carrying Amount of Goodwill

The carrying amount of goodwill as of both June 30, 2008 and December 31, 2007 was $2,325 million, of which $1,188 million was reflected in the Commercial Power segment and $1,137 million was reflected in the Franchised Electric and Gas segment.

Intangible Assets

The carrying amount and accumulated amortization of intangible assets as of June 30, 2008 and December 31, 2007 are as follows:

	June 30, 2008	December 31, 2007
	(in millions)	
Emission allowances	$ 338	$ 365
Gas, coal, and power contracts	271	271
Other	9	9
Total gross carrying amount	618	645
Accumulated amortization—gas, coal, and power contracts	(99)	(89)
Accumulated amortization—other	(5)	(5)
Total accumulated amortization	(104)	(94)
Total intangible assets, net	$ 514	$ 551

Emission allowances in the table above include emission allowances which were recorded at fair value on the date of Duke Energy's merger with Cinergy and emission allowances purchased by Duke Energy Ohio. Additionally, Duke Energy Ohio is allocated certain zero cost emission allowances on an annual basis. The carrying value of emission allowances sold or consumed during the three months ended June 30, 2008 and 2007 were $26 million and $33 million, respectively. The carrying value of emission allowances sold or consumed during the six months ended June 30, 2008 and 2007 were $42 million and $100 million, respectively. See Note 3 for discussion of gains and losses on sales of emission allowances at Commercial Power during the three and six months ended June 30, 2008 and 2007.

Amortization expense for gas, coal and power contracts and other intangible assets for the three months ended June 30, 2008 and 2007 was approximately $4 million and $13 million, respectively. Amortization expense for gas, coal and power contracts and other intangible assets for the six months ended June 30, 2008 and 2007 was approximately $10 million and $25 million, respectively.

On July 11, 2008, the U.S. Court of Appeals for the District of Columbia issued a decision vacating the Clean Air Interstate Rule (CAIR). See Note 11 for a discussion of the decision. Duke Energy Ohio is currently evaluating the effect of the decision on the carrying value of emission allowances held by its non-regulated businesses. Based on current market prices for sulfur dioxide (SO_2) allowances, and the uncertainty associated with future federal requirements to reduce emissions, management believes that it is possible that Duke Energy Ohio may incur an impairment of the carrying value of emission allowances held by Commercial Power of up to $100 million in the third quarter of 2008. This current estimate is based on total allowances held by Commercial Power as of June 30, 2008 compared to amounts projected to be utilized in operations through 2037.

Intangible Liabilities

In connection with the Duke Energy and Cinergy merger, Duke Energy Ohio recorded an intangible liability of approximately $113 million associated with the market based standard service offer (MBSSO) in Ohio, which is being recognized in earnings over the remaining regulatory period that ends on December 31, 2008. The carrying amount of this intangible liability was approximately $34 million and $67 million at June 30, 2008 and December 31, 2007, respectively. Duke Energy Ohio also recorded approximately $56 million of intangible liabilities associated with other power sale contracts in connection with the merger. The carrying amount of this intangible liability was approximately $19 million and $22 million at June 30, 2008 and December 31, 2007, respectively. During the three and six months ended June 30, 2008, Duke Energy Ohio amortized approximately $18 million and $36 million, respectively, to income related to these intangible liabilities. During the three and six months ended June 30, 2007, Duke Energy Ohio amortized approximately $10 million

DUKE ENERGY OHIO, INC.

Notes To Unaudited Consolidated Financial Statements—(Continued)

and $14 million, respectively, to income related to these intangible liabilities. Intangible liabilities are classified as Other Deferred Credits and Other Liabilities on the Consolidated Balance Sheets.

8. Related Party Transactions

Duke Energy Ohio engages in related party transactions, which are generally performed at cost and in accordance with the applicable state and federal commission regulations. Balances due to or due from related parties included in the Consolidated Balance Sheets as of June 30, 2008 and December 31, 2007 are as follows:

	June 30, 2008	December 31, 2007
	(in millions)	
Current assets due from affiliated companies[a][b]	$ 44	$ 58
Non-current assets due from affiliated companies[c]	$ 1	$ —
Current liabilities due to affiliated companies[a][d]	$ (308)	$ (266)
Net deferred tax liabilities to Duke Energy[a][e]	$ (1,457)	$ (1,401)

(a) Balances exclude assets or liabilities associated with accrued pension and other post-retirement benefits, Cinergy Receivables and money pool arrangements, all of which are discussed below.

(b) Of the balance at June 30, 2008, approximately $36 million is classified as Receivables, approximately $7 million is classified as Other within Current Assets, and approximately $1 million is classified as Unrealized gains on mark-to-market and hedging transactions within Current Assets on the Consolidated Balance Sheets. The balance at December 31, 2007 is classified as Receivables on the Consolidated Balance Sheets.

(c) The balance at June 30, 2008 is classified as Unrealized gains on mark-to-market and hedging transactions within Investments and Other Assets on the Consolidated Balance Sheets.

(d) Of the balance at June 30, 2008, approximately $(297) million is classified as Accounts payable and approximately $(11) million is classified as Taxes accrued on the Consolidated Balance Sheets. Of the balance at December 31, 2007, approximately $(256) million is classified as Accounts payable and approximately $(10) million is classified as Taxes accrued on the Consolidated Balance Sheets.

(e) Of the balance at June 30, 2008, approximately $(1,465) million is classified as Deferred income taxes, approximately $(15) million is classified as Investment tax credits, and approximately $23 million is classified as Other within Current Assets on the Consolidated Balance Sheets. Of the balance at December 31, 2007, approximately $(1,409) million is classified as Deferred income taxes, approximately $(16) million is classified as Investment tax credits, and approximately $24 million is classified as Other within Current Assets on the Consolidated Balance Sheets.

Duke Energy Ohio is allocated its proportionate share of corporate governance and other costs by a consolidated affiliate of Duke Energy and a consolidated affiliate of Cinergy. Corporate governance and other shared services costs are primarily allocations of corporate costs, such as human resources, legal and accounting fees, as well as other third party costs. The expenses associated with certain allocated corporate governance and other service costs for Duke Energy Ohio, which are recorded in Operation, maintenance and other within Operating Expenses on the Consolidated Statements of Operations were approximately $59 million and $60 million for the three months ended June 30, 2008 and 2007, respectively, and approximately $120 million and $116 million for the six months ended June 30, 2008 and 2007, respectively.

Duke Energy Ohio incurs expenses related to its property insurance coverage through Bison Insurance Company Limited, Duke Energy's wholly-owned captive insurance subsidiary. These expenses, which are recorded in Operation, maintenance and other within Operating Expenses on the Consolidated Statements of Operations, were approximately $3 million and $10 million for the three months ended June 30, 2008 and 2007, respectively, and approximately $7 million and $14 million for the six months ended June 30, 2008 and 2007, respectively. Additionally, Duke Energy Ohio records income associated with the rental of office space to a consolidated affiliate of Duke Energy. Rental income was approximately $3 million for each of the three months ended June 30, 2008 and 2007, respectively, and approximately $5 million for each of the six months ended June 30, 2008 and 2007, respectively.

Duke Energy Ohio participates in Cinergy's qualified pension plan, non-qualified pension plan and other post-retirement benefit plans and is allocated its proportionate share of expenses associated with these plans (see Note 6). Additionally, Duke Energy Ohio has been allocated accrued pension and other post-retirement benefit obligations from Cinergy of approximately $300 million at June 30, 2008 and approximately $266 million at December 31, 2007. These amounts have been classified in the Consolidated Balance Sheets as follows:

	June 30, 2008	December 31, 2007
	(in millions)	
Other current liabilities	$ 5	$ 5
Accrued pension and other post-retirement benefit costs	$ 291	$ 259
Other deferred credits and other liabilities	$ 4	$ 2

DUKE ENERGY OHIO, INC.

Notes To Unaudited Consolidated Financial Statements—(Continued)

As discussed in Note 1, certain trade receivables have been sold by Duke Energy Ohio to Cinergy Receivables. The proceeds obtained from the sales of receivables are largely cash, but do include a subordinated note from Cinergy Receivables for a portion of the purchase price. This subordinated note is classified as Receivables in the Consolidated Balance Sheets and was approximately $107 million and $189 million, as of June 30, 2008 and December 31, 2007, respectively. The interest income associated with the subordinated note, which is recorded in Other Income and Expenses, net on the Consolidated Statements of Operations, was approximately $4 million and $5 million for three months ended June 30, 2008 and 2007, respectively, and approximately $12 million and $13 million for the six months ended June 30, 2008 and 2007, respectively.

During the second quarter of 2007, Duke Energy Ohio received a $29 million capital contribution from its parent, Cinergy. Additionally, during the second quarter of 2007, Duke Energy Ohio paid dividends to its parent, Cinergy, of $135 million.

As discussed further in Note 5, Duke Energy Ohio participates in a money pool arrangement with Duke Energy and other Duke Energy subsidiaries. The expenses associated with money pool activity, which are recorded in Interest Expense on the Consolidated Statements of Operations, were an insignificant amount and approximately $1 million for the three months ended June 30, 2008 and 2007, respectively, and approximately $1 million and $3 million for the six months ended June 30, 2008 and 2007, respectively.

9. Risk Management Instruments

As discussed in Note 1, on January 1, 2008, Duke Energy Ohio adopted FSP No. FIN 39-1. In accordance with FSP No. FIN 39-1, Duke Energy Ohio offsets fair value amounts (or amounts that approximate fair value) recognized on its Consolidated Balance Sheets related to cash collateral amounts receivable or payable against fair value amounts recognized for derivative instruments executed with the same counterparty under the same master netting agreement. Amounts presented in the table below exclude cash collateral amounts which are disclosed separately in Note 1.

The following table shows the carrying value of Duke Energy Ohio's derivative portfolio as of June 30, 2008, and December 31, 2007.

Net Derivative Portfolio Assets (Liabilities) reflected in the Consolidated Balance Sheets:

	June 30, 2008	December 31, 2007
	(in millions)	
Hedging	$ (28)	$ (23)
Undesignated	166	7
Total	$ 138	$ (16)

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

The $159 million increase in the undesignated derivative portfolio fair value is due primarily to unrealized mark-to-market gains within Commercial Power, primarily as a result of higher coal prices.

Commodity Cash Flow Hedges. As of June 30, 2008, approximately $45 million of the pre-tax unrealized net losses on derivative instruments related to commodity cash flow hedges included on the Consolidated Balance Sheet in Accumulated Other Comprehensive Loss are expected to be recognized in earnings during the next 12 months as the hedged transactions occur. However, due to the volatility of the commodities markets, the corresponding values in Accumulated Other Comprehensive Loss will likely change prior to their reclassification into earnings.

No gains or losses due to hedge ineffectiveness were recorded during the three and six months ended June 30, 2008 and 2007, respectively. The amount recognized for transactions that no longer qualified as cash flow hedges was insignificant for the three and six months ended June 30, 2008 and June 30, 2007, respectively.

See Note 12 for additional information related to the fair value of Duke Energy Ohio's derivative instruments.

10. Regulatory Matters

Regulatory Merger Approvals

On April 3, 2006, the merger between Duke Energy and Cinergy was consummated to create a newly formed company, Duke Energy Holding Corp. (subsequently renamed Duke Energy Corporation). As a condition to the merger approval, the PUCO, and the Kentucky Public Service Commission (KPSC) required that certain merger related savings be shared with consumers in Ohio and Kentucky, respectively. The commissions also required Duke Energy Ohio and Duke Energy Kentucky to meet additional conditions. Key elements of these conditions include:

- The PUCO required that Duke Energy Ohio provide (i) a rate reduction of approximately $15 million for one year to facilitate economic development in a time of increasing rates and market prices and (ii) a reduction of approximately $21 million to its gas and electric consumers in Ohio for one year, with both credits beginning January 1, 2006. During the first quarter of 2007, Duke Energy Ohio completed its merger related rate reductions and filed a report with the PUCO to terminate the merger credit riders. Approximately $2 million of the rate reductions was passed through to customers during the six months ended June 30, 2007.

- The KPSC required that Duke Energy Kentucky provide $8 million in rate reductions to its customers over five years, ending when new rates are established in the next rate case after January 1, 2008. Approximately $1 million of the rate reduction was passed through to customers during the three and six months ended June 30, 2008, respectively. Approximately less than $1 million and $1 million of the rate reduction was passed through to customers during the three and six months ended June 30, 2007, respectively.

- The FERC approved the merger without conditions.

Franchised Electric and Gas

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

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

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

On February 15, 2008, Duke Energy Ohio filed a notice of appeal with the Ohio Supreme Court challenging a portion of the PUCO's decision on remand regarding Duke Energy Ohio's RSP. The October 2007 order permits non-residential customers to avoid certain charges associated with the costs of Duke Energy Ohio standing ready to serve such customers if they return after being served by another supplier. Duke Energy Ohio believes the PUCO exceeded its authority in modifying the charges that may be avoided, resulting in

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Duke Energy Ohio having to subsidize Ohio's competitive electric market. Duke Energy Ohio has asked the Ohio Supreme Court to reverse the PUCO ruling and require that non-residential customers pay the charges associated with Duke Energy Ohio standing ready to serve them should they return from a competitive supplier. On March 28, 2008, Duke Energy Ohio voluntarily withdrew its appeal. The OCC filed a notice of appeal challenging the PUCO's October 2007 decision as unlawful and unreasonable. The OCC and Ohio Partners for Affordable Energy (OPAE) also filed appeals from the PUCO's November 20, 2007 order approving Duke Energy Ohio's MBSSO riders. Duke Energy Ohio has intervened in each appeal. Pending the Ohio Supreme Court's consideration of its initial appeal, the OCC requested that the PUCO stay implementation of the Infrastructure Maintenance Fund charge to be collected from customers approved in the October 2007 order. The Commission denied the OCC's request and the OCC filed a similar request with the Ohio Supreme Court. On July 9, 2008, the court denied the OCC's request to stay implementation of the Infrastructure Maintenance Fund. On April 30, 2008, the Ohio Supreme Court granted Duke Energy Ohio's motion to intervene in the OCC's appeal. At this time, Duke Energy Ohio cannot predict whether the Ohio Supreme Court will reverse the PUCO's decision. Additionally, Duke Energy Ohio cannot predict the outcome of the MBSSO rider appeal; however, Duke Energy Ohio does not anticipate the resolution of this matter will have a material impact on its results of operations, cash flows or financial position.

New legislation (SB 221) was passed on April 23, 2008 and signed by the Governor of Ohio on May 1, 2008. The new law codifies the PUCO's authority to approve an electric utility's standard service offer through an electric security plan (ESP), which would allow for pricing structures similar to the current MBSSO. Electric utilities are required to file an ESP and may also file an application for a market rate option at the same time. The market rate option is a price determined through a competitive bidding process. If a market rate option price is approved, the utility would blend in the MBSSO or ESP price with the market rate option price over a six- to ten-year period, subject to the PUCO's discretion. SB 221 provides for the PUCO to approve non-by-passable charges for new generation, including construction work-in-process from the outset of construction, as part of an ESP. The new law grants the PUCO discretion to approve single issue rate adjustments to distribution and transmission rates and establishes new alternative energy resources (including renewable energy) portfolio standards, such that the utility's portfolio must consist of at least 25% of these resources by 2025. SB 221 also provides a separate requirement for energy efficiency, which must reduce 22% of the utility's load by 2025. The utility's earnings under the ESP can be subject to an annual earnings test and the PUCO must order a refund if it finds that the utility's earnings significantly exceed the earnings of benchmark companies with similar business and financial risks. The earnings test acts as a cap to the ESP price. SB 221 also limits the ability of a utility to transfer its dedicated generating assets to an EWG absent PUCO approval.

On July 31, 2008, Duke Energy Ohio filed its ESP, a new generation pricing formula to be effective January 1, 2009, when the current RSP is scheduled to expire. Among other things, the plan provides pricing mechanisms for compensation related to the advanced energy, including renewables and energy efficiency portfolio standards established by SB 221. At this time, Duke Energy Ohio cannot predict the outcome of this proceeding.

Duke Energy Ohio Gas Rate Case. In July 2007, Duke Energy Ohio filed an application with the PUCO for an increase in its base rates for gas service. Duke Energy Ohio sought an increase of approximately $34 million in revenue, or approximately 5.7%, to be effective in the spring of 2008. The application also requested approval to continue tracker recovery of costs associated with the accelerated gas main replacement program. The staff of the PUCO issued a Staff Report in December 2007 recommending an increase of approximately $14 million to $20 million in revenue. The Staff Report also recommended approval for Duke Energy Ohio to continue tracker recovery of costs associated with the accelerated gas main replacement program. On February 28, 2008, Duke Energy Ohio reached a settlement agreement with the PUCO Staff and all of the intervening parties on its request for an increase in natural gas base rates. The settlement called for an annual revenue increase of approximately $18 million in base revenue, or 3% over current revenue, permitted continued recovery of costs through 2018 for Duke Energy Ohio's accelerated gas main replacement program and permitted recovery of carrying costs on gas stored underground via its monthly gas cost adjustment filing. The settlement did not resolve a proposed rate design for residential customers, which involved moving more of the fixed charges of providing gas service, such as capital investment in pipes and regulating equipment, billing and meter reading, from the per unit charges to the monthly charge. On May 28, 2008, the PUCO approved the settlement in its entirety and the proposed rate design. On June 28, 2008, the OCC and OPAE filed Applications for Rehearing opposing the rate design. On July 23, 2008, the Ohio Commission issued an Entry denying the rehearing requests of OCC and OPAE. Duke Energy Ohio does not anticipate the resolution of this matter will have a material impact on its results of operations, cash flows or financial position.

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Duke Energy Ohio Electric Distribution Rate Case. On June 25, 2008, Duke Energy Ohio filed notice with the PUCO that it will seek a rate increase for electric delivery service of approximately $86 million, or 4.8% on total electric revenues, to be effective in the second quarter of 2009. Among other things, the rate request includes a proposal to increase the monthly residential customer charge from $4.50 to $10, with an offsetting reduction in the usage-based charge. This change in rate design will make customer bills more even throughout the year. Duke Energy Ohio also proposes a distribution modernization tracker that would allow smaller annual increases to reflect increased investment in the delivery system. It would also facilitate the move to a SmartGrid, which would create an interactive delivery system that provides enhanced system maintenance and automatic meter reading, eliminating the need for estimated meter readings and inside meter reading. SmartGrid technology will also provide customers with real-time usage information to help customers monitor and control their energy usage.

Duke Energy Kentucky Gas Rate Cases. In 2002, the KPSC approved Duke Energy Kentucky's gas base rate case which included, among other things, recovery of costs associated with an accelerated gas main replacement program. The approval authorized a tracking mechanism to recover certain costs including depreciation and a rate of return on the program's capital expenditures. The Kentucky Attorney General appealed to the Franklin Circuit Court the KPSC's approval of the tracking mechanism as well as the KPSC's subsequent approval of annual rate adjustments under this tracking mechanism. In 2005, both Duke Energy Kentucky and the KPSC requested that the court dismiss these cases.

In February 2005, Duke Energy Kentucky filed a gas base rate case with the KPSC requesting approval to continue the tracking mechanism and for a $14 million annual increase in base rates. A portion of the increase is attributable to recovery of the current cost of the accelerated gas main replacement program in base rates. In December 2005, the KPSC approved an annual rate increase of $8 million and re-approved the tracking mechanism through 2011. In February 2006, the Kentucky Attorney General appealed the KPSC's order to the Franklin Circuit Court, claiming that the order improperly allows Duke Energy Kentucky to increase its rates for gas main replacement costs in between general rate cases, and also claiming that the order improperly allows Duke Energy Kentucky to earn a return on investment for the costs recovered under the tracking mechanism which permits Duke Energy Kentucky to recover its gas main replacement costs.

In August 2007, the Franklin Circuit Court consolidated all the pending appeals and ruled that the KPSC lacks legal authority to approve the gas main replacement tracking mechanism, and any other annual rate adjustments under the tracking mechanism. To date, Duke Energy Kentucky has collected approximately $9 million in annual rate adjustments under the tracking mechanism. Duke Energy Kentucky and the KPSC have appealed these cases to the Kentucky Court of Appeals and Duke Energy Kentucky continues to utilize tracking mechanisms in its billed rates to customers. At this time, Duke Energy Kentucky cannot predict the outcome of these proceedings.

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

On November 15, 2007, Duke Energy Kentucky filed its annual application to continue existing energy efficiency programs, consisting of nine residential and two commercial and industrial programs, and to true-up its gas and electric tracking mechanism for recovery of lost revenues, program costs and shared savings. On February 11, 2008, Duke Energy Kentucky filed a motion to amend its energy efficiency programs and applied to reinstitute a low income Home Energy Assistance Program. The KPSC bifurcated the proposed Home Energy Assistance Program from the other energy efficiency programs. On May 14, 2008, the KPSC approved the energy efficiency programs. An order on the Home Energy Assistance Program is expected in the third quarter of 2008.

Other Matters

Ohio Riser Leak Investigation. In April 2005, the PUCO issued an order opening a statewide investigation into riser leaks in gas pipeline systems throughout Ohio. The investigation followed four explosions since 2000 caused by gas riser leaks, including an April 2000 explosion in Duke Energy Ohio's service area. In November 2006, the PUCO Staff released the expert report, which concluded that certain types of risers are prone to leaks under various conditions, including over-tightening during initial installation. The PUCO Staff

recommended that natural gas companies continue to monitor the situation and study the cause of any further riser leaks to determine whether further remedial action is warranted. Duke Energy Ohio has approximately 87,000 of these risers on its distribution system. If the PUCO orders natural gas companies to replace all of these risers, Duke Energy Ohio estimates a replacement cost of approximately $40 million. As part of the rate case filed in July 2007 (see "Duke Energy Ohio Gas Rate Case" above), Duke Energy Ohio requested approval from the PUCO to accelerate its riser replacement program. The riser replacement program is contained in the settlement reached with all interveners and will be completed at the end of 2012.

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

FERC 203 Application. On April 23, 2008, Duke Energy Ohio and certain affiliates filed an application with the FERC requesting approval to transfer Duke Energy Ohio's electric generating facilities, some of which are designated to serve Ohio customers, to affiliate companies. The affiliate companies would be consolidated by Duke Energy, but may not be consolidated by Duke Energy Ohio. The FERC filing, if approved, does not obligate Duke Energy to make the transfer of the electric generating facilities, and management is in the process of evaluating the potential transfer. Management believes the proposed asset transfer could provide greater financial flexibility for the assets. The asset transfer complies with Duke Energy Ohio's Corporate Separation Plan that was amended by the PUCO in 2007. As previously discussed, SB 221 limits the ability of a utility to transfer its designated generating assets to an EWG absent PUCO approval. The filing does not impact Duke Energy Ohio's current rates.

Midwest Independent Transmission System Operator, Inc. (Midwest ISO) Resource Adequacy Filing. On December 28, 2007, the Midwest ISO filed its Electric Tariff Filing Regarding Resource Adequacy in compliance with the FERC's request of Midwest ISO to file Phase II of its long-term Resource Adequacy plan by December 2007. The proposal includes establishment of a resource adequacy requirement in the form of planning reserve margin. On March 26, 2008, the FERC ruled on the Midwest ISO's Resource Adequacy filing and ordered that the new Module E tariff be effective March 27, 2008. This action established a Midwest ISO-wide resource adequacy requirement for the first Planning Year, which begins June 2009. In the Order, the FERC, among other things, clarified that States have the authority to set their own Planning Reserve Margins, as long as they are not inconsistent with any reliability standard approved by the FERC. Duke Energy Ohio does not believe the resource adequacy requirement will have a material impact on its consolidated results of operations, cash flows or financial position.

Midwest ISO's Establishment of an Ancillary Services Market. On February 25, 2008, the FERC conditionally accepted the Midwest ISO proposal to implement a day-ahead and real-time ancillary services market (ASM), including a scarcity pricing proposal. By approving the ASM proposal, the FERC essentially approved the transfer and consolidation of Balancing Authority for the entire Midwest ISO area. This will allow the Midwest ISO to determine operating reserve requirements and procure operating reserves from all qualified resources from an organized market, in place of the current system of local management and procurement of reserves by the 24 Balancing Authorities. The Midwest ISO has delayed the ASM launch date until September 9, 2008. At this time, Duke Energy Ohio does not believe the establishment of the Midwest Ancillary Services Market will have a material impact on its consolidated results of operations, cash flows or financial position.

PJM Interconnection Reliability Pricing Model (RPM) Buyers' Complaint. On May 30, 2008, a group of public utility commissions, state consumer counsels, industrial power customers and load serving entities, known collectively as the RPM Buyers, filed a complaint at FERC. The complaint asks FERC to find that the results of the three transitional base residual auctions conducted by PJM to procure capacity for its RPM capacity market during the years 2008-2011 are unjust and unreasonable because, allegedly, they have produced excessive capacity prices, have failed to prevent suppliers from exercising market power, and have not produced benefits commensurate with costs. In their complaint, the RPM Buyers propose revised, administratively determined auction clearing prices. Certain Duke Energy Ohio revenues are at risk, as Duke Energy Ohio planned to supply capacity to this market. On July 11, 2008 Duke filed a response to the complaint with the FERC. At this time, Duke Energy Ohio cannot predict the outcome of this proceeding.

Commercial Power

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

11. Commitments and Contingencies

Environmental

Duke Energy Ohio is subject to federal, state and local regulations regarding air and water quality, hazardous and solid waste disposal and other environmental matters. These regulations can be changed from time to time, imposing new obligations on Duke Energy Ohio.

Remediation Activities. Duke Energy Ohio and its affiliates are responsible for environmental remediation at various contaminated sites. These include some properties that are part of ongoing Duke Energy Ohio operations, sites formerly owned or used by Duke Energy Ohio entities, and sites owned by third parties. Remediation typically involves management of contaminated soils and may involve groundwater remediation. Managed in conjunction with relevant federal, state and local agencies, activities vary with site conditions and locations, remedial requirements, complexity and sharing of responsibility. If remediation activities involve statutory joint and several liability provisions, strict liability, or cost recovery or contribution actions, Duke Energy Ohio or its affiliates could potentially be held responsible for contamination caused by other parties. In some instances, Duke Energy Ohio may share liability associated with contamination with other potentially responsible parties, and may also benefit from insurance policies or contractual indemnities that cover some or all cleanup costs. All of these sites generally are managed in the normal course of business or affiliate operations. Duke Energy Ohio believes that completion or resolution of these matters will have no material adverse effect on its consolidated results of operations, cash flows or financial position.

Clean Water Act 316(b). The U.S. Environmental Protection Agency (EPA) finalized its cooling water intake structures rule in July 2004. The rule established aquatic protection requirements for existing facilities that withdraw 50 million gallons or more of water per day from rivers, streams, lakes, reservoirs, estuaries, oceans, or other U.S. waters for cooling purposes. Three of six coal-fired generating facilities in which Duke Energy Ohio is either a whole or partial owner are affected sources under that rule. On January 25, 2007, the U.S. Court of Appeals for the Second Circuit issued its opinion in *Riverkeeper, Inc v. EPA*, Nos. 04-6692-ag(L) et. al. (2d Cir. 2007) remanding most aspects of the EPA's rule back to the agency. The court effectively disallowed those portions of the rule most favorable to industry, and the decision creates a great deal of uncertainty regarding future requirements and their timing. On April 14, 2008, the U.S. Supreme Court issued an order granting review of the case and briefs were filed on July 14, 2008. A decision is not likely until 2009. If the Supreme Court upholds the lower court decision, it is expected that costs will increase as a result of the court's decision, although Duke Energy Ohio is unable to estimate its costs to comply.

Clean Air Interstate Rule (CAIR). The EPA finalized its CAIR in May 2005. The CAIR was to have limited total annual and summertime nitrogen oxides (NO_x) emissions and annual SO_2 emissions from electric generating facilities across the Eastern U.S. through a two-phased cap-and-trade program. Phase 1 was to begin in 2009 for NO_x and in 2010 for SO_2. Phase 2 was to begin in 2015 for both NO_x and SO_2. On March 25, 2008, the U.S. Court of Appeals for the District of Columbia (D.C. Circuit) heard oral argument in a case involving multiple challenges to the CAIR. Nearly all aspects of the rule were challenged, but Duke Energy challenged only the portions pertaining to SO_2 allowance allocations. On July 11, 2008, the D.C. Circuit issued its decision in *North Carolina v. EPA* No. 05-1244 vacating the CAIR. The EPA has until August 25, 2008 to appeal the decision. The D.C. Circuit's decision creates uncertainty regarding future NO_x and SO_2 emission reductions requirements and their timing. Although as a result of the decision there may be a delay in the timing of federal requirements to reduce emissions, it is expected that electric sector emission reductions at least as stringent as those imposed by CAIR will be required in the near future, through new federal rules and/or individual state requirements. CAIR remains in effect until the Court issues its mandate, which will not be before the period for petitions for rehearing runs. Duke Energy Ohio's plan had been to spend approximately $150 million between 2008 and 2012 to comply with Phase 1 of CAIR at plants that Duke Energy Ohio owns or partially owns but does not operate. It has not been determined how the court's decision will affect these planned expenditures. Duke Energy Ohio did not expect to incur any significant costs for complying with Phase 2 of CAIR. Duke Energy Ohio receives partial recovery of depreciation and financing costs related to environmental compliance projects for 2005-2008 through its RSP (see Note 10).

Duke Energy Ohio is unable to estimate the costs to comply with any new rule EPA may issue as a result of this decision. See Note 7 for a discussion of the potential impact of the D.C. Circuit Court's decision to vacate CAIR on the carrying value of emission allowances.

Clean Air Mercury Rule (CAMR). The EPA finalized its CAMR in May 2005. The CAMR was to have limited total annual mercury emissions from coal-fired power plants across the U.S. through a two-phased cap-and-trade program beginning in 2010. On February 8, 2008, the D.C. Circuit issued its opinion in *New Jersey v. EPA*, No. 05-1097 vacating the CAMR. Requests for rehearing were denied. Parties have until August 18, 2008 to request U.S. Supreme Court review of the D.C. Circuit's decision. The D.C. Circuit's decision creates uncertainty regarding future mercury emission reduction requirements and their timing, but makes it fairly certain that there will be a delay in the implementation of federal mercury requirements for existing coal-fired power plants. At this point, Duke Energy Ohio is unable to estimate the costs to comply with any future mercury regulations that might result from the D.C. Circuit's decision.

Coal Combustion Product (CCP) Management. Duke Energy Ohio currently estimates that it will spend approximately $95 million over the period 2008-2012 to install synthetic caps and liners at existing and new CCP landfills and to convert CCP handling systems from wet to dry systems.

Zimmer Generating Station Clean Air Act Notice of Violation/Finding of Violation. On March 10, 2008, the EPA issued a Clean Air Act Notice of Violation/Finding of Violation (NOV/FOV) asserting noncompliance with SO_2 emission limits, opacity standards, and permitting requirements at Duke Energy Ohio's Zimmer Generating Station. The NOV/FOV also asserts that a Prevention of Significant Deterioration (PSD) permit should have been obtained for the installation in 2004 of a pollution control project in order to comply with the EPA's regional cap-and-trade program for NO_x emissions. Duke Energy Ohio disputes the legal and factual basis for the NOV/FOV. Duke Energy Ohio is unable to predict at this time what, if any, remedies or potential penalties may result from the NOV/FOV.

Extended Environmental Activities and Accruals. Included in Other within Deferred Credits and Other Liabilities on the Consolidated Balance Sheets were total accruals related to extended environmental-related activities of approximately $8 million as of both June 30, 2008 and December 31, 2007, respectively. These accruals represent Duke Energy Ohio's provisions for costs associated with remediation activities at some of its current and former sites, as well as other relevant environmental contingent liabilities. Duke Energy Ohio believes that completion or resolution of these matters will have no material impact on its consolidated results of operations, cash flows or financial position.

Litigation

New Source Review (NSR). In 1999-2000, the U.S. Department of Justice, acting on behalf of the EPA and joined by various citizen groups and states, filed a number of complaints and notices of violation against multiple utilities across the country for alleged violations of the NSR provisions of the Clean Air Act (CAA). Generally, the government alleges that projects performed at various coal-fired units were major modifications, as defined in the CAA, and that the utilities violated the CAA when they undertook those projects without obtaining permits and installing the best available emission controls for SO_2, NO_x and particulate matter. The complaints seek injunctive relief to require installation of pollution control technology on various allegedly violating generating units, and unspecified civil penalties in amounts of up to $32,500 per day for each violation. Two of Duke Energy Ohio's plants have been subject to these allegations. Duke Energy Ohio asserts that there were no CAA violations because the applicable regulations do not require permitting in cases where the projects undertaken are "routine" or otherwise do not result in a net increase in emissions.

In November 1999, the U.S. brought a lawsuit in the U.S. Federal District Court for the Southern District of Indiana against Duke Energy Ohio alleging various violations of the CAA at Duke Energy Ohio's W.C. Beckjord and Miami Fort Stations. Three northeast states and two environmental groups have intervened in the case. A jury trial commenced on May 5, 2008 and jury verdict was returned on May 22, 2008. The jury found in favor of Cinergy, Duke Energy Ohio and Duke Energy Indiana, Inc. on all but three units at Wabash River. The remedy phase of the case is expected to commence in December 2008. Based on previous rulings by the judge in this case, the Wabash River units are not subject to civil penalties; and therefore, the remedy phase will address only the appropriate injunctive relief. Additionally, the plaintiffs had claimed that Duke Energy Ohio violated an Administrative Consent Order entered into in 1998 between the EPA and Cinergy relating to alleged violations of Ohio's State Implementation Plan (SIP) provisions governing particulate matter at Duke Energy Ohio's W.C. Beckjord Station. The judge previously granted summary judgment against Duke Energy Ohio with respect to this allegation and it will be considered during the December 2008 remedy phase as well.

Duke Energy Ohio has been informed by Dayton Power and Light (DP&L) that in June 2000, the EPA issued a NOV to DP&L for alleged violations of CAA requirements at a station operated by DP&L and jointly-owned by DP&L, Columbus Southern Power Company

(CSP), and Duke Energy Ohio. The NOV indicated the EPA may issue an order requiring compliance with the requirements of the Ohio SIP, or bring a civil action seeking injunctive relief and civil penalties of up to $27,500 per day for each violation. In September 2004, Marilyn Wall and the Sierra Club brought a lawsuit against Duke Energy Ohio, DP&L and CSP for alleged violations of the CAA at this same generating station. Trial of this case was originally scheduled to commence in August 2008, however, the parties have reached an agreement in principle to settle this matter, subject to the execution of a definitive agreement, which is currently being negotiated, and court approval. The proposed settlement will not have a material adverse effect on Duke Energy Ohio's consolidated results of operations, cash flows or financial position.

Section 126 Petitions. In March 2004, the state of North Carolina filed a petition under Section 126 of the CAA in which it alleges that sources in 13 upwind states, including Ohio, significantly contribute to North Carolina's non-attainment with certain ambient air quality standards. In August 2005, the EPA issued a proposed response to the petition. The EPA proposed to deny the ozone portion of the petition based upon a lack of contribution to air quality by the named states. The EPA also proposed to deny the particulate matter portion of the petition based upon the CAIR Federal Implementation Plan (FIP), that would address the air quality concerns from neighboring states. On April 28, 2006, the EPA denied North Carolina's petition based upon the final CAIR FIP described above. North Carolina has filed a legal challenge to the EPA's denial. At this time, Duke Energy Ohio cannot predict the outcome of this proceeding.

Carbon Dioxide (CO_2) Litigation. In July 2004, the states of Connecticut, New York, California, Iowa, New Jersey, Rhode Island, Vermont, Wisconsin and the City of New York brought a lawsuit in the U.S. District Court for the Southern District of New York against Cinergy, American Electric Power Company, Inc., American Electric Power Service Corporation, The Southern Company, Tennessee Valley Authority, and Xcel Energy Inc. A similar lawsuit was filed in the U.S. District Court for the Southern District of New York against the same companies by Open Space Institute, Inc., Open Space Conservancy, Inc., and The Audubon Society of New Hampshire. These lawsuits allege that the defendants' emissions of CO_2 from the combustion of fossil fuels at electric generating facilities contribute to global warming and amount to a public nuisance. The complaints also allege that the defendants could generate the same amount of electricity while emitting significantly less CO_2. The plaintiffs are seeking an injunction requiring each defendant to cap its CO_2 emissions and then reduce them by a specified percentage each year for at least a decade. In September 2005, the District Court granted the defendants' motion to dismiss the lawsuit. The plaintiffs have appealed this ruling to the Second Circuit Court of Appeals. Oral arguments were held before the Second Circuit Court of Appeals on June 7, 2006. It is not possible to predict with certainty whether Duke Energy Ohio will incur any liability or to estimate the damages, if any, that Duke Energy Ohio might incur in connection with this matter.

Zimmer Generating Station (Zimmer Station) Lawsuit. In November 2004, a citizen of the Village of Moscow, Ohio, the town adjacent to Duke Energy Ohio's Zimmer Station, brought a purported class action in the U.S. District Court for the Southern District of Ohio seeking monetary damages and injunctive relief against Duke Energy Ohio for alleged violations of the CAA, the Ohio SIP, and Ohio laws against nuisance and common law nuisance. The plaintiffs have filed a number of additional notices of intent to sue and two lawsuits raising claims similar to those in the original claim. One lawsuit was dismissed on procedural grounds, and the remaining two have been consolidated. On December 28, 2006, the District Court certified this case as a class action. Discovery in the case continues. At this time, Duke Energy Ohio cannot predict whether the outcome of this matter will have a material impact on its consolidated results of operations, cash flows or financial position. Duke Energy Ohio intends to defend this lawsuit vigorously in court.

Hurricane Katrina Lawsuit. In April 2006, Cinergy was named in the third amended complaint of a purported class action lawsuit filed in the U.S. District Court for the Southern District of Mississippi. Plaintiffs claim that Cinergy, along with numerous other utilities, oil companies, coal companies and chemical companies, are liable for damages relating to losses suffered by victims of Hurricane Katrina. Plaintiffs claim that defendants' greenhouse gas emissions contributed to the frequency and intensity of storms such as Hurricane Katrina. On August 30, 2007, the court dismissed the case. The plaintiffs have filed their appeal to the Fifth Circuit Court of Appeals and oral argument was heard on August 6, 2008. It is not possible to predict with certainty whether Duke Energy Ohio will incur any liability or to estimate the damages, if any, that Duke Energy Ohio might incur in connection with this matter.

Ohio Antitrust Lawsuit. In January 2008, four plaintiffs, including individual, industrial and non-profit customers, filed a lawsuit against Duke Energy Ohio in federal court in the Southern District of Ohio. Plaintiffs allege that Duke Energy Ohio (then The Cincinnati Gas & Electric Company (CG&E)), conspired to provide inequitable and unfair price advantages for certain large business consumers by entering into non-public option agreements with such consumers in exchange for their withdrawal of challenges to Duke Energy Ohio's (then CG&E's) pending RSP, which was implemented in early 2005. Duke Energy Ohio denies the allegations made in the lawsuit. Following Duke Energy Ohio's filing of a motion to dismiss plaintiffs' claims, plaintiffs amended their complaint on May 30, 2008. Plaintiffs now contend that the contracts at issue were an illegal rebate which violate antitrust and RICO statutes. Defendants have again moved to

dismiss the claims. It is not possible to predict with certainty whether Duke Energy Ohio will incur any liability or to estimate the damages, if any, that Duke Energy Ohio might incur in connection with this matter.

Asbestos-related Injuries and Damages Claims. Duke Energy Ohio has been named as a defendant or co-defendant in lawsuits related to asbestos at its electric generating stations. The impact on Duke Energy Ohio's consolidated results of operations, cash flows or financial position of these cases to date has not been material. Based on estimates under varying assumptions concerning uncertainties, such as, among others: (i) the number of contractors potentially exposed to asbestos during construction or maintenance of Duke Energy Ohio's generating plants; (ii) the possible incidence of various illnesses among exposed workers; and (iii) the potential settlement costs without federal or other legislation that addresses asbestos tort actions, Duke Energy Ohio estimates that the range of reasonably possible exposure in existing and future suits over the foreseeable future is not material. This estimated range of exposure may change as additional settlements occur and claims are made and more case law is established.

Other Litigation and Legal Proceedings. Duke Energy Ohio and its subsidiaries are involved in other legal, tax and regulatory proceedings arising in the ordinary course of business, some of which involve substantial amounts. Duke Energy Ohio believes that the final disposition of these proceedings will not have a material adverse effect on its consolidated results of operations, cash flows or financial position.

Duke Energy Ohio has exposure to certain legal matters that are described herein. As of June 30, 2008 and December 31, 2007, Duke Energy Ohio has recorded insignificant reserves for these proceedings and exposures. Duke Energy Ohio expenses legal costs related to the defense of loss contingencies as incurred.

Other Commitments and Contingencies

General. Duke Energy Ohio enters into various fixed-price, non-cancelable commitments to purchase or sell power (tolling arrangements or power purchase contracts) that may or may not be recognized on the Consolidated Balance Sheets.

12. Fair Value of Financial Assets and Liabilities

On January 1, 2008, Duke Energy Ohio adopted SFAS No. 157, "*Fair Value Measurements*" (SFAS No. 157). Duke Energy Ohio's adoption of SFAS No. 157 is currently limited to financial instruments and to non-financial derivatives as, in February 2008, the FASB issued FSP No. 157-2, which delayed the effective date of SFAS No. 157 for one year for non-financial assets and liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. There was no cumulative effect adjustment to retained earnings for Duke Energy Ohio as a result of the adoption of SFAS No. 157.

SFAS No. 157 defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosure requirements about fair value measurements. Under SFAS No. 157, fair value is considered to be the exchange price in an orderly transaction between market participants to sell an asset or transfer a liability at the measurement date. The fair value definition under SFAS No. 157 focuses on an exit price, which is the price that would be received by Duke Energy Ohio to sell an asset or paid to transfer a liability versus an entry price, which would be the price paid to acquire an asset or received to assume a liability. Although SFAS No. 157 does not require additional fair value measurements, it applies to other accounting pronouncements that require or permit fair value measurements.

Duke Energy Ohio determines fair value of financial assets and liabilities based on the following fair value hierarchy, as prescribed by SFAS No. 157, which prioritizes the inputs to valuation techniques used to measure fair value into three levels:

Level 1 inputs – unadjusted quoted prices in active markets for identical assets or liabilities that Duke Energy Ohio has the ability to access. An active market for the asset or liability is one in which transactions for the asset or liability occur with sufficient frequency and volume to provide ongoing pricing information. Duke Energy Ohio does not adjust quoted market prices on Level 1 inputs for any blockage factor.

Level 2 inputs – inputs other than quoted market prices included in Level 1 that are observable, either directly or indirectly, for the asset or liability. Level 2 inputs include, but are not limited to, quoted prices for similar assets or liabilities in an active market, quoted prices for identical or similar assets or liabilities in markets that are not active and inputs other than quoted market prices that are observable for the asset or liability, such as interest rate curves and yield curves observable at commonly quoted intervals, volatilities, credit risk and default rates.

Level 3 inputs – unobservable inputs for the asset or liability.

DUKE ENERGY OHIO, INC.

Notes To Unaudited Consolidated Financial Statements—(Continued)

In February 2007, the FASB issued SFAS No. 159, "*The Fair Value Option for Financial Assets and Financial Liabilities-including an amendment of FASB Statement No 115*" (SFAS No. 159), which permits entities to elect to measure many financial instruments and certain other items at fair value. For Duke Energy Ohio, SFAS No. 159 was effective as of January 1, 2008 and had no impact on amounts presented for periods prior to the effective date. Duke Energy Ohio does not currently have any financial assets or financial liabilities for which the provisions of SFAS No. 159 have been elected. However, in the future, Duke Energy Ohio may elect to measure certain financial instruments at fair value in accordance with this standard.

The following table provides the fair value measurement amounts for assets and liabilities recorded in both current and non-current Unrealized gains on mark-to-market and hedging transactions and Unrealized losses on mark-to-market and hedging transactions on Duke Energy Ohio's Consolidated Balance Sheets at fair value at June 30, 2008. Amounts presented in the table below exclude cash collateral amounts which are disclosed separately in Note 1.

Description	Total Fair Value Amounts at June 30, 2008	Level 1	Level 2	Level 3
		(in millions)		
Derivative assets	$ 329	$ 111	$ —	$ 218
Derivative liabilities	$ 191	$ —	$ 2	$ 189

The following table provides a reconciliation of beginning and ending balances of assets and liabilities measured at fair value on a recurring basis where the determination of fair value includes significant unobservable inputs (Level 3):

Rollforward of Level 3 Measurements

	Derivatives (net)
	(in millions)
Three Months Ended June 30, 2008	
Balance at April 1, 2008	$ (25)
Total pre-tax realized or unrealized gains included in earnings:	
Revenue, non-regulated	68
Total pre-tax losses included in other comprehensive income	(6)
Net purchases, sales, issuances and settlements	(9)
Total gains included on balance sheet as regulatory asset or liability or as non-current liability	1
Balance at June 30, 2008	$ 29
Six Months Ended June 30, 2008	
Balance at January 1, 2008	$ (22)
Total pre-tax realized or unrealized gains included in earnings:	
Revenue, non-regulated	77
Total pre-tax losses included in other comprehensive income	(9)
Net purchases, sales, issuances and settlements	(17)
Balance at June 30, 2008	$ 29
Pre-tax amounts included in the Consolidated Statements of Operations related to Level 3 measurements outstanding at June 30, 2008:	
Revenue, non-regulated	63
Total	$ 63

The valuation method of the primary fair value measurements disclosed above is as follows:

Commodity derivatives: The pricing for commodity derivatives is primarily a calculated value which incorporates the forward price and is adjusted for liquidity (bid-ask spread), credit or non-performance risk (after reflecting credit enhancements such as collateral) and

discounted to present value. The primary difference between a Level 2 and a Level 3 measurement has to do with the level of activity in forward markets for the commodity. If the market is relatively inactive, the measurement is deemed to be a Level 3 measurement. Some commodity derivatives are NYMEX contracts, which Duke Energy Ohio classifies as Level 1 measurements.

13. New Accounting Standards

The following new accounting standards were adopted by Duke Energy Ohio subsequent to June 30, 2007 and the impact of such adoption, if applicable, has been presented in the accompanying Consolidated Financial Statements:

SFAS No. 157. Refer to Note 12 for a discussion of Duke Energy Ohio's adoption of SFAS No. 157.

SFAS No. 159. Refer to Note 12 for a discussion of Duke Energy Ohio's adoption of SFAS No. 159.

FSP No. FIN 39-1. Refer to Note 1 for a discussion of Duke Energy Ohio's adoption of FSP No. FIN 39-1.

The following new accounting standards have been issued, but have not yet been adopted by Duke Energy Ohio as of June 30, 2008:

SFAS No. 141 (revised 2007), "Business Combinations" (SFAS No. 141R). In December 2007, the FASB issued SFAS No. 141R, which replaces SFAS No. 141, "*Business Combinations.*" SFAS No. 141R retains the fundamental requirements in SFAS No. 141 that the acquisition method of accounting be used for all business combinations and that an acquirer be identified for each business combination. This statement also establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling (minority) interests in an acquiree, and any goodwill acquired in a business combination or gain recognized from a bargain purchase. For Duke Energy Ohio, SFAS No. 141R must be applied prospectively to business combinations for which the acquisition date occurs on or after January 1, 2009. The impact to Duke Energy Ohio of applying SFAS No. 141R for periods subsequent to implementation will be dependent upon the nature of any transactions within the scope of SFAS No. 141R. SFAS No. 141R changes the accounting for income taxes related to prior business combinations, such as Duke Energy's merger with Cinergy. Subsequent to the effective date of SFAS No. 141R, the resolution of tax contingencies relating to Cinergy that existed as of the date of the merger will be required to be reflected in the Consolidated Statements of Operations instead of being reflected as an adjustment to the purchase price via an adjustment to goodwill.

SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities—an amendment to FASB Statement No. 133" (SFAS No. 161). In March 2008, the FASB issued SFAS No. 161, which amends and expands the disclosure requirements for derivative instruments and hedging activities prescribed by SFAS No. 133, "*Accounting for Derivative Instruments and Hedging Activities.*" SFAS No. 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. Duke Energy Ohio will adopt SFAS No. 161 as of January 1, 2009 and SFAS No. 161 encourages, but does not require, comparative disclosure for earlier periods at initial adoption. The adoption of SFAS No. 161 will not have any impact on Duke Energy Ohio's consolidated results of operations, cash flows or financial position.

14. Income Taxes and Other Taxes

The taxable income of Duke Energy Ohio is reflected in Duke Energy's U.S. federal and state income tax returns. Duke Energy Ohio has a tax sharing agreement with Duke Energy, where the separate return method is used to allocate tax expenses and benefits to the subsidiaries whose investments or results of operations provide these tax expenses and benefits. The accounting for income taxes essentially represents the income taxes that Duke Energy Ohio would incur if Duke Energy Ohio were a separate company filing its own tax return as a C-Corporation.

At June 30, 2008, Duke Energy Ohio has approximately $46 million recorded for unrecognized tax benefits and no portion of the total unrecognized tax benefits, if recognized, would affect the effective tax rate. Additionally, at June 30, 2008, Duke Energy Ohio has approximately $7 million of unrecognized tax benefits related to pre-merger tax positions that, if recognized prior to the adoption of SFAS No. 141R, would affect goodwill. It is reasonably possible that Duke Energy Ohio will reflect an approximate $35 million reduction in unrecognized tax benefits within the next twelve months due to expected settlements.

During the three and six months ended June 30, 2008, Duke Energy Ohio recognized net interest expense of approximately $1 million and $2 million, respectively, in the Consolidated Statements of Operations related to income taxes. At June 30, 2008, Duke Energy

Ohio had approximately $8 million of interest payable, which reflects all interest related to income taxes, and no amount has been accrued for the payment of penalties in the Consolidated Balance Sheets.

Duke Energy Ohio has the following tax years open:

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

The effective tax rate for the three months ended June 30, 2008 was approximately 35.9% as compared to the effective tax rate of 39.8% for the same period in 2007. The effective tax rate for the six months ended June 30, 2008 was approximately 35.8% as compared to the effective tax rate of 39.0% for the same period in 2007. The decrease in the effective tax rate for both the three and six months ended June 30, 2008 is due primarily to less of an effect to the effective tax rate calculation from permanent items in 2008 as compared to 2007 as a result of significantly higher pre-tax income in 2008.

Excise Taxes. *Certain excise taxes levied by state or local governments are collected by Duke Energy Ohio from its customers. These taxes, which are required to be paid regardless of Duke Energy Ohio's ability to collect from the customer, are accounted for on a gross basis. When Duke Energy Ohio acts as an agent, and the tax is not required to be remitted if it is not collected from the customer, the taxes are accounted for on a net basis. Duke Energy Ohio's excise taxes accounted for on a gross basis and recorded as Operating Revenues in the accompanying Consolidated Statements of Operations for the three and six months ended June 30, 2008 and 2007 were as follows:*

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
			(in millions)	
Excise Taxes	$ 29	$ 27	$ 68	$ 66

15. Comprehensive Income and Total Comprehensive Income

Comprehensive Income. Comprehensive income includes net income and all other non-owner changes in equity. The table below provides the components of other comprehensive income and total comprehensive income for the three months ended June 30, 2008 and 2007. Components of other comprehensive income and total comprehensive income for the six months ended June 30, 2008 and 2007 are presented in the Consolidated Statements of Common Stockholder's Equity and Comprehensive Income.

Total Comprehensive Income (Loss)

	Three Months Ended June 30,	
	2008	2007
	(in millions)	
Net Income	$ 157	$ 49
Other comprehensive (loss) income		
Cash flow hedges[a]	(1)	4
Other comprehensive (loss) income, net of tax	(1)	4
Total Comprehensive Income	$ 156	$ 53

(a) Cash flow hedges, net of an insignificant tax benefit and $2 million tax expense for the three months ended June 30, 2008 and 2007, respectively.

16. Subsequent Events

For information on subsequent events related to goodwill and intangibles, regulatory matters and commitments and contingencies, see Notes 7, 10 and 11, respectively.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

INTRODUCTION

Management's Discussion and Analysis should be read in conjunction with the Consolidated Financial Statements.

Duke Energy Ohio, Inc. (Duke Energy Ohio) is a wholly-owned subsidiary of Cinergy Corp. (Cinergy). Cinergy is a wholly-owned subsidiary of Duke Energy Corporation (Duke Energy). Duke Energy Ohio's principal lines of business include generation, transmission and distribution of electricity, the sale of and/or transportation of natural gas, and energy marketing.

BASIS OF PRESENTATION

The results of operations and variance discussion for Duke Energy Ohio is presented in a reduced disclosure format in accordance with General Instructions H(2) of Form 10-Q.

DUKE ENERGY OHIO

	Six Months Ended June 30,		
	2008	2007	Increase (Decrease)
		(in millions)	
Operating revenues	$ 1,786	$ 1,679	$ 107
Operating expenses	1,346	1,499	(153)
Gains (losses) on sales of other assets and other, net	46	(11)	57
Operating income	486	169	317
Other income and expenses, net	15	17	(2)
Interest expense	49	45	4
Income before income taxes	452	141	311
Income tax expense	162	55	107
Net income	$ 290	$ 86	$ 204

The $204 million increase in Duke Energy Ohio's Net Income was primarily due to the following factors:

Operating Revenues. The increase was primarily due to:

- A $60 million increase in net mark-to-market revenues on non-qualifying power and capacity hedge contracts, consisting of mark-to-market gains of $11 million in 2008 compared to losses of $49 million in 2007,
- A $30 million increase in retail electric revenues primarily due to increased amortization of purchase accounting valuation liability of the rate stabilization plan,
- A $16 million increase in regulated fuel revenues driven mainly by higher natural gas costs,
- An $8 million increase due to higher PJM capacity revenues in 2008 compared to 2007, partially offset by lower generation volumes from the Midwest gas-fired generation assets,
- An $8 million increase related to the Demand Side Management rider implemented in the third quarter of 2007,
- A $5 million increase in wholesale revenues due to higher generation volumes in 2008 compared to 2007, and
- A $4 million increase due to implementation of new gas rates in Ohio.

Partially offsetting these increases were:

- A $27 million decrease in volumes of coal sales due to expiration of contracts, and
- A $4 million decrease due to milder weather in 2008 compared to 2007.

Operating Expenses. The decrease was primarily due to:

- A $100 million decrease in fuel expense due to mark-to-market gains on non-qualifying fuel hedge contracts of $145 million in 2008 compared to gains of $45 million in 2007,

- A $32 million decrease due primarily to lower sulfur dioxide emission allowance expenses due to installation of flue gas desulphurization equipment,
- A $26 million decrease in expenses associated with coal sales due to expiration of contracts,
- A $13 million decrease in retail fuel and purchased power expenses due to realized gains from the settlement of certain fuel contracts, and
- A $7 million decrease in fuel and operating expenses for the Midwest gas-fired generation assets primarily due to lower generation volumes in 2008 compared to 2007.

Partially offsetting these decreases were:

- An $18 million increase in regulated fuel expense primarily due to higher natural gas costs, and
- A $5 million increase in amortization of the Ohio Demand Side Management costs.

Gains (Losses) on Sales of Other Assets and Other, net Increase in 2008 compared to 2007 is attributable to gains on sales of emission allowances in 2008 compared to losses on sales of emission allowances in 2007. Gains in 2008 were a result of sales of zero cost basis emission allowances. Losses in 2007 were a result of sales of emission allowances acquired in connection with Duke Energy's merger with Cinergy in April 2006 which were written up to fair value as part of purchase accounting.

Income Tax Expense. Income Tax Expense increased for the six months ended June 30, 2008 as compared to the same period in the prior year. The increase is primarily the result of higher pre-tax income, partially offset by a lower effective tax rate for the six months ended June 30, 2008 (36%) compared to the same period in 2007 (39%). The decrease in the effective tax rate is due primarily to less of an effect to the effective tax rate calculation from permanent items in 2008 as compared to 2007 as a result of significantly higher pre-tax income in 2008.

MATTERS IMPACTING FUTURE RESULTS

On July 11, 2008, the U.S. Court of Appeals for the District of Columbia issued a decision vacating the Clean Air Interstate Rule. See Note 11, "Commitments and Contingencies," to the Consolidated Financial Statements for a discussion of the decision. Duke Energy Ohio is currently evaluating the effect of the decision on the carrying value of emission allowances held by its non-regulated businesses. Based on current market prices for sulfur dioxide allowances, and the uncertainty associated with future federal requirements to reduce emissions, management believes that it is possible that Duke Energy Ohio may incur an impairment of the carrying value of emission allowances held by Commercial Power of up to $100 million in the third quarter of 2008. This current estimate is based on total allowances held by Commercial Power as of June 30, 2008 compared to amounts projected to be utilized in operations through 2037.

OTHER MATTERS

At June 30, 2008, Duke Energy Ohio had approximately $440 million of auction rate pollution control bonds outstanding. The maximum auction rate for approximately $270 million of this debt is 1.75 times one-month London Interbank Offered Rate (LIBOR) and the maximum auction rate for the remaining balance of approximately $170 million is 2.0 times one-month LIBOR. While Duke Energy Ohio intends to refund and refinance these tax exempt auction rate bonds, the timing of such refinancing transactions is uncertain and subject to market conditions.

Item 4. *Controls and Procedures.*

Disclosure Controls and Procedures

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed by Duke Energy Ohio in the reports it files or submits under the Securities Exchange Act of 1934 (Exchange Act) is recorded, processed, summarized, and reported, within the time periods specified by the Securities and Exchange Commission's (SEC) rules and forms.

Disclosure controls and procedures include, without limitation, controls and procedures designed to provide reasonable assurance that information required to be disclosed by Duke Energy Ohio in the reports it files or submits under the Exchange Act is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, Duke Energy Ohio has evaluated the effectiveness of its disclosure controls and procedures (as such term is defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of June 30, 2008, and, based upon this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures are effective in providing reasonable assurance of compliance.

Changes in Internal Control over Financial Reporting

Under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, Duke Energy Ohio has evaluated changes in internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the fiscal quarter ended June 30, 2008 and have concluded that no change has materially affected, or is reasonably likely to materially affect, internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

For information regarding legal proceedings that became reportable events or in which there were material developments in the second quarter of 2008, see Note 10 to the Consolidated Financial Statements, "Regulatory Matters" and Note 11 to the Consolidated Financial Statements, "Commitments and Contingencies."

Item 1A. Risk Factors

In addition to the other information set forth in this report, careful consideration should be given to the factors discussed in Part I, "Item 1A. Risk Factors" in Duke Energy Ohio's Annual Report on Form 10-K for the year ended December 31, 2007, which could materially affect Duke Energy Ohio's financial condition or future results. Additional risks and uncertainties not currently known to Duke Energy Ohio or that Duke Energy Ohio currently deems to be immaterial also may adversely affect Duke Energy Ohio's financial condition and/or results of operations.

Item 6. Exhibits

(a) Exhibits

Exhibits filed or furnished herewith are designated by an asterisk (*).

Exhibit Number	
*31.1	Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*31.2	Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

The total amount of securities of the registrant or its subsidiaries authorized under any instrument with respect to long-term debt not filed as an exhibit does not exceed 10% of the total assets of the registrant and its subsidiaries on a consolidated basis. The registrant agrees, upon request of the Securities and Exchange Commission, to furnish copies of any or all of such instruments to it.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DUKE ENERGY OHIO, INC.

Date: August 14, 2008

/s/ DAVID L. HAUSER

David L. Hauser
Group Executive and
Chief Financial Officer

Date: August 14, 2008

/s/ STEVEN K. YOUNG

Steven K. Young
Senior Vice President and
Controller

EXHIBIT 31.1

CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, James E. Rogers, certify that:

1) I have reviewed this quarterly report on Form 10-Q of Duke Energy Ohio, Inc.;

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Acts Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2008

/s/ JAMES E. ROGERS
James E. Rogers
Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION OF THE CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, David L. Hauser, certify that:

1) I have reviewed this quarterly report on Form 10-Q of Duke Energy Ohio, Inc.;

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Acts Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2008

/s/ DAVID L. HAUSER
David L. Hauser
Group Executive and
Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Duke Energy Ohio, Inc. ("Duke Energy Ohio") on Form 10-Q for the period ending June 30, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James E. Rogers, Chief Executive Officer of Duke Energy Ohio, certify, pursuant to 18 U.S.C. section 1350, as *adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002*, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Duke Energy Ohio.

/s/ JAMES E. ROGERS
James E. Rogers
Chief Executive Officer
August 14, 2008

EXHIBIT 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Duke Energy Ohio, Inc. ("Duke Energy Ohio") on Form 10-Q for the period ending June 30, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David L. Hauser, Group Executive and Chief Financial Officer of Duke Energy Ohio, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Duke Energy Ohio.

/s/ DAVID L. HAUSER
David L. Hauser
Group Executive and Chief Financial Officer
August 14, 2008

FORM 10-Q

Duke Energy Ohio, Inc. - N/A

Filed: August 14, 2008 (period: June 30, 2008)

Quarterly report which provides a continuing view of a company's financial position

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2008 Or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from_____ to_____

Commission file number 1-1232

DUKE ENERGY OHIO, INC.

(Exact Name of Registrant as Specified in its Charter)

Ohio	31-0240030
(State or Other Jurisdiction of Incorporation)	(IRS Employer Identification No.)
139 East Fourth Street Cincinnati, OH (Address of Principal Executive Offices)	45202 (Zip code)

704-594-6200
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes☒ No☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐	Accelerated filer☐
Non-accelerated filer ☒	Smaller reporting company ☐
(Do not check if a smaller reporting company)	

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934).
Yes☐ No☒

All of the registrant's common stock is indirectly owned by Duke Energy Corporation (File No. 1-32853) which is a reporting company under the Securities Exchange Act of 1934, as amended.

The registrant meets the conditions set forth in General Instructions H(1)(a) and (b) of Form 10-Q and is therefore filing this form with the reduced disclosure format specified in General Instructions H(2) of Form 10-Q.

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DUKE ENERGY OHIO, INC.
FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2008

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

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

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

In light of these risks, uncertainties and assumptions, the events described in the forward-looking statements might not occur or might occur to a different extent or at a different time than Duke Energy Ohio has described. Duke Energy Ohio undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

DUKE ENERGY OHIO, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In millions)

Item 1. ***Financial Statements.***

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Operating Revenues				
Non-regulated electric and other	$ 454	$ 422	$ 846	$ 768
Regulated electric	228	233	470	464
Regulated natural gas	113	108	470	447
Total operating revenues	795	763	1,786	1,679
Operating Expenses				
Fuel used in electric generation and purchased power	170	260	347	485
Cost of natural gas and coal sold	49	69	299	324
Operation, maintenance and other	184	182	366	367
Depreciation and amortization	100	95	199	188
Property and other taxes	62	62	135	135
Total operating expenses	565	668	1,346	1,499
Gains (Losses) on Sales of Other Assets and Other, net	33	—	46	(11)
Operating Income	263	95	486	169
Other Income and Expenses, net	6	8	15	17
Interest Expense	23	22	49	45
Income Before Income Taxes	246	81	452	141
Income Tax Expense	89	32	162	55
Net Income	$ 157	$ 49	$ 290	$ 86

See Notes to Unaudited Consolidated Financial Statements

DUKE ENERGY OHIO, INC.
CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In millions)

	June 30, 2008	December 31, 2007
ASSETS		
Current Assets		
Cash and cash equivalents	$ 32	$ 33
Receivables (net of allowance for doubtful accounts of $4 at June 30, 2008 and $3 at December 31, 2007)	263	334
Inventory	228	212
Unrealized gains on mark-to-market and hedging transactions	152	22
Other	56	94
Total current assets	731	695
Investments and Other Assets		
Restricted funds held in trust	60	62
Goodwill	2,325	2,325
Intangibles, net	514	551
Unrealized gains on mark-to-market and hedging transactions	95	17
Other	29	33
Total investments and other assets	3,023	2,988
Property, Plant and Equipment		
Cost	9,812	9,577
Less accumulated depreciation and amortization	2,213	2,097
Net property, plant and equipment	7,599	7,480
Regulatory Assets and Deferred Debits		
Deferred debt expense	23	23
Regulatory assets related to income taxes	97	90
Other	351	401
Total regulatory assets and deferred debits	471	514
Total Assets	$ 11,824	$ 11,677

See Notes to Unaudited Consolidated Financial Statements

DUKE ENERGY OHIO, INC.
CONSOLIDATED BALANCE SHEETS—(Continued)
(Unaudited)
(In millions, except share and per-share amounts)

	June 30, 2008	December 31, 2007
LIABILITIES AND COMMON STOCKHOLDER'S EQUITY		
Current Liabilities		
Accounts payable	$ 617	$ 602
Notes payable	8	189
Taxes accrued	156	172
Interest accrued	23	24
Current maturities of long-term debt	6	126
Unrealized losses on mark-to-market and hedging transactions	109	24
Other	94	86
Total current liabilities	1,013	1,223
Long-term Debt	1,807	1,810
Deferred Credits and Other Liabilities		
Deferred income taxes	1,492	1,436
Investment tax credits	15	16
Accrued pension and other post-retirement benefit costs	291	259
Unrealized losses on mark-to-market and hedging transactions	66	25
Asset retirement obligations	33	31
Other	282	343
Total deferred credits and other liabilities	2,179	2,110
Commitments and Contingencies		
Common Stockholder's Equity		
Common stock, $8.50 par value; 120,000,000 shares authorized and 89,663,086 shares outstanding at June 30, 2008 and December 31, 2007	762	762
Additional paid-in capital	5,570	5,570
Retained earnings	517	227
Accumulated other comprehensive loss	(24)	(25)
Total common stockholder's equity	6,825	6,534
Total Liabilities and Common Stockholder's Equity	$ 11,824	$ 11,677

See Notes to Unaudited Consolidated Financial Statements

DUKE ENERGY OHIO, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In millions)

	Six Months Ended June 30,	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 290	$ 86
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	201	188
(Gains) losses on sales of other assets and other, net	(46)	11
Deferred income taxes	47	(18)
Regulatory asset/liability amortization	11	13
Accrued pension and other postretirement benefit costs	14	21
Contribution to company-sponsored pension and other postretirement benefit plans	—	(83)
(Increase) decrease in:		
Net realized and unrealized mark-to-market and hedging transactions	(153)	9
Receivables	94	92
Inventory	(4)	12
Other current assets	88	2
Increase (decrease) in:		
Accounts payable	37	51
Taxes accrued	(23)	(120)
Other current liabilities	7	(13)
Regulatory asset/liability deferrals	(14)	(23)
Other assets	34	84
Other liabilities	(44)	(4)
Net cash provided by operating activities	539	308
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(285)	(302)
Purchases of emission allowances	(8)	(14)
Sales of emission allowances	56	24
Change in restricted funds held in trust	3	15
Other	(1)	—
Net cash used in investing activities	(235)	(277)
CASH FLOWS FROM FINANCING ACTIVITIES		
Redemption of long-term debt	(124)	(3)
Notes payable to affiliate, net	(181)	53
Dividends to parent	—	(135)
Capital contribution from parent	—	29
Net cash used in financing activities	(305)	(56)
Net decrease in cash and cash equivalents	(1)	(25)
Cash and cash equivalents at beginning of period	33	45
Cash and cash equivalents at end of period	$ 32	$ 20
Supplemental Disclosures		
Significant non-cash transactions:		
Purchase accounting adjustments	$ —	$ (8)
Accrued capital expenditures	$ 31	$ 26

See Notes to Unaudited Consolidated Financial Statements

DUKE ENERGY OHIO, INC.

CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDER'S EQUITY AND COMPREHENSIVE INCOME
(Unaudited)
(In millions)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)		Total
				Net Gains (Losses) on Cash Flow Hedges	SFAS No. 158 Adjustment	
Balance at December 31, 2006	$ 762	$ 5,601	$ 55	$ (36)	$ (2)	$ 6,380
Net income	—	—	86	—	—	86
Other comprehensive income						
Cash flow hedges[a]	—	—	—	8	—	8
Total comprehensive income						94
Capital contribution from parent	—	29	—	—	—	29
Push-down accounting adjustments	—	(8)	—	—	—	(8)
Adoption of SFAS No. 158—measurement date provision	—	—	(3)	—	(2)	(5)
Dividend to parent	—	(46)	(89)	—	—	(135)
Balance at June 30, 2007	$ 762	$ 5,576	$ 49	$ (28)	$ (4)	$ 6,355
Balance at December 31, 2007	$ 762	$ 5,570	$ 227	$ (32)	$ 7	$ 6,534
Net income	—	—	290	—	—	290
Other comprehensive income						
Cash flow hedges[b]	—	—	—	1	—	1
Total comprehensive income						291
Balance at June 30, 2008	$ 762	$ 5,570	$ 517	$ (31)	$ 7	$ 6,825

(a) Net of $4 tax expense in 2007.

(b) Net of $1 tax expense in 2008.

See Notes to Unaudited Consolidated Financial Statements

DUKE ENERGY OHIO, INC.

Notes To Unaudited Consolidated Financial Statements

1. Basis of Presentation

Nature of Operations and Basis of Consolidation. Duke Energy Ohio, Inc. (Duke Energy Ohio), an Ohio corporation organized in 1837, is a wholly-owned subsidiary of Cinergy Corp. (Cinergy). Cinergy is a wholly-owned subsidiary of Duke Energy Corporation (Duke Energy). Duke Energy Ohio is a combination electric and gas public utility company that provides service in the southwestern portion of Ohio and through its wholly-owned subsidiary, Duke Energy Kentucky, Inc. (Duke Energy Kentucky), in nearby areas of Kentucky, as well as unregulated electric generation in parts of Ohio, Illinois, Indiana and Pennsylvania. Duke Energy Ohio's principal lines of business include generation, transmission and distribution of electricity, the sale of and/or transportation of natural gas, and energy marketing. Duke Energy Kentucky's principal lines of business include generation, transmission and distribution of electricity as well as the sale of and/or transportation of natural gas. Except where separately noted, references to Duke Energy Ohio herein relate to the consolidated operations of Duke Energy Ohio, including its wholly-owned subsidiary Duke Energy Kentucky. These Unaudited Consolidated Financial Statements include, after eliminating intercompany transactions and balances, the accounts of Duke Energy Ohio and all majority-owned subsidiaries where Duke Energy Ohio has control, as well as Duke Energy Ohio's proportionate share of certain generation and transmission facilities in Ohio, Kentucky and Indiana.

These Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles (GAAP) in the United States of America (U.S.) for interim financial information and with the instructions to Form 10-Q and Regulation S-X. Accordingly, these Consolidated Financial Statements do not include all of the information and footnotes required by GAAP for annual financial statements. Because the interim Consolidated Financial Statements and Notes do not include all of the information and footnotes required by GAAP for annual financial statements, the Consolidated Financial Statements and other information included in this quarterly report should be read in conjunction with the Consolidated Financial Statements and Notes in Duke Energy Ohio's Form 10-K for the year ended December 31, 2007.

These Consolidated Financial Statements reflect all normal recurring adjustments that are, in the opinion of management, necessary to fairly present Duke Energy Ohio's financial position and results of operations. Amounts reported in the interim Consolidated Statements of Operations are not necessarily indicative of amounts expected for the respective annual periods due to the effects of seasonal temperature variations on energy consumption, regulatory rulings, the timing of maintenance on electric generating units, changes in mark-to-market valuations, changing commodity prices and other factors.

Use of Estimates. To conform to GAAP in the U.S., management makes estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements and Notes. Although these estimates are based on management's best available knowledge at the time, actual results could differ.

Reclassifications. *Certain prior period amounts on the Consolidated Balance Sheets have been reclassified in connection with the adoption of* Financial Accounting Standards Board (FASB) Staff Position (FSP) No. FIN 39-1, "*Amendment of FASB Interpretation No. 39, Offsetting of Amounts Related to Certain Contracts*," (FSP No. FIN 39-1) on January 1, 2008, as discussed below, the effects of which require retrospective application to the Consolidated Balance Sheets.

Netting of Cash Collateral and Derivative Assets and Liabilities Under Master Netting Arrangements. On January 1, 2008, Duke Energy Ohio adopted FSP No. FIN 39-1. In accordance with FSP No. FIN 39-1, Duke Energy Ohio offsets fair value amounts (or amounts that approximate fair value) recognized on its Consolidated Balance Sheets related to cash collateral amounts receivable or payable against fair value amounts recognized for derivative instruments executed with the same counterparty under the same master netting agreement. Prior to the adoption of FSP No. FIN 39-1, Duke Energy Ohio offset the fair value amounts recognized for derivative instruments executed with the same counterparty under the same master netting agreement in accordance with FIN 39, "*Offsetting of Amounts Related to Certain Contracts*," but presented cash collateral on a gross basis within the Consolidated Balance Sheets. At June 30, 2008 and December 31, 2007, Duke Energy Ohio had receivables related to the right to reclaim cash collateral of approximately $16 million and $5 million, respectively, and had payables related to obligations to return cash collateral of approximately $82 million and an insignificant amount, respectively, that have been offset against net derivative positions in the Consolidated Balance Sheets. Duke Energy Ohio had insignificant cash collateral receivables and payables under master netting arrangements that have not been offset against net derivative positions at June 30, 2008 or December 31, 2007.

Unbilled Revenue. Revenues on sales of electricity and gas are recognized when either the service is provided or the product is delivered. Unbilled revenues are estimated by applying an average revenue per kilowatt hour or per thousand cubic feet (Mcf) for all customer classes to the number of estimated kilowatt hours or Mcf's delivered but not billed. The amount of unbilled revenues can vary sig-

DUKE ENERGY OHIO, INC.

Notes To Unaudited Consolidated Financial Statements—(Continued)

nificantly period to period as a result of factors including seasonality, weather, customer usage patterns and customer mix. Unbilled revenues, which are included in Receivables on the Consolidated Balance Sheets, primarily relate to wholesale sales at Commercial Power and were approximately $57 million and $38 million at June 30, 2008 and December 31, 2007, respectively. Additionally, receivables for unbilled revenues of approximately $104 million and $145 million at June 30, 2008 and December 31, 2007, respectively, related to retail accounts receivable at Duke Energy Ohio and Duke Energy Kentucky are included in the sales of accounts receivable to Cinergy Receivables Company, LLC (Cinergy Receivables). Duke Energy Ohio and Duke Energy Kentucky sell, on a revolving basis, nearly all of their retail accounts receivable and related collections to Cinergy Receivables, a bankruptcy remote, special purpose entity that is a wholly-owned limited liability company of Cinergy. The securitization transaction was structured to meet the criteria for sale treatment under Statement of Financial Accounting Standards (SFAS) No. 140, "*Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities-a replacement of FASB Statement No 125*," and, accordingly, Cinergy does not consolidate Cinergy Receivables and the transfers of receivables are accounted for as sales.

Other Regulatory Assets and Deferred Debits. The state of Ohio passed comprehensive electric deregulation legislation in 1999, and in 2000, the Public Utilities Commission of Ohio (PUCO) approved a stipulation agreement relating to Duke Energy Ohio's transition plan creating a Regulatory Transition Charge (RTC) designed to recover Duke Energy Ohio's generation-related regulatory assets and transition costs over a ten-year period beginning January 1, 2001 and ending December 2010. Accordingly, application of SFAS No. 71, "*Accounting for Certain Types of Regulation*" (SFAS No. 71), was discontinued for the generation portion of Duke Energy Ohio's business. Duke Energy Ohio has a RTC related regulatory asset balance of approximately $191 million and $239 million as of June 30, 2008 and December 31, 2007, respectively, which is classified in Other Regulatory Assets and Deferred Debits on the Consolidated Balance Sheets.

2. Business Segments

Duke Energy Ohio operates the following business segments, which are considered reportable business segments under SFAS No. 131, "*Disclosures about Segments of an Enterprise and Related Information*": Franchised Electric and Gas and Commercial Power. Duke Energy Ohio's chief operating decision maker regularly reviews financial information about each of these business segments in deciding how to allocate resources and evaluate performance. There is no aggregation within Duke Energy Ohio's reportable business segments.

Franchised Electric and Gas, which conducts operations primarily through Duke Energy Ohio and its wholly-owned subsidiary Duke Energy Kentucky, generates, transmits, distributes and sells electricity in southwestern Ohio and northern Kentucky, as well as transports and sells natural gas in southwestern Ohio and northern Kentucky.

Commercial Power owns, operates and manages non-regulated power plants and engages in the wholesale marketing and procurement of electric power, fuel and emission allowances related to these plants as well as other contractual positions. Commercial Power's generation asset fleet consists of Duke Energy Ohio's non-regulated generation in Ohio and five Midwestern gas-fired non-regulated generation assets that were transferred from Duke Energy in connection with Duke Energy's merger with Cinergy in April 2006. Commercial Power's assets comprise approximately 7,600 megawatts of power generation primarily located in the Midwestern U.S. The asset portfolio has a diversified fuel mix with baseload and mid-merit coal-fired units as well as combined cycle and peaking natural gas-fired units. Most of the generation asset output in Ohio has been contracted through the rate stabilization plan (RSP) (see Note 10).

The remainder of Duke Energy Ohio's operations is presented as Other. While it is not considered a business segment, Other primarily includes certain allocated governance costs (see Note 8).

Duke Energy Ohio's reportable segments offer different products and services and are managed separately as business units. Accounting policies for Duke Energy Ohio's segments are the same as those described in the Notes to the Consolidated Financial Statements in Duke Energy Ohio's Annual Report on Form 10-K for the year ended December 31, 2007. Management evaluates segment performance based on earnings before interest and taxes from continuing operations (EBIT). On a segment basis, EBIT excludes discontinued operations and represents all profits from continuing operations (both operating and non-operating and excluding corporate governance costs) before deducting interest and taxes.

Cash, cash equivalents, and short-term investments, if any, are managed centrally by Duke Energy, so the interest and dividend income on those balances are excluded from segment EBIT. Transactions between reportable segments, if any, are included in segment EBIT.

DUKE ENERGY OHIO, INC.

Notes To Unaudited Consolidated Financial Statements—(Continued)

Business Segment Data

	Unaffiliated Revenues[a]	Segment EBIT/ Consolidated Income Before Income Taxes	Depreciation and Amortization
		(In millions)	
Three Months Ended June 30, 2008			
Franchised Electric and Gas	$ 341	$ 41	$ 58
Commercial Power	454	242	42
Total reportable segments	795	283	100
Other	—	(19)	—
Interest expense	—	(23)	—
Interest income and other	—	5	—
Total consolidated	$ 795	$ 246	$ 100
Three Months Ended June 30, 2007			
Franchised Electric and Gas	$ 341	$ 50	$ 54
Commercial Power	422	67	41
Total reportable segment	763	117	95
Other	—	(21)	—
Interest expense	—	(22)	—
Interest income and other	—	7	—
Total consolidated	$ 763	$ 81	$ 95
Six Months Ended June 30, 2008			
Franchised Electric and Gas	$ 940	$ 138	$ 116
Commercial Power	846	387	83
Total reportable segment	1,786	525	199
Other	—	(37)	—
Interest expense	—	(49)	—
Interest income and other	—	13	—
Total consolidated	$ 1,786	$ 452	$ 199
Six Months Ended June 30, 2007			
Franchised Electric and Gas	$ 911	$ 129	$ 107
Commercial Power	768	80	81
Total reportable segment	1,679	209	188
Other	—	(39)	—
Interest expense	—	(45)	—
Interest income and other	—	16	—
Total consolidated	$ 1,679	$ 141	$ 188

(a) There were no intersegment revenues for the three and six months ended June 30, 2008 and 2007.

Duke Energy Ohio's chief operating decision maker does not regularly review any asset information at a business segment level in deciding how to allocate resources.

DUKE ENERGY OHIO, INC.
Notes To Unaudited Consolidated Financial Statements—(Continued)

Segment Assets

	June 30, 2008	December 31, 2007
	(in millions)	
Franchised Electric and Gas	$ 5,463	$ 5,530
Commercial Power	6,361	6,147
Total reportable segments/consolidated assets	$ 11,824	$ 11,677

3. Sales of Other Assets

For the three months ended June 30, 2008, the sale of other assets resulted in approximately $44 million in proceeds and net pre-tax gains of approximately $33 million recorded in Gains (Losses) on Sales of Other Assets and Other, net on the Consolidated Statements of Operations. For the six months ended June 30, 2008, the sale of other assets resulted in approximately $60 million in proceeds and net pre-tax gains of approximately $46 million recorded in Gains (Losses) on Sales of Other Assets and Other, net on the Consolidated Statements of Operations. These amounts primarily relate to Commercial Power's sales of zero cost basis emission allowances.

For the three months ended June 30, 2007, the sale of other assets resulted in approximately $2 million in proceeds and net pre-tax gains of an insignificant amount recorded in Gains (Losses) on Sales of Other Assets and Other, net on the Consolidated Statements of Operations. For the six months ended June 30, 2007, the sale of other assets resulted in approximately $24 million in proceeds and net pre-tax losses of approximately $11 million recorded in Gains (Losses) on Sales of Other Assets and Other, net on the Consolidated Statements of Operations. These amounts primarily relate to Commercial Power's sales of emission allowances acquired in connection with Duke Energy's merger with Cinergy in April 2006, which were written up to fair value as part of purchase accounting.

4. Inventory

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

	June 30, 2008	December 31, 2007
	(in millions)	
Coal held for electric generation	$ 97	$ 77
Materials and supplies	69	66
Natural gas	62	69
Total inventory	$ 228	$ 212

5. Debt and Credit Facilities

Money Pool Arrangement. Duke Energy Ohio and its wholly-owned subsidiary, Duke Energy Kentucky, receive support for their short-term borrowing needs through their participation with Duke Energy and other Duke Energy subsidiaries in a money pool arrangement. Under this arrangement, those companies with short-term funds may provide short-term loans to affiliates participating under this arrangement. The money pool is structured such that Duke Energy Ohio and Duke Energy Kentucky separately manage their cash needs and working capital requirements. Accordingly, there is no net settlement of receivables and payables of Duke Energy Ohio and Duke Energy Kentucky, as each of these entities independently participate in the money pool. As of June 30, 2008, Duke Energy Ohio had net receivables of approximately $6 million, which are classified within Receivables in the accompanying Consolidated Balance Sheets, and Duke Energy Kentucky had net borrowings of approximately $8 million, which are classified within Notes payable in the accompanying Consolidated Balance Sheets. As of December 31, 2007, Duke Energy Ohio and Duke Energy Kentucky had combined net borrowings of approximately $189 million, which are classified within Notes payable in the accompanying Consolidated Balance Sheets. During the six months ended June 30, 2008 and 2007, the $181 million decrease and $53 million increase in the money pool borrowings, respectively, are reflected in Notes payable to affiliate, net within Net cash used in financing activities on the Consolidated Statements of Cash Flows. During the six months ended June 30, 2008, the $6 million increase in the money pool receivables is reflected in Other within Net cash used in investing activities on the Consolidated Statements of Cash Flows.

DUKE ENERGY OHIO, INC.

Notes To Unaudited Consolidated Financial Statements—(Continued)

At June 30, 2008 and December 31, 2007, approximately $96 million of certain pollution control bonds, which are short-term obligations by nature, are classified as *Long-term Debt on the Consolidated Balance Sheets* due to Duke Energy Ohio's intent and ability to utilize such borrowings as long-term financing. Duke Energy's credit facilities with non-cancelable terms in excess of one year as of the balance sheet date give Duke Energy Ohio the ability to refinance these short-term obligations on a long-term basis.

Available Credit Facilities and Restrictive Debt Covenants. In March 2008, Duke Energy entered into an amendment to its $2.65 billion master credit facility whereby the borrowing capacity was increased by $550 million to $3.2 billion. Pursuant to the amendment, the additional credit capacity of $550 million specifically increased the borrowing sub limit for Duke Energy Ohio (excluding Duke Energy Kentucky) by $250 million to $750 million. In May 2008, Duke Energy reallocated the borrowing sub limits under the master credit facility and reduced Duke Energy Ohio's borrowing sub limit by $50 million to $700 million. The borrowing sub limit of Duke Energy Kentucky did not change.

The amount available to Duke Energy Ohio and Duke Energy Kentucky under their sublimits to Duke Energy's master credit facility is reduced by borrowings through the money pool arrangement, issuances of letters of credit and other borrowings.

Duke Energy's credit agreement contains various financial and other covenants, including, but not limited to, a covenant regarding the debt-to-total capitalization ratio at Duke Energy, Duke Energy Ohio and Duke Energy Kentucky to not exceed 65%. Duke Energy Ohio's debt agreements also contain various financial and other covenants. Failure to meet these covenants beyond applicable grace periods could result in accelerated due dates and/or termination of the agreements. As of June 30, 2008, Duke Energy, Duke Energy Ohio and Duke Energy Kentucky were in compliance with all covenants that would impact Duke Energy Ohio's ability to borrow funds under its debt and credit facilities. In addition, some credit agreements may allow for acceleration of payments or termination of the agreements due to nonpayment, or the acceleration of other significant indebtedness of the borrower or some of its subsidiaries. None of the debt or credit agreements contain material adverse change clauses.

6. Employee Benefit Obligations

Duke Energy Ohio participates in pension and other post-retirement benefit plans sponsored by Cinergy. Duke Energy Ohio's net periodic benefit costs as allocated by Cinergy were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(In millions)			
Qualified Pension Benefits[a]	$ 4	$ 3	$ 6	$ 7
Other Post-retirement Benefits[b]	$ 2	$ 3	$ 5	$ 5

(a) These amounts exclude approximately $1 million and $4 million for the three months ended June 30, 2008 and 2007, respectively, and approximately $2 million and $7 million for the six months ended June 30, 2008 and 2007, respectively, of regulatory asset amortization resulting from purchase accounting.

(b) These amounts exclude approximately $1 million for each of the three months ended June 30, 2008 and 2007, respectively, and approximately $1 million and $2 million for the six months ended June 30, 2008 and 2007, respectively, of regulatory asset amortization resulting from purchase accounting.

Duke Energy's policy is to fund amounts for its U.S. qualified pension plans on an actuarial basis to provide assets sufficient to meet benefit payments to be paid to plan participants. Duke Energy did not require Duke Energy Ohio to make contributions to the legacy Cinergy qualified or non-qualified pension plans during the three and six months ended June 30, 2008 and Duke Energy does not anticipate requiring Duke Energy Ohio to make contributions to the legacy Cinergy qualified or non-qualified pension plans during the remainder of 2008. During the six months ended June 30, 2007, approximately $350 million of qualified pension plan contributions were made to the legacy Cinergy qualified pension plans, of which approximately $83 million represents contributions made by Duke Energy Ohio. Additionally, Duke Energy Ohio participates in Cinergy sponsored employee savings plans that cover substantially all Duke Energy Ohio employees. Duke Energy Ohio made its proportionate share of pre-tax employer matching contributions of approximately $2 million and $3 million during the three and six months ended June 30, 2008, respectively. Duke Energy Ohio made its proportionate share of pre-tax employer matching contributions of approximately $1 million and $2 million during the three and six months ended June 30, 2007, respectively.

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Notes To Unaudited Consolidated Financial Statements—(Continued)

7. Goodwill and Intangibles

Carrying Amount of Goodwill

The carrying amount of goodwill as of both June 30, 2008 and December 31, 2007 was $2,325 million, of which $1,188 million was reflected in the Commercial Power segment and $1,137 million was reflected in the Franchised Electric and Gas segment.

Intangible Assets

The carrying amount and accumulated amortization of intangible assets as of June 30, 2008 and December 31, 2007 are as follows:

	June 30, 2008	December 31, 2007
	(in millions)	
Emission allowances	$ 338	$ 365
Gas, coal, and power contracts	271	271
Other	9	9
Total gross carrying amount	618	645
Accumulated amortization—gas, coal, and power contracts	(99)	(89)
Accumulated amortization—other	(5)	(5)
Total accumulated amortization	(104)	(94)
Total intangible assets, net	$ 514	$ 551

Emission allowances in the table above include emission allowances which were recorded at fair value on the date of Duke Energy's merger with Cinergy and emission allowances purchased by Duke Energy Ohio. Additionally, Duke Energy Ohio is allocated certain zero cost emission allowances on an annual basis. The carrying value of emission allowances sold or consumed during the three months ended June 30, 2008 and 2007 were $26 million and $33 million, respectively. The carrying value of emission allowances sold or consumed during the six months ended June 30, 2008 and 2007 were $42 million and $100 million, respectively. See Note 3 for discussion of gains and losses on sales of emission allowances at Commercial Power during the three and six months ended June 30, 2008 and 2007.

Amortization expense for gas, coal and power contracts and other intangible assets for the three months ended June 30, 2008 and 2007 was approximately $4 million and $13 million, respectively. Amortization expense for gas, coal and power contracts and other intangible assets for the six months ended June 30, 2008 and 2007 was approximately $10 million and $25 million, respectively.

On July 11, 2008, the U.S. Court of Appeals for the District of Columbia issued a decision vacating the Clean Air Interstate Rule (CAIR). See Note 11 for a discussion of the decision. Duke Energy Ohio is currently evaluating the effect of the decision on the carrying value of emission allowances held by its non-regulated businesses. Based on current market prices for sulfur dioxide (SO_2) allowances, and the uncertainty associated with future federal requirements to reduce emissions, management believes that it is possible that Duke Energy Ohio may incur an impairment of the carrying value of emission allowances held by Commercial Power of up to $100 million in the third quarter of 2008. This current estimate is based on total allowances held by Commercial Power as of June 30, 2008 compared to amounts projected to be utilized in operations through 2037.

Intangible Liabilities

In connection with the Duke Energy and Cinergy merger, Duke Energy Ohio recorded an intangible liability of approximately $113 million associated with the market based standard service offer (MBSSO) in Ohio, which is being recognized in earnings over the remaining regulatory period that ends on December 31, 2008. The carrying amount of this intangible liability was approximately $34 million and $67 million at June 30, 2008 and December 31, 2007, respectively. Duke Energy Ohio also recorded approximately $56 million of intangible liabilities associated with other power sale contracts in connection with the merger. The carrying amount of this intangible liability was approximately $19 million and $22 million at June 30, 2008 and December 31, 2007, respectively. During the three and six months ended June 30, 2008, Duke Energy Ohio amortized approximately $18 million and $36 million, respectively, to income related to these intangible liabilities. During the three and six months ended June 30, 2007, Duke Energy Ohio amortized approximately $10 million

and $14 million, respectively, to income related to these intangible liabilities. Intangible liabilities are classified as Other Deferred Credits and Other Liabilities on the Consolidated Balance Sheets.

8. Related Party Transactions

Duke Energy Ohio engages in related party transactions, which are generally performed at cost and in accordance with the applicable state and federal commission regulations. Balances due to or due from related parties included in the Consolidated Balance Sheets as of June 30, 2008 and December 31, 2007 are as follows:

	June 30, 2008	December 31, 2007
	(In millions)	
Current assets due from affiliated companies[a][b]	$ 44	$ 58
Non-current assets due from affiliated companies[c]	$ 1	$ —
Current liabilities due to affiliated companies[a][d]	$ (308)	$ (266)
Net deferred tax liabilities to Duke Energy[a][e]	$ (1,457)	$ (1,401)

(a) Balances exclude assets or liabilities associated with accrued pension and other post-retirement benefits, Cinergy Receivables and money pool arrangements, all of which are discussed below.

(b) Of the balance at June 30, 2008, approximately $36 million is classified as Receivables, approximately $7 million is classified as Other within Current Assets, and approximately $1 million is classified as Unrealized gains on mark-to-market and hedging transactions within Current Assets on the Consolidated Balance Sheets. The balance at December 31, 2007 is classified as Receivables on the Consolidated Balance Sheets.

(c) The balance at June 30, 2008 is classified as Unrealized gains on mark-to-market and hedging transactions within Investments and Other Assets on the Consolidated Balance Sheets.

(d) Of the balance at June 30, 2008, approximately $(297) million is classified as Accounts payable and approximately $(11) million is classified as Taxes accrued on the Consolidated Balance Sheets. Of the balance at December 31, 2007, approximately $(256) million is classified as Accounts payable and approximately $(10) million is classified as Taxes accrued on the Consolidated Balance Sheets.

(e) Of the balance at June 30, 2008, approximately $(1,465) million is classified as Deferred income taxes, approximately $(15) million is classified as Investment tax credits, and approximately $23 million is classified as Other within Current Assets on the Consolidated Balance Sheets. Of the balance at December 31, 2007, approximately $(1,409) million is classified as Deferred income taxes, approximately $(16) million is classified as Investment tax credits, and approximately $24 million is classified as Other within Current Assets on the Consolidated Balance Sheets.

Duke Energy Ohio is allocated its proportionate share of corporate governance and other costs by a consolidated affiliate of Duke Energy and a consolidated affiliate of Cinergy. Corporate governance and other shared services costs are primarily allocations of corporate costs, such as human resources, legal and accounting fees, as well as other third party costs. The expenses associated with certain allocated corporate governance and other service costs for Duke Energy Ohio, which are recorded in Operation, maintenance and other within Operating Expenses on the Consolidated Statements of Operations were approximately $59 million and $60 million for the three months ended June 30, 2008 and 2007, respectively, and approximately $120 million and $116 million for the six months ended June 30, 2008 and 2007, respectively.

Duke Energy Ohio incurs expenses related to its property insurance coverage through Bison Insurance Company Limited, Duke Energy's wholly-owned captive insurance subsidiary. These expenses, which are recorded in Operation, maintenance and other within Operating Expenses on the Consolidated Statements of Operations, were approximately $3 million and $10 million for the three months ended June 30, 2008 and 2007, respectively, and approximately $7 million and $14 million for the six months ended June 30, 2008 and 2007, respectively. Additionally, Duke Energy Ohio records income associated with the rental of office space to a consolidated affiliate of Duke Energy. Rental income was approximately $3 million for each of the three months ended June 30, 2008 and 2007, respectively, and approximately $5 million for each of the six months ended June 30, 2008 and 2007, respectively.

Duke Energy Ohio participates in Cinergy's qualified pension plan, non-qualified pension plan and other post-retirement benefit plans and is allocated its proportionate share of expenses associated with these plans (see Note 6). Additionally, Duke Energy Ohio has been allocated accrued pension and other post-retirement benefit obligations from Cinergy of approximately $300 million at June 30, 2008 and approximately $266 million at December 31, 2007. These amounts have been classified in the Consolidated Balance Sheets as follows:

	June 30, 2008	December 31, 2007
	(In millions)	
Other current liabilities	$ 5	$ 5
Accrued pension and other post-retirement benefit costs	$ 291	$ 259
Other deferred credits and other liabilities	$ 4	$ 2

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As discussed in Note 1, certain trade receivables have been sold by Duke Energy Ohio to Cinergy Receivables. The proceeds obtained from the sales of receivables are largely cash, but do include a subordinated note from Cinergy Receivables for a portion of the purchase price. This subordinated note is classified as Receivables in the Consolidated Balance Sheets and was approximately $107 million and $189 million, as of June 30, 2008 and December 31, 2007, respectively. The interest income associated with the subordinated note, which is recorded in Other Income and Expenses, net on the Consolidated Statements of Operations, was approximately $4 million and $5 million for three months ended June 30, 2008 and 2007, respectively, and approximately $12 million and $13 million for the six months ended June 30, 2008 and 2007, respectively.

During the second quarter of 2007, Duke Energy Ohio received a $29 million capital contribution from its parent, Cinergy. Additionally, during the second quarter of 2007, Duke Energy Ohio paid dividends to its parent, Cinergy, of $135 million.

As discussed further in Note 5, Duke Energy Ohio participates in a money pool arrangement with Duke Energy and other Duke Energy subsidiaries. The expenses associated with money pool activity, which are recorded in Interest Expense on the Consolidated Statements of Operations, were an insignificant amount and approximately $1 million for the three months ended June 30, 2008 and 2007, respectively, and approximately $1 million and $3 million for the six months ended June 30, 2008 and 2007, respectively.

9. Risk Management Instruments

As discussed in Note 1, on January 1, 2008, Duke Energy Ohio adopted FSP No. FIN 39-1. In accordance with FSP No. FIN 39-1, Duke Energy Ohio offsets fair value amounts (or amounts that approximate fair value) recognized on its Consolidated Balance Sheets related to cash collateral amounts receivable or payable against fair value amounts recognized for derivative instruments executed with the same counterparty under the same master netting agreement. Amounts presented in the table below exclude cash collateral amounts which are disclosed separately in Note 1.

The following table shows the carrying value of Duke Energy Ohio's derivative portfolio as of June 30, 2008, and December 31, 2007.

Net Derivative Portfolio Assets (Liabilities) reflected in the Consolidated Balance Sheets:

	June 30, 2008	December 31, 2007
	(in millions)	
Hedging	$ (28)	$ (23)
Undesignated	166	7
Total	$ 138	$ (16)

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

The $159 million increase in the undesignated derivative portfolio fair value is due primarily to unrealized mark-to-market gains within Commercial Power, primarily as a result of higher coal prices.

Commodity Cash Flow Hedges. As of June 30, 2008, approximately $45 million of the pre-tax unrealized net losses on derivative instruments related to commodity cash flow hedges included on the Consolidated Balance Sheet in Accumulated Other Comprehensive Loss are expected to be recognized in earnings during the next 12 months as the hedged transactions occur. However, due to the volatility of the commodities markets, the corresponding values in Accumulated Other Comprehensive Loss will likely change prior to their reclassification into earnings.

No gains or losses due to hedge ineffectiveness were recorded during the three and six months ended June 30, 2008 and 2007, respectively. The amount recognized for transactions that no longer qualified as cash flow hedges was insignificant for the three and six months ended June 30, 2008 and June 30, 2007, respectively.

See Note 12 for additional information related to the fair value of Duke Energy Ohio's derivative instruments.

10. Regulatory Matters

Regulatory Merger Approvals

On April 3, 2006, the merger between Duke Energy and Cinergy was consummated to create a newly formed company, Duke Energy Holding Corp. (subsequently renamed Duke Energy Corporation). As a condition to the merger approval, the PUCO, and the Kentucky Public Service Commission (KPSC) required that certain merger related savings be shared with consumers in Ohio and Kentucky, respectively. The commissions also required Duke Energy Ohio and Duke Energy Kentucky to meet additional conditions. Key elements of these conditions include:

- The PUCO required that Duke Energy Ohio provide (i) a rate reduction of approximately $15 million for one year to facilitate economic development in a time of increasing rates and market prices and (ii) a reduction of approximately $21 million to its gas and electric consumers in Ohio for one year, with both credits beginning January 1, 2006. During the first quarter of 2007, Duke Energy Ohio completed its merger related rate reductions and filed a report with the PUCO to terminate the merger credit riders. Approximately $2 million of the rate reductions was passed through to customers during the six months ended June 30, 2007.

- The KPSC required that Duke Energy Kentucky provide $8 million in rate reductions to its customers over five years, ending when new rates are established in the next rate case after January 1, 2008. Approximately $1 million of the rate reduction was passed through to customers during the three and six months ended June 30, 2008, respectively. Approximately less than $1 million and $1 million of the rate reduction was passed through to customers during the three and six months ended June 30, 2007, respectively.

- The FERC approved the merger without conditions.

Franchised Electric and Gas

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

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

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

On February 15, 2008, Duke Energy Ohio filed a notice of appeal with the Ohio Supreme Court challenging a portion of the PUCO's decision on remand regarding Duke Energy Ohio's RSP. The October 2007 order permits non-residential customers to avoid certain charges associated with the costs of Duke Energy Ohio standing ready to serve such customers if they return after being served by another supplier. Duke Energy Ohio believes the PUCO exceeded its authority in modifying the charges that may be avoided, resulting in

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Duke Energy Ohio having to subsidize Ohio's competitive electric market. Duke Energy Ohio has asked the Ohio Supreme Court to reverse the PUCO ruling and require that non-residential customers pay the charges associated with Duke Energy Ohio standing ready to serve them should they return from a competitive supplier. On March 28, 2008, Duke Energy Ohio voluntarily withdrew its appeal. The OCC filed a notice of appeal challenging the PUCO's October 2007 decision as unlawful and unreasonable. The OCC and Ohio Partners for Affordable Energy (OPAE) also filed appeals from the PUCO's November 20, 2007 order approving Duke Energy Ohio's MBSSO riders. Duke Energy Ohio has intervened in each appeal. Pending the Ohio Supreme Court's consideration of its initial appeal, the OCC requested that the PUCO stay implementation of the Infrastructure Maintenance Fund charge to be collected from customers approved in the October 2007 order. The Commission denied the OCC's request and the OCC filed a similar request with the Ohio Supreme Court. On July 9, 2008, the court denied the OCC's request to stay implementation of the Infrastructure Maintenance Fund. On April 30, 2008, the Ohio Supreme Court granted Duke Energy Ohio's motion to intervene in the OCC's appeal. At this time, Duke Energy Ohio cannot predict whether the Ohio Supreme Court will reverse the PUCO's decision. Additionally, Duke Energy Ohio cannot predict the outcome of the MBSSO rider appeal; however, Duke Energy Ohio does not anticipate the resolution of this matter will have a material impact on its results of operations, cash flows or financial position.

New legislation (SB 221) was passed on April 23, 2008 and signed by the Governor of Ohio on May 1, 2008. The new law codifies the PUCO's authority to approve an electric utility's standard service offer through an electric security plan (ESP), which would allow for pricing structures similar to the current MBSSO. Electric utilities are required to file an ESP and may also file an application for a market rate option at the same time. The market rate option is a price determined through a competitive bidding process. If a market rate option price is approved, the utility would blend in the MBSSO or ESP price with the market rate option price over a six- to ten-year period, subject to the PUCO's discretion. SB 221 provides for the PUCO to approve non-by-passable charges for new generation, including construction work-in-process from the outset of construction, as part of an ESP. The new law grants the PUCO discretion to approve single issue rate adjustments to distribution and transmission rates and establishes new alternative energy resources (including renewable energy) portfolio standards, such that the utility's portfolio must consist of at least 25% of these resources by 2025. SB 221 also provides a separate requirement for energy efficiency, which must reduce 22% of the utility's load by 2025. The utility's earnings under the ESP can be subject to an annual earnings test and the PUCO must order a refund if it finds that the utility's earnings significantly exceed the earnings of benchmark companies with similar business and financial risks. The earnings test acts as a cap to the ESP price. SB 221 also limits the ability of a utility to transfer its dedicated generating assets to an EWG absent PUCO approval.

On July 31, 2008, Duke Energy Ohio filed its ESP, a new generation pricing formula to be effective January 1, 2009, when the current RSP is scheduled to expire. Among other things, the plan provides pricing mechanisms for compensation related to the advanced energy, including renewables and energy efficiency portfolio standards established by SB 221. At this time, Duke Energy Ohio cannot predict the outcome of this proceeding.

Duke Energy Ohio Gas Rate Case. In July 2007, Duke Energy Ohio filed an application with the PUCO for an increase in its base rates for gas service. Duke Energy Ohio sought an increase of approximately $34 million in revenue, or approximately 5.7%, to be effective in the spring of 2008. The application also requested approval to continue tracker recovery of costs associated with the accelerated gas main replacement program. The staff of the PUCO issued a Staff Report in December 2007 recommending an increase of approximately $14 million to $20 million in revenue. The Staff Report also recommended approval for Duke Energy Ohio to continue tracker recovery of costs associated with the accelerated gas main replacement program. On February 28, 2008, Duke Energy Ohio reached a settlement agreement with the PUCO Staff and all of the intervening parties on its request for an increase in natural gas base rates. The settlement called for an annual revenue increase of approximately $18 million in base revenue, or 3% over current revenue, permitted continued recovery of costs through 2018 for Duke Energy Ohio's accelerated gas main replacement program and permitted recovery of carrying costs on gas stored underground via its monthly gas cost adjustment filing. The settlement did not resolve a proposed rate design for residential customers, which involved moving more of the fixed charges of providing gas service, such as capital investment in pipes and regulating equipment, billing and meter reading, from the per unit charges to the monthly charge. On May 28, 2008, the PUCO approved the settlement in its entirety and the proposed rate design. On June 28, 2008, the OCC and OPAE filed Applications for Rehearing opposing the rate design. On July 23, 2008, the Ohio Commission issued an Entry denying the rehearing requests of OCC and OPAE. Duke Energy Ohio does not anticipate the resolution of this matter will have a material impact on its results of operations, cash flows or financial position.

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Duke Energy Ohio Electric Distribution Rate Case. On June 25, 2008, Duke Energy Ohio filed notice with the PUCO that it will seek a rate increase for electric delivery service of approximately $86 million, or 4.8% on total electric revenues, to be effective in the second quarter of 2009. Among other things, the rate request includes a proposal to increase the monthly residential customer charge from $4.50 to $10, with an offsetting reduction in the usage-based charge. This change in rate design will make customer bills more even throughout the year. Duke Energy Ohio also proposes a distribution modernization tracker that would allow smaller annual increases to reflect increased investment in the delivery system. It would also facilitate the move to a SmartGrid, which would create an interactive delivery system that provides enhanced system maintenance and automatic meter reading, eliminating the need for estimated meter readings and inside meter reading. SmartGrid technology will also provide customers with real-time usage information to help customers monitor and control their energy usage.

Duke Energy Kentucky Gas Rate Cases. In 2002, the KPSC approved Duke Energy Kentucky's gas base rate case which included, among other things, recovery of costs associated with an accelerated gas main replacement program. The approval authorized a tracking mechanism to recover certain costs including depreciation and a rate of return on the program's capital expenditures. The Kentucky Attorney General appealed to the Franklin Circuit Court the KPSC's approval of the tracking mechanism as well as the KPSC's subsequent approval of annual rate adjustments under this tracking mechanism. In 2005, both Duke Energy Kentucky and the KPSC requested that the court dismiss these cases.

In February 2005, Duke Energy Kentucky filed a gas base rate case with the KPSC requesting approval to continue the tracking mechanism and for a $14 million annual increase in base rates. A portion of the increase is attributable to recovery of the current cost of the accelerated gas main replacement program in base rates. In December 2005, the KPSC approved an annual rate increase of $8 million and re-approved the tracking mechanism through 2011. In February 2006, the Kentucky Attorney General appealed the KPSC's order to the Franklin Circuit Court, claiming that the order improperly allows Duke Energy Kentucky to increase its rates for gas main replacement costs in between general rate cases, and also claiming that the order improperly allows Duke Energy Kentucky to earn a return on investment for the costs recovered under the tracking mechanism which permits Duke Energy Kentucky to recover its gas main replacement costs.

In August 2007, the Franklin Circuit Court consolidated all the pending appeals and ruled that the KPSC lacks legal authority to approve the gas main replacement tracking mechanism, and any other annual rate adjustments under the tracking mechanism. To date, Duke Energy Kentucky has collected approximately $9 million in annual rate adjustments under the tracking mechanism. Duke Energy Kentucky and the KPSC have appealed these cases to the Kentucky Court of Appeals and Duke Energy Kentucky continues to utilize tracking mechanisms in its billed rates to customers. At this time, Duke Energy Kentucky cannot predict the outcome of these proceedings.

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

On November 15, 2007, Duke Energy Kentucky filed its annual application to continue existing energy efficiency programs, consisting of nine residential and two commercial and industrial programs, and to true-up its gas and electric tracking mechanism for recovery of lost revenues, program costs and shared savings. On February 11, 2008, Duke Energy Kentucky filed a motion to amend its energy efficiency programs and applied to reinstitute a low income Home Energy Assistance Program. The KPSC bifurcated the proposed Home Energy Assistance Program from the other energy efficiency programs. On May 14, 2008, the KPSC approved the energy efficiency programs. An order on the Home Energy Assistance Program is expected in the third quarter of 2008.

Other Matters

Ohio Riser Leak Investigation. In April 2005, the PUCO issued an order opening a statewide investigation into riser leaks in gas pipeline systems throughout Ohio. The investigation followed four explosions since 2000 caused by gas riser leaks, including an April 2000 explosion in Duke Energy Ohio's service area. In November 2006, the PUCO Staff released the expert report, which concluded that certain types of risers are prone to leaks under various conditions, including over-tightening during initial installation. The PUCO Staff

recommended that natural gas companies continue to monitor the situation and study the cause of any further riser leaks to determine whether further remedial action is warranted. Duke Energy Ohio has approximately 87,000 of these risers on its distribution system. If the PUCO orders natural gas companies to replace all of these risers, Duke Energy Ohio estimates a replacement cost of approximately $40 million. As part of the rate case filed in July 2007 (see "Duke Energy Ohio Gas Rate Case" above), Duke Energy Ohio requested approval from the PUCO to accelerate its riser replacement program. The riser replacement program is contained in the settlement reached with all interveners and will be completed at the end of 2012.

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

FERC 203 Application. On April 23, 2008, Duke Energy Ohio and certain affiliates filed an application with the FERC requesting approval to transfer Duke Energy Ohio's electric generating facilities, some of which are designated to serve Ohio customers, to affiliate companies. The affiliate companies would be consolidated by Duke Energy, but may not be consolidated by Duke Energy Ohio. The FERC filing, if approved, does not obligate Duke Energy to make the transfer of the electric generating facilities, and management is in the process of evaluating the potential transfer. Management believes the proposed asset transfer could provide greater financial flexibility for the assets. The asset transfer complies with Duke Energy Ohio's Corporate Separation Plan that was amended by the PUCO in 2007. As previously discussed, SB 221 limits the ability of a utility to transfer its designated generating assets to an EWG absent PUCO approval. The filing does not impact Duke Energy Ohio's current rates.

Midwest Independent Transmission System Operator, Inc. (Midwest ISO) Resource Adequacy Filing. On December 28, 2007, the Midwest ISO filed its Electric Tariff Filing Regarding Resource Adequacy in compliance with the FERC's request of Midwest ISO to file Phase II of its long-term Resource Adequacy plan by December 2007. The proposal includes establishment of a resource adequacy requirement in the form of planning reserve margin. On March 26, 2008, the FERC ruled on the Midwest ISO's Resource Adequacy filing and ordered that the new Module E tariff be effective March 27, 2008. This action established a Midwest ISO-wide resource adequacy requirement for the first Planning Year, which begins June 2009. In the Order, the FERC, among other things, clarified that States have the authority to set their own Planning Reserve Margins, as long as they are not inconsistent with any reliability standard approved by the FERC. Duke Energy Ohio does not believe the resource adequacy requirement will have a material impact on its consolidated results of operations, cash flows or financial position.

Midwest ISO's Establishment of an Ancillary Services Market. On February 25, 2008, the FERC conditionally accepted the Midwest ISO proposal to implement a day-ahead and real-time ancillary services market (ASM), including a scarcity pricing proposal. By approving the ASM proposal, the FERC essentially approved the transfer and consolidation of Balancing Authority for the entire Midwest ISO area. This will allow the Midwest ISO to determine operating reserve requirements and procure operating reserves from all qualified resources from an organized market, in place of the current system of local management and procurement of reserves by the 24 Balancing Authorities. The Midwest ISO has delayed the ASM launch date until September 9, 2008. At this time, Duke Energy Ohio does not believe the establishment of the Midwest Ancillary Services Market will have a material impact on its consolidated results of operations, cash flows or financial position.

PJM Interconnection Reliability Pricing Model (RPM) Buyers' Complaint. On May 30, 2008, a group of public utility commissions, state consumer counsels, industrial power customers and load serving entities, known collectively as the RPM Buyers, filed a complaint at FERC. The complaint asks FERC to find that the results of the three transitional base residual auctions conducted by PJM to procure capacity for its RPM capacity market during the years 2008-2011 are unjust and unreasonable because, allegedly, they have produced excessive capacity prices, have failed to prevent suppliers from exercising market power, and have not produced benefits commensurate with costs. In their complaint, the RPM Buyers propose revised, administratively determined auction clearing prices. Certain Duke Energy Ohio revenues are at risk, as Duke Energy Ohio planned to supply capacity to this market. On July 11, 2008 Duke filed a response to the complaint with the FERC. At this time, Duke Energy Ohio cannot predict the outcome of this proceeding.

Commercial Power

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

11. Commitments and Contingencies

Environmental

Duke Energy Ohio is subject to federal, state and local regulations regarding air and water quality, hazardous and solid waste disposal and other environmental matters. *These regulations can be changed from time to time, imposing new obligations on Duke Energy Ohio.*

Remediation Activities. Duke Energy Ohio and its affiliates are responsible for environmental remediation at various contaminated sites. These include some properties that are part of ongoing Duke Energy Ohio operations, sites formerly owned or used by Duke Energy Ohio entities, and sites owned by third parties. Remediation typically involves management of contaminated soils and may involve groundwater remediation. Managed in conjunction with relevant federal, state and local agencies, activities vary with site conditions and locations, remedial requirements, complexity and sharing of responsibility. If remediation activities involve statutory joint and several liability provisions, strict liability, or cost recovery or contribution actions, Duke Energy Ohio or its affiliates could potentially be held responsible for contamination caused by other parties. In some instances, Duke Energy Ohio may share liability associated with contamination with other potentially responsible parties, and may also benefit from insurance policies or contractual indemnities that cover some or all cleanup costs. All of these sites generally are managed in the normal course of business or affiliate operations. Duke Energy Ohio believes that completion or resolution of these matters will have no material adverse effect on its consolidated results of operations, cash flows or financial position.

Clean Water Act 316(b). The U.S. Environmental Protection Agency (EPA) finalized its cooling water intake structures rule in July 2004. The rule established aquatic protection requirements for existing facilities that withdraw 50 million gallons or more of water per day from rivers, streams, lakes, reservoirs, estuaries, oceans, or other U.S. waters for cooling purposes. Three of six coal-fired generating facilities in which Duke Energy Ohio is either a whole or partial owner are affected sources under that rule. On January 25, 2007, the U.S. Court of Appeals for the Second Circuit issued its opinion in *Riverkeeper, Inc. v. EPA*, Nos. 04-6692-ag(L) et. al. (2d Cir. 2007) remanding most aspects of the EPA's rule back to the agency. The court effectively disallowed those portions of the rule most favorable to industry, and the decision creates a great deal of uncertainty regarding future requirements and their timing. On April 14, 2008, the U.S. Supreme Court issued an order granting review of the case and briefs were filed on July 14, 2008. A decision is not likely until 2009. If the Supreme Court upholds the lower court decision, it is expected that costs will increase as a result of the court's decision, although Duke Energy Ohio is unable to estimate its costs to comply.

Clean Air Interstate Rule (CAIR). The EPA finalized its CAIR in May 2005. The CAIR was to have limited total annual and summertime nitrogen oxides (NO_x) emissions and annual SO_2 emissions from electric generating facilities across the Eastern U.S. through a two-phased cap-and-trade program. Phase 1 was to begin in 2009 for NO_x and in 2010 for SO_2. Phase 2 was to begin in 2015 for both NO_x and SO_2. On March 25, 2008, the U.S. Court of Appeals for the District of Columbia (D.C. Circuit) heard oral argument in a case involving multiple challenges to the CAIR. Nearly all aspects of the rule were challenged, but Duke Energy challenged only the portions pertaining to SO_2 allowance allocations. On July 11, 2008, the D.C. Circuit issued its decision in *North Carolina v. EPA* No. 05-1244 vacating the CAIR. The EPA has until August 25, 2008 to appeal the decision. The D.C. Circuit's decision creates uncertainty regarding future NO_x and SO_2 emission reductions requirements and their timing. Although as a result of the decision there may be a delay in the timing of federal requirements to reduce emissions, it is expected that electric sector emission reductions at least as stringent as those imposed by CAIR will be required in the near future, through new federal rules and/or individual state requirements. CAIR remains in effect until the Court issues its mandate, which will not be before the period for petitions for rehearing runs. Duke Energy Ohio's plan had been to spend approximately $150 million between 2008 and 2012 to comply with Phase 1 of CAIR at plants that Duke Energy Ohio owns or partially owns but does not operate. It has not been determined how the court's decision will affect these planned expenditures. Duke Energy Ohio did not expect to incur any significant costs for complying with Phase 2 of CAIR. Duke Energy Ohio receives partial recovery of depreciation and financing costs related to environmental compliance projects for 2005-2008 through its RSP (see Note 10).

Duke Energy Ohio is unable to estimate the costs to comply with any new rule EPA may issue as a result of this decision. See Note 7 for a discussion of the potential impact of the D.C. Circuit Court's decision to vacate CAIR on the carrying value of emission allowances.

Clean Air Mercury Rule (CAMR). *The EPA finalized its CAMR in May 2005. The CAMR was to have limited total annual mercury emissions from coal-fired power plants across the U.S. through a two-phased cap-and-trade program beginning in 2010. On February 8, 2008, the D.C. Circuit issued its opinion in New Jersey v. EPA,* No. 05-1097 vacating the CAMR. Requests for rehearing were denied. Parties have until August 18, 2008 to request U.S. Supreme Court review of the D.C. Circuit's decision. The D.C. Circuit's decision creates uncertainty regarding future mercury emission reduction requirements and their timing, but makes it fairly certain that there will be a delay in the implementation of federal mercury requirements for existing coal-fired power plants. At this point, Duke Energy Ohio is unable to estimate the costs to comply with any future mercury regulations that might result from the D.C. Circuit's decision.

Coal Combustion Product (CCP) Management. Duke Energy Ohio currently estimates that it will spend approximately $95 million over the period 2008-2012 to install synthetic caps and liners at existing and new CCP landfills and to convert CCP handling systems from wet to dry systems.

Zimmer Generating Station Clean Air Act Notice of Violation/Finding of Violation. On March 10, 2008, the EPA issued a Clean Air Act Notice of Violation/Finding of Violation (NOV/FOV) asserting noncompliance with SO_2 emission limits, opacity standards, and permitting requirements at Duke Energy Ohio's Zimmer Generating Station. The NOV/FOV also asserts that a Prevention of Significant Deterioration (PSD) permit should have been obtained for the installation in 2004 of a pollution control project in order to comply with the EPA's regional cap-and-trade program for NO_x emissions. Duke Energy Ohio disputes the legal and factual basis for the NOV/FOV. Duke Energy Ohio is unable to predict at this time what, if any, remedies or potential penalties may result from the NOV/FOV.

Extended Environmental Activities and Accruals. Included in Other within Deferred Credits and Other Liabilities on the Consolidated Balance Sheets were total accruals related to extended environmental-related activities of approximately $8 million as of both June 30, 2008 and December 31, 2007, respectively. These accruals represent Duke Energy Ohio's provisions for costs associated with remediation activities at some of its current and former sites, as well as other relevant environmental contingent liabilities. Duke Energy Ohio believes that completion or resolution of these matters will have no material impact on its consolidated results of operations, cash flows or financial position.

Litigation

New Source Review (NSR). In 1999-2000, the U.S. Department of Justice, acting on behalf of the EPA and joined by various citizen groups and states, filed a number of complaints and notices of violation against multiple utilities across the country for alleged violations of the NSR provisions of the Clean Air Act (CAA). Generally, the government alleges that projects performed at various coal-fired units were major modifications, as defined in the CAA, and that the utilities violated the CAA when they undertook those projects without obtaining permits and installing the best available emission controls for SO_2, NO_x and particulate matter. The complaints seek injunctive relief to require installation of pollution control technology on various allegedly violating generating units, and unspecified civil penalties in amounts of up to $32,500 per day for each violation. Two of Duke Energy Ohio's plants have been subject to these allegations. Duke Energy Ohio asserts that there were no CAA violations because the applicable regulations do not require permitting in cases where the projects undertaken are "routine" or otherwise do not result in a net increase in emissions.

In November 1999, the U.S. brought a lawsuit in the U.S. Federal District Court for the Southern District of Indiana against Duke Energy Ohio alleging various violations of the CAA at Duke Energy Ohio's W.C. Beckjord and Miami Fort Stations. Three northeast states and two environmental groups have intervened in the case. A jury trial commenced on May 5, 2008 and jury verdict was returned on May 22, 2008. The jury found in favor of Cinergy, Duke Energy Ohio and Duke Energy Indiana, Inc. on all but three units at Wabash River. The remedy phase of the case is expected to commence in December 2008. Based on previous rulings by the judge in this case, the Wabash River units are not subject to civil penalties; and therefore, the remedy phase will address only the appropriate injunctive relief. Additionally, the plaintiffs had claimed that Duke Energy Ohio violated an Administrative Consent Order entered into in 1998 between the EPA and Cinergy relating to alleged violations of Ohio's State Implementation Plan (SIP) provisions governing particulate matter at Duke Energy Ohio's W.C. Beckjord Station. The judge previously granted summary judgment against Duke Energy Ohio with respect to this allegation and it will be considered during the December 2008 remedy phase as well.

Duke Energy Ohio has been informed by Dayton Power and Light (DP&L) that in June 2000, the EPA issued a NOV to DP&L for alleged violations of CAA requirements at a station operated by DP&L and jointly-owned by DP&L, Columbus Southern Power Company

(CSP), and Duke Energy Ohio. The NOV indicated the EPA may issue an order requiring compliance with the requirements of the Ohio SIP, or bring a civil action seeking injunctive relief and civil penalties of up to $27,500 per day for each violation. In September 2004, Marilyn Wall and the Sierra Club brought a lawsuit against Duke Energy Ohio, DP&L and CSP for alleged violations of the CAA at this same generating station. Trial of this case was originally scheduled to commence in August 2008, however, the parties have reached an agreement in principle to settle this matter, subject to the execution of a definitive agreement, which is currently being negotiated, and court approval. The proposed settlement will not have a material adverse effect on Duke Energy Ohio's consolidated results of operations, cash flows or financial position.

Section 126 Petitions. In March 2004, the state of North Carolina filed a petition under Section 126 of the CAA in which it alleges that sources in 13 upwind states, including Ohio, significantly contribute to North Carolina's non-attainment with certain ambient air quality standards. In August 2005, the EPA issued a proposed response to the petition. The EPA proposed to deny the ozone portion of the petition based upon a lack of contribution to air quality by the named states. The EPA also proposed to deny the particulate matter portion of the petition based upon the CAIR Federal Implementation Plan (FIP), that would address the air quality concerns from neighboring states. On April 28, 2006, the EPA denied North Carolina's petition based upon the final CAIR FIP described above. North Carolina has filed a legal challenge to the EPA's denial. At this time, Duke Energy Ohio cannot predict the outcome of this proceeding.

Carbon Dioxide (CO_2) Litigation. In July 2004, the states of Connecticut, New York, California, Iowa, New Jersey, Rhode Island, Vermont, Wisconsin and the City of New York brought a lawsuit in the U.S. District Court for the Southern District of New York against Cinergy, American Electric Power Company, Inc., American Electric Power Service Corporation, The Southern Company, Tennessee Valley Authority, and Xcel Energy Inc. A similar lawsuit was filed in the U.S. District Court for the Southern District of New York against the same companies by Open Space Institute, Inc., Open Space Conservancy, Inc., and The Audubon Society of New Hampshire. These lawsuits allege that the defendants' emissions of CO_2 from the combustion of fossil fuels at electric generating facilities contribute to global warming and amount to a public nuisance. The complaints also allege that the defendants could generate the same amount of electricity while emitting significantly less CO_2. The plaintiffs are seeking an injunction requiring each defendant to cap its CO_2 emissions and then reduce them by a specified percentage each year for at least a decade. In September 2005, the District Court granted the defendants' motion to dismiss the lawsuit. The plaintiffs have appealed this ruling to the Second Circuit Court of Appeals. Oral arguments were held before the Second Circuit Court of Appeals on June 7, 2006. It is not possible to predict with certainty whether Duke Energy Ohio will incur any liability or to estimate the damages, if any, that Duke Energy Ohio might incur in connection with this matter.

Zimmer Generating Station (Zimmer Station) Lawsuit. In November 2004, a citizen of the Village of Moscow, Ohio, the town adjacent to Duke Energy Ohio's Zimmer Station, brought a purported class action in the U.S. District Court for the Southern District of Ohio seeking monetary damages and injunctive relief against Duke Energy Ohio for alleged violations of the CAA, the Ohio SIP, and Ohio laws against nuisance and common law nuisance. The plaintiffs have filed a number of additional notices of intent to sue and two lawsuits raising claims similar to those in the original claim. One lawsuit was dismissed on procedural grounds, and the remaining two have been consolidated. On December 28, 2006, the District Court certified this case as a class action. Discovery in the case continues. At this time, Duke Energy Ohio cannot predict whether the outcome of this matter will have a material impact on its consolidated results of operations, cash flows or financial position. Duke Energy Ohio intends to defend this lawsuit vigorously in court.

Hurricane Katrina Lawsuit. In April 2006, Cinergy was named in the third amended complaint of a purported class action lawsuit filed in the U.S. District Court for the Southern District of Mississippi. Plaintiffs claim that Cinergy, along with numerous other utilities, oil companies, coal companies and chemical companies, are liable for damages relating to losses suffered by victims of Hurricane Katrina. Plaintiffs claim that defendants' greenhouse gas emissions contributed to the frequency and intensity of storms such as Hurricane Katrina. On August 30, 2007, the court dismissed the case. The plaintiffs have filed their appeal to the Fifth Circuit Court of Appeals and oral argument was heard on August 6, 2008. It is not possible to predict with certainty whether Duke Energy Ohio will incur any liability or to estimate the damages, if any, that Duke Energy Ohio might incur in connection with this matter.

Ohio Antitrust Lawsuit. In January 2008, four plaintiffs, including individual, industrial and non-profit customers, filed a lawsuit against Duke Energy Ohio in federal court in the Southern District of Ohio. Plaintiffs allege that Duke Energy Ohio (then The Cincinnati Gas & Electric Company (CG&E)), conspired to provide inequitable and unfair price advantages for certain large business consumers by entering into non-public option agreements with such consumers in exchange for their withdrawal of challenges to Duke Energy Ohio's (then CG&E's) pending RSP, which was implemented in early 2005. Duke Energy Ohio denies the allegations made in the lawsuit. Following Duke Energy Ohio's filing of a motion to dismiss plaintiffs' claims, plaintiffs amended their complaint on May 30, 2008. Plaintiffs now contend that the contracts at issue were an illegal rebate which violate antitrust and RICO statutes. Defendants have again moved to

dismiss the claims. It is not possible to predict with certainty whether Duke Energy Ohio will incur any liability or to estimate the damages, if any, that Duke Energy Ohio might incur in connection with this matter.

Asbestos-related Injuries and Damages Claims. Duke Energy Ohio has been named as a defendant or co-defendant in lawsuits related to asbestos at its electric generating stations. The impact on Duke Energy Ohio's consolidated results of operations, cash flows or financial position of these cases to date has not been material. Based on estimates under varying assumptions concerning uncertainties, such as, among others: (i) the number of contractors potentially exposed to asbestos during construction or maintenance of Duke Energy Ohio's generating plants; (ii) the possible incidence of various illnesses among exposed workers; and (iii) the potential settlement costs without federal or other legislation that addresses asbestos tort actions, Duke Energy Ohio estimates that the range of reasonably possible exposure in existing and future suits over the foreseeable future is not material. This estimated range of exposure may change as additional settlements occur and claims are made and more case law is established.

Other Litigation and Legal Proceedings. Duke Energy Ohio and its subsidiaries are involved in other legal, tax and regulatory proceedings arising in the ordinary course of business, some of which involve substantial amounts. Duke Energy Ohio believes that the final disposition of these proceedings will not have a material adverse effect on its consolidated results of operations, cash flows or financial position.

Duke Energy Ohio has exposure to certain legal matters that are described herein. As of June 30, 2008 and December 31, 2007, Duke Energy Ohio has recorded insignificant reserves for these proceedings and exposures. Duke Energy Ohio expenses legal costs related to the defense of loss contingencies as incurred.

Other Commitments and Contingencies

General. Duke Energy Ohio enters into various fixed-price, non-cancelable commitments to purchase or sell power (tolling arrangements or power purchase contracts) that may or may not be recognized on the Consolidated Balance Sheets.

12. Fair Value of Financial Assets and Liabilities

On January 1, 2008, Duke Energy Ohio adopted SFAS No. 157, "*Fair Value Measurements*" (SFAS No. 157). Duke Energy Ohio's adoption of SFAS No. 157 is currently limited to financial instruments and to non-financial derivatives as, in February 2008, the FASB issued FSP No. 157-2, which delayed the effective date of SFAS No. 157 for one year for non-financial assets and liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. There was no cumulative effect adjustment to retained earnings for Duke Energy Ohio as a result of the adoption of SFAS No. 157.

SFAS No. 157 defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosure requirements about fair value measurements. Under SFAS No. 157, fair value is considered to be the exchange price in an orderly transaction between market participants to sell an asset or transfer a liability at the measurement date. The fair value definition under SFAS No. 157 focuses on an exit price, which is the price that would be received by Duke Energy Ohio to sell an asset or paid to transfer a liability versus an entry price, which would be the price paid to acquire an asset or received to assume a liability. Although SFAS No. 157 does not require additional fair value measurements, it applies to other accounting pronouncements that require or permit fair value measurements.

Duke Energy Ohio determines fair value of financial assets and liabilities based on the following fair value hierarchy, as prescribed by SFAS No. 157, which prioritizes the inputs to valuation techniques used to measure fair value into three levels:

Level 1 inputs – unadjusted quoted prices in active markets for identical assets or liabilities that Duke Energy Ohio has the ability to access. An active market for the asset or liability is one in which transactions for the asset or liability occur with sufficient frequency and volume to provide ongoing pricing information. Duke Energy Ohio does not adjust quoted market prices on Level 1 inputs for any blockage factor.

Level 2 inputs – inputs other than quoted market prices included in Level 1 that are observable, either directly or indirectly, for the asset or liability. Level 2 inputs include, but are not limited to, quoted prices for similar assets or liabilities in an active market, quoted prices for identical or similar assets or liabilities in markets that are not active and inputs other than quoted market prices that are observable for the asset or liability, such as interest rate curves and yield curves observable at commonly quoted intervals, volatilities, credit risk and default rates.

Level 3 inputs – unobservable inputs for the asset or liability.

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Notes To Unaudited Consolidated Financial Statements—(Continued)

In February 2007, the FASB issued SFAS No. 159, "*The Fair Value Option for Financial Assets and Financial Liabilities-including an amendment of FASB Statement No. 115*" (SFAS No. 159), which permits entities to elect to measure many financial instruments and certain other items at fair value. For Duke Energy Ohio, SFAS No. 159 was effective as of January 1, 2008 and had no impact on amounts presented for periods prior to the effective date. Duke Energy Ohio does not currently have any financial assets or financial liabilities for which the provisions of SFAS No. 159 have been elected. However, in the future, Duke Energy Ohio may elect to measure certain financial instruments at fair value in accordance with this standard.

The following table provides the fair value measurement amounts for assets and liabilities recorded in both current and non-current Unrealized gains on mark-to-market and hedging transactions and Unrealized losses on mark-to-market and hedging transactions on Duke Energy Ohio's Consolidated Balance Sheets at fair value at June 30, 2008. Amounts presented in the table below exclude cash collateral amounts which are disclosed separately in Note 1.

	Total Fair Value Amounts at June 30, 2008	Level 1	Level 2	Level 3
		(in millions)		
Description				
Derivative assets	$ 329	$ 111	$ —	$ 218
Derivative liabilities	$ 191	$ —	$ 2	$ 189

The following table provides a reconciliation of beginning and ending balances of assets and liabilities measured at fair value on a recurring basis where the determination of fair value includes significant unobservable inputs (Level 3):

Rollforward of Level 3 Measurements

	Derivatives (net)
	(in millions)
Three Months Ended June 30, 2008	
Balance at April 1, 2008	$ (25)
Total pre-tax realized or unrealized gains included in earnings:	
Revenue, non-regulated	68
Total pre-tax losses included in other comprehensive income	(6)
Net purchases, sales, issuances and settlements	(9)
Total gains included on balance sheet as regulatory asset or liability or as non-current liability	1
Balance at June 30, 2008	$ 29
Six Months Ended June 30, 2008	
Balance at January 1, 2008	$ (22)
Total pre-tax realized or unrealized gains included in earnings:	
Revenue, non-regulated	77
Total pre-tax losses included in other comprehensive income	(9)
Net purchases, sales, issuances and settlements	(17)
Balance at June 30, 2008	$ 29
Pre-tax amounts included in the Consolidated Statements of Operations related to Level 3 measurements outstanding at June 30, 2008:	
Revenue, non-regulated	63
Total	$ 63

The valuation method of the primary fair value measurements disclosed above is as follows:

Commodity derivatives: The pricing for commodity derivatives is primarily a calculated value which incorporates the forward price and is adjusted for liquidity (bid-ask spread), credit or non-performance risk (after reflecting credit enhancements such as collateral) and

DUKE ENERGY OHIO, INC.

Notes To Unaudited Consolidated Financial Statements—(Continued)

discounted to present value. The primary difference between a Level 2 and a Level 3 measurement has to do with the level of activity in forward markets for the commodity. If the market is relatively inactive, the measurement is deemed to be a Level 3 measurement. Some commodity derivatives are NYMEX contracts, which Duke Energy Ohio classifies as Level 1 measurements.

13. New Accounting Standards

The following new accounting standards were adopted by Duke Energy Ohio subsequent to June 30, 2007 and the impact of such adoption, if applicable, has been presented in the accompanying Consolidated Financial Statements:

SFAS No. 157. Refer to Note 12 for a discussion of Duke Energy Ohio's adoption of SFAS No. 157.

SFAS No. 159. Refer to Note 12 for a discussion of Duke Energy Ohio's adoption of SFAS No. 159.

FSP No. FIN 39-1. Refer to Note 1 for a discussion of Duke Energy Ohio's adoption of FSP No. FIN 39-1.

The following new accounting standards have been issued, but have not yet been adopted by Duke Energy Ohio as of June 30, 2008:

SFAS No. 141 (revised 2007), "Business Combinations" (SFAS No. 141R). In December 2007, the FASB issued SFAS No. 141R, which replaces SFAS No. 141, "*Business Combinations.*" SFAS No. 141R retains the fundamental requirements in SFAS No. 141 that the acquisition method of accounting be used for all business combinations and that an acquirer be identified for each business combination. This statement also establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling (minority) interests in an acquiree, and any goodwill acquired in a business combination or gain recognized from a bargain purchase. For Duke Energy Ohio, SFAS No. 141R must be applied prospectively to business combinations for which the acquisition date occurs on or after January 1, 2009. The impact to Duke Energy Ohio of applying SFAS No. 141R for periods subsequent to implementation will be dependent upon the nature of any transactions within the scope of SFAS No. 141R. SFAS No. 141R changes the accounting for income taxes related to prior business combinations, such as Duke Energy's merger with Cinergy. Subsequent to the effective date of SFAS No. 141R, the resolution of tax contingencies relating to Cinergy that existed as of the date of the merger will be required to be reflected in the Consolidated Statements of Operations instead of being reflected as an adjustment to the purchase price via an adjustment to goodwill.

SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities—an amendment to FASB Statement No. 133" (SFAS No. 161). In March 2008, the FASB issued SFAS No. 161, which amends and expands the disclosure requirements for derivative instruments and hedging activities prescribed by SFAS No. 133, "*Accounting for Derivative Instruments and Hedging Activities.*" SFAS No. 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. Duke Energy Ohio will adopt SFAS No. 161 as of January 1, 2009 and SFAS No. 161 encourages, but does not require, comparative disclosure for earlier periods at initial adoption. The adoption of SFAS No. 161 will not have any impact on Duke Energy Ohio's consolidated results of operations, cash flows or financial position.

14. Income Taxes and Other Taxes

The taxable income of Duke Energy Ohio is reflected in Duke Energy's U.S. federal and state income tax returns. Duke Energy Ohio has a tax sharing agreement with Duke Energy, where the separate return method is used to allocate tax expenses and benefits to the subsidiaries whose investments or results of operations provide these tax expenses and benefits. The accounting for income taxes essentially represents the income taxes that Duke Energy Ohio would incur if Duke Energy Ohio were a separate company filing its own tax return as a C-Corporation.

At June 30, 2008, Duke Energy Ohio has approximately $46 million recorded for unrecognized tax benefits and no portion of the total unrecognized tax benefits, if recognized, would affect the effective tax rate. Additionally, at June 30, 2008, Duke Energy Ohio has approximately $7 million of unrecognized tax benefits related to pre-merger tax positions that, if recognized prior to the adoption of SFAS No. 141R, would affect goodwill. It is reasonably possible that Duke Energy Ohio will reflect an approximate $35 million reduction in unrecognized tax benefits within the next twelve months due to expected settlements.

During the three and six months ended June 30, 2008, Duke Energy Ohio recognized net interest expense of approximately $1 million and $2 million, respectively, in the Consolidated Statements of Operations related to income taxes. At June 30, 2008, Duke Energy

DUKE ENERGY OHIO, INC.

Notes To Unaudited Consolidated Financial Statements—(Continued)

Ohio had approximately $8 million of interest payable, which reflects all interest related to income taxes, and no amount has been accrued for the payment of penalties in the Consolidated Balance Sheets.

Duke Energy Ohio has the following tax years open:

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

The effective tax rate for the three months ended June 30, 2008 was approximately 35.9% as compared to the effective tax rate of 39.8% for the same period in 2007. The effective tax rate for the six months ended June 30, 2008 was approximately 35.8% as compared to the effective tax rate of 39.0% for the same period in 2007. The decrease in the effective tax rate for both the three and six months ended June 30, 2008 is due primarily to less of an effect to the effective tax rate calculation from permanent items in 2008 as compared to 2007 as a result of significantly higher pre-tax income in 2008.

Excise Taxes. Certain excise taxes levied by state or local governments are collected by Duke Energy Ohio from its customers. These taxes, which are required to be paid regardless of Duke Energy Ohio's ability to collect from the customer, are accounted for on a gross basis. When Duke Energy Ohio acts as an agent, and the tax is not required to be remitted if it is not collected from the customer, the taxes are accounted for on a net basis. Duke Energy Ohio's excise taxes accounted for on a gross basis and recorded as Operating Revenues in the accompanying Consolidated Statements of Operations for the three and six months ended June 30, 2008 and 2007 were as follows:

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
			(in millions)	
Excise Taxes	$ 29	$ 27	$ 68	$ 66

15. Comprehensive Income and Total Comprehensive Income

Comprehensive Income. Comprehensive income includes net income and all other non-owner changes in equity. The table below provides the components of other comprehensive income and total comprehensive income for the three months ended June 30, 2008 and 2007. Components of other comprehensive income and total comprehensive income for the six months ended June 30, 2008 and 2007 are presented in the Consolidated Statements of Common Stockholder's Equity and Comprehensive Income.

Total Comprehensive Income (Loss)

	Three Months Ended June 30,	
	2008	2007
	(in millions)	
Net Income	$ 157	$ 49
Other comprehensive (loss) income		
Cash flow hedges[a]	(1)	4
Other comprehensive (loss) income, net of tax	(1)	4
Total Comprehensive Income	$ 156	$ 53

(a) Cash flow hedges, net of an insignificant tax benefit and $2 million tax expense for the three months ended June 30, 2008 and 2007, respectively.

16. Subsequent Events

For information on subsequent events related to goodwill and intangibles, regulatory matters and commitments and contingencies, see Notes 7, 10 and 11, respectively.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

INTRODUCTION

Management's Discussion and Analysis should be read in conjunction with the Consolidated Financial Statements.

Duke Energy Ohio, Inc. (Duke Energy Ohio) is a wholly-owned subsidiary of Cinergy Corp. (Cinergy). Cinergy is a wholly-owned subsidiary of Duke Energy Corporation (Duke Energy). Duke Energy Ohio's principal lines of business include generation, transmission and distribution of electricity, the sale of and/or transportation of natural gas, and energy marketing.

BASIS OF PRESENTATION

The results of operations and variance discussion for Duke Energy Ohio is presented in a reduced disclosure format in accordance with General Instructions H(2) of Form 10-Q.

DUKE ENERGY OHIO

	Six Months Ended June 30,		
	2008	2007	Increase (Decrease)
		(in millions)	
Operating revenues	$ 1,786	$ 1,679	$ 107
Operating expenses	1,346	1,499	(153)
Gains (losses) on sales of other assets and other, net	46	(11)	57
Operating income	486	169	317
Other income and expenses, net	15	17	(2)
Interest expense	49	45	4
Income before income taxes	452	141	311
Income tax expense	162	55	107
Net income	$ 290	$ 86	$ 204

The $204 million increase in Duke Energy Ohio's Net Income was primarily due to the following factors:

Operating Revenues. The increase was primarily due to:

- A $60 million increase in net mark-to-market revenues on non-qualifying power and capacity hedge contracts, consisting of mark-to-market gains of $11 million in 2008 compared to losses of $49 million in 2007,
- A $30 million increase in retail electric revenues primarily due to increased amortization of purchase accounting valuation liability of the rate stabilization plan,
- A $16 million increase in regulated fuel revenues driven mainly by higher natural gas costs,
- An $8 million increase due to higher PJM capacity revenues in 2008 compared to 2007, partially offset by lower generation volumes from the Midwest gas-fired generation assets,
- An $8 million increase related to the Demand Side Management rider implemented in the third quarter of 2007,
- A $5 million increase in wholesale revenues due to higher generation volumes in 2008 compared to 2007, and
- A $4 million increase due to implementation of new gas rates in Ohio.

Partially offsetting these increases were:

- A $27 million decrease in volumes of coal sales due to expiration of contracts, and
- A $4 million decrease due to milder weather in 2008 compared to 2007.

Operating Expenses. The decrease was primarily due to:

- A $100 million decrease in fuel expense due to mark-to-market gains on non-qualifying fuel hedge contracts of $145 million in 2008 compared to gains of $45 million in 2007,

- A $32 million decrease due primarily to lower sulfur dioxide emission allowance expenses due to installation of flue gas desulphurization equipment,
- A $26 million decrease in expenses associated with coal sales due to expiration of contracts,
- A $13 million decrease in retail fuel and purchased power expenses due to realized gains from the settlement of certain fuel contracts, and
- A $7 million decrease in fuel and operating expenses for the Midwest gas-fired generation assets primarily due to lower generation volumes in 2008 compared to 2007.

Partially offsetting these decreases were:

- An $18 million increase in regulated fuel expense primarily due to higher natural gas costs, and
- A $5 million increase in amortization of the Ohio Demand Side Management costs.

Gains (Losses) on Sales of Other Assets and Other, net. Increase in 2008 compared to 2007 is attributable to gains on sales of emission allowances in 2008 compared to losses on sales of emission allowances in 2007. Gains in 2008 were a result of sales of zero cost basis emission allowances. Losses in 2007 were a result of sales of emission allowances acquired in connection with Duke Energy's merger with Cinergy in April 2006 which were written up to fair value as part of purchase accounting.

Income Tax Expense. Income Tax Expense increased for the six months ended June 30, 2008 as compared to the same period in the prior year. The increase is primarily the result of higher pre-tax income, partially offset by a lower effective tax rate for the six months ended June 30, 2008 (36%) compared to the same period in 2007 (39%). The decrease in the effective tax rate is due primarily to less of an effect to the effective tax rate calculation from permanent items in 2008 as compared to 2007 as a result of significantly higher pre-tax income in 2008.

MATTERS IMPACTING FUTURE RESULTS

On July 11, 2008, the U.S. Court of Appeals for the District of Columbia issued a decision vacating the Clean Air Interstate Rule. See Note 11, "Commitments and Contingencies," to the Consolidated Financial Statements for a discussion of the decision. Duke Energy Ohio is currently evaluating the effect of the decision on the carrying value of emission allowances held by its non-regulated businesses. Based on current market prices for sulfur dioxide allowances, and the uncertainty associated with future federal requirements to reduce emissions, management believes that it is possible that Duke Energy Ohio may incur an impairment of the carrying value of emission allowances held by Commercial Power of up to $100 million in the third quarter of 2008. This current estimate is based on total allowances held by Commercial Power as of June 30, 2008 compared to amounts projected to be utilized in operations through 2037.

OTHER MATTERS

At June 30, 2008, Duke Energy Ohio had approximately $440 million of auction rate pollution control bonds outstanding. The maximum auction rate for approximately $270 million of this debt is 1.75 times one-month London Interbank Offered Rate (LIBOR) and the maximum auction rate for the remaining balance of approximately $170 million is 2.0 times one-month LIBOR. While Duke Energy Ohio intends to refund and refinance these tax exempt auction rate bonds, the timing of such refinancing transactions is uncertain and subject to market conditions.

Item 4. *Controls and Procedures.*

Disclosure Controls and Procedures

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed by Duke Energy Ohio in the reports it files or submits under the Securities Exchange Act of 1934 (Exchange Act) is recorded, processed, summarized, and reported, within the time periods specified by the Securities and Exchange Commission's (SEC) rules and forms.

Disclosure controls and procedures include, without limitation, controls and procedures designed to provide reasonable assurance that information required to be disclosed by Duke Energy Ohio in the reports it files or submits under the Exchange Act is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, Duke Energy Ohio has evaluated the effectiveness of its disclosure controls and procedures (as such term is defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of June 30, 2008, and, based upon this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures are effective in providing reasonable assurance of compliance.

Changes in Internal Control over Financial Reporting

Under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, Duke Energy Ohio has evaluated changes in internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the fiscal quarter ended June 30, 2008 and have concluded that no change has materially affected, or is reasonably likely to materially affect, internal control over financial reporting.

Item 1. Legal Proceedings

For information regarding legal proceedings that became reportable events or in which there were material developments in the second quarter of 2008, see Note 10 to the Consolidated Financial Statements, "Regulatory Matters" and Note 11 to the Consolidated Financial Statements, "Commitments and Contingencies."

Item 1A. Risk Factors

In addition to the other information set forth in this report, careful consideration should be given to the factors discussed in Part I, "Item 1A. Risk Factors" in Duke Energy Ohio's Annual Report on Form 10-K for the year ended December 31, 2007, which could materially affect Duke Energy Ohio's financial condition or future results. Additional risks and uncertainties not currently known to Duke Energy Ohio or that Duke Energy Ohio currently deems to be immaterial also may adversely affect Duke Energy Ohio's financial condition and/or results of operations.

Item 6. Exhibits

(a) Exhibits

Exhibits filed or furnished herewith are designated by an asterisk (*).

Exhibit Number	
*31.1	Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*31.2	Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

The total amount of securities of the registrant or its subsidiaries authorized under any instrument with respect to long-term debt not filed as an exhibit does not exceed 10% of the total assets of the registrant and its subsidiaries on a consolidated basis. The registrant agrees, upon request of the Securities and Exchange Commission, to furnish copies of any or all of such instruments to it.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DUKE ENERGY OHIO, INC.

Date: August 14, 2008

/s/ DAVID L. HAUSER

David L. Hauser
Group Executive and
Chief Financial Officer

Date: August 14, 2008

/s/ STEVEN K. YOUNG

Steven K. Young
Senior Vice President and
Controller

EXHIBIT 31.1

CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, James E. Rogers, certify that:

1) I have reviewed this quarterly report on Form 10-Q of Duke Energy Ohio, Inc.;

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Acts Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2008

/s/ JAMES E. ROGERS
James E. Rogers
Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION OF THE CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, David L. Hauser, certify that:

1) I have reviewed this quarterly report on Form 10-Q of Duke Energy Ohio, Inc.;

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Acts Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the *registrant's fourth fiscal quarter in the case of an annual report*) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2008

/s/ DAVID L. HAUSER
David L. Hauser
Group Executive and
Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Duke Energy Ohio, Inc. ("Duke Energy Ohio") on Form 10-Q for the period ending June 30, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James E. Rogers, Chief Executive Officer of Duke Energy Ohio, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Duke Energy Ohio.

/s/ JAMES E. ROGERS
James E. Rogers
Chief Executive Officer
August 14, 2008

EXHIBIT 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Duke Energy Ohio, Inc. ("Duke Energy Ohio") on Form 10-Q for the period ending June 30, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David L. Hauser, Group Executive and Chief Financial Officer of Duke Energy Ohio, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Duke Energy Ohio.

/s/ DAVID L. HAUSER
David L. Hauser
Group Executive and Chief Financial Officer
August 14, 2008

FORM 8-K

Duke Energy Ohio, Inc. - N/A

Filed: May 28, 2008 (period: May 28, 2008)

Report of unscheduled material events or corporate changes.

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): **May 28, 2008**

DUKE ENERGY CORPORATION
(Exact Name of Registrant as Specified in its Charter)

Delaware	**1-32853**	**20-2777218**
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

526 South Church Street, Charlotte, North Carolina 28202
(Address of Principal Executive Offices, including Zip code)

(704) 594-6200
(Registrant's telephone number, including area code)

DUKE ENERGY OHIO, INC.
(Exact Name of Registrant as Specified in its Charter)

Delaware	**001-1232**	**31-0240030**
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

139 East Fourth Street, Cincinnati, Ohio 45202
(Address of Principal Executive Offices, including Zip code)

(704) 594-6200
(Registrant's telephone number, including area code)

DUKE ENERGY INDIANA, INC.
(Exact Name of Registrant as Specified in its Charter)

Indiana	**1-3543**	**35-0594457**
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

1000 East Main Street, Plainfield, Indiana 46168
(Address of Principal Executive Offices, including Zip code)

(704) 594-6200
(Registrant's telephone number, including area code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240. 13e-4(c))

Item 8.01. Other Events.

As previously reported in the registrants' prior disclosures, in 1999-2000, the U.S. Justice Department, acting on behalf of the EPA, filed a number of complaints and notices of violation against multiple utilities across the country for alleged violations of the New Source Review (NSR) provisions of the Clean Air Act (CAA). Generally, the government alleged that projects performed at various coal-fired units were major modifications, as defined in the CAA, and that the utilities violated the CAA when they undertook those projects without obtaining permits and installing emission controls for SO_2, NO_x and particulate matter. The complaints seek (1) injunctive relief to require installation of pollution control technology on various allegedly violating generating units, and (2) unspecified civil penalties in amounts of up to $27,500 per day for each violation. A number of Duke Energy's owned and operated plants have been subject to these allegations and lawsuits. The registrants asserted that there were no CAA violations because the applicable regulations do not require permitting in cases where the projects undertaken are "routine" or otherwise were not expected to result in a net increase in emissions.

On May 22, 2008, a jury verdict was returned finding in favor of the registrants on 10 of the 14 projects being disputed. The four projects that were ruled in favor of the government related to three units at Duke Energy Indiana, Inc.'s Wabash River station. The remedy phase of the case related to the Wabash River units is scheduled to begin December 8, 2008. Based on previous rulings by the judge in this case, the Wabash River units are not subject to civil penalties; and therefore, the remedy phase will address only the appropriate injunctive relief.

SIGNATURE

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

DUKE ENERGY CORPORATION

Date: May 28, 2008

By: /s/Marc E. Manly
Name: Marc E. Manly
Title: Group Executive and Chief Legal Officer

DUKE ENERGY OHIO, INC.

Date: May 28, 2008

By: /s/Marc E. Manly
Name: Marc E. Manly
Title: Group Executive and Chief Legal Officer

DUKE ENERGY INDIANA, INC.

Date: May 28, 2008

By: /s/Marc E. Manly
Name: Marc E. Manly
Title: Group Executive and Chief Legal Officer

FORM 10-Q

Duke Energy Ohio, Inc. - N/A

Filed: May 15, 2008 (period: March 31, 2008)

Quarterly report which provides a continuing view of a company's financial position

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2008 Or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from_____ to_____

Commission file number 1-1232

DUKE ENERGY OHIO, INC.

(Exact Name of Registrant as Specified in its Charter)

Ohio	31-0240030
(State or Other Jurisdiction of Incorporation)	(IRS Employer Identification No.)
139 East Fourth Street Cincinnati, OH (Address of Principal Executive Offices)	45202 (Zip code)

704-594-6200
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes☒ No☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☒	Smaller reporting company ☐
(Do not check if a smaller reporting company)	

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934).
Yes☐ No☒

All of the registrant's common stock is indirectly owned by Duke Energy Corporation (File No. 1-32853) which is a reporting company under the Securities Exchange Act of 1934, as amended.

The registrant meets the conditions set forth in General Instructions H(1)(a) and (b) of Form 10-Q and is therefore filing this form with the reduced disclosure format specified in General Instructions H(2) of Form 10-Q.

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DUKE ENERGY OHIO, INC.
FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2008

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

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

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

In light of these risks, uncertainties and assumptions, the events described in the forward-looking statements might not occur or might occur to a different extent or at a different time than Duke Energy Ohio has described. Duke Energy Ohio undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

DUKE ENERGY OHIO, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In millions)

Item 1. *Financial Statements.*

	Three Months Ended March 31,	
	2008	2007
Operating Revenues		
Non-regulated electric and other	$ 392	$ 346
Regulated electric	242	231
Regulated natural gas	357	339
Total operating revenues	991	916
Operating Expenses		
Fuel used in electric generation and purchased power	177	225
Operation, maintenance and other	182	185
Cost of natural gas	250	255
Depreciation and amortization	99	93
Property and other taxes	73	73
Total operating expenses	781	831
Gains (Losses) on Sales of Other Assets and Other, net	13	(11)
Operating Income	223	74
Other Income and Expenses, net	9	9
Interest Expense	26	23
Income Before Income Taxes	206	60
Income Tax Expense	73	23
Net Income	$ 133	$ 37

See Notes to Unaudited Consolidated Financial Statements

DUKE ENERGY OHIO, INC.
CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In millions)

	March 31, 2008	December 31, 2007
ASSETS		
Current Assets		
Cash and cash equivalents	$ 38	$ 33
Receivables (net of allowance for doubtful accounts of $3 at March 31, 2008 and at December 31, 2007)	281	334
Inventory	168	212
Unrealized gains on mark-to-market and hedging transactions	52	22
Other	67	94
Total current assets	606	695
Investments and Other Assets		
Restricted funds held in trust	63	62
Goodwill	2,325	2,325
Intangibles, net	529	551
Unrealized gains on mark-to-market and hedging transactions	40	17
Other	36	33
Total investments and other assets	2,993	2,988
Property, Plant and Equipment		
Cost	9,671	9,577
Less accumulated depreciation and amortization	2,151	2,097
Net property, plant and equipment	7,520	7,480
Regulatory Assets and Deferred Debits		
Deferred debt expense	23	23
Regulatory assets related to income taxes	93	90
Other	375	401
Total regulatory assets and deferred debits	491	514
Total Assets	$ 11,610	$ 11,677

See Notes to Unaudited Consolidated Financial Statements

DUKE ENERGY OHIO, INC.
CONSOLIDATED BALANCE SHEETS—(Continued)
(Unaudited)
(In millions, except share and per-share amounts)

	March 31, 2008	December 31, 2007
LIABILITIES AND COMMON STOCKHOLDER'S EQUITY		
Current Liabilities		
Accounts payable	$ 458	$ 602
Notes payable	47	189
Taxes accrued	228	172
Interest accrued	28	24
Current maturities of long-term debt	126	126
Unrealized losses on mark-to-market and hedging transactions	56	24
Other	86	86
Total current liabilities	1,029	1,223
Long-term Debt	1,808	1,810
Deferred Credits and Other Liabilities		
Deferred income taxes	1,450	1,436
Investment tax credits	16	16
Accrued pension and other post-retirement benefit costs	285	259
Unrealized losses on mark-to-market and hedging transactions	31	25
Asset retirement obligations	32	31
Other	290	343
Total deferred credits and other liabilities	2,104	2,110
Commitments and Contingencies		
Common Stockholder's Equity		
Common stock, $8.50 par value; 120,000,000 shares authorized and 89,663,086 shares outstanding at March 31, 2008 and December 31, 2007	762	762
Additional paid-in capital	5,570	5,570
Retained earnings	360	227
Accumulated other comprehensive loss	(23)	(25)
Total common stockholder's equity	6,669	6,534
Total Liabilities and Common Stockholder's Equity	$ 11,610	$ 11,677

See Notes to Unaudited Consolidated Financial Statements

DUKE ENERGY OHIO, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In millions)

	Three Months Ended March 31,	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 133	$ 37
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	100	93
(Gains) losses on sales of other assets and other, net	(13)	11
Deferred income taxes	8	(20)
Regulatory asset/liability amortization	7	8
Accrued pension and other post-retirement benefit costs	6	15
(Increase) decrease in:		
Net realized and unrealized mark-to-market and hedging transactions	(38)	25
Receivables	52	67
Inventory	59	64
Other current assets	32	(14)
Increase (decrease) in:		
Accounts payable	(132)	149
Taxes accrued	49	(124)
Other current liabilities	3	(11)
Regulatory asset/liability deferrals	7	(4)
Other assets	17	40
Other liabilities	(24)	(3)
Net cash provided by operating activities	266	333
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(133)	(147)
Purchases of emission allowances	—	(14)
Sales of emission allowances	12	22
Net proceeds from the sales of other assets	4	—
Change in restricted funds held in trust	—	11
Net cash used in investing activities	(117)	(128)
CASH FLOWS FROM FINANCING ACTIVITIES		
Redemption of long-term debt	(2)	(2)
Notes payable to affiliate, net	(142)	(227)
Net cash used in financing activities	(144)	(229)
Net increase (decrease) in cash and cash equivalents	5	(24)
Cash and cash equivalents at beginning of period	33	45
Cash and cash equivalents at end of period	$ 38	$ 21
Supplemental Disclosures		
Significant non-cash transactions:		
Purchase accounting adjustments	$ —	$ 4
Accrued capital expenditures	$ 39	$ 22

See Notes to Unaudited Consolidated Financial Statements

DUKE ENERGY OHIO, INC.

CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDER'S EQUITY AND COMPREHENSIVE INCOME
(Unaudited)
(In millions)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss): Net Gains (Losses) on Cash Flow Hedges	Accumulated Other Comprehensive Income (Loss): SFAS No. 158 Adjustment	Total
Balance at December 31, 2006	$ 762	$ 5,601	$ 55	$ (36)	$ (2)	$ 6,380
Net income	—	—	37	—	—	37
Other comprehensive income, net of tax effect of ($2)						
Cash flow hedges	—	—	—	4	—	4
Total comprehensive income						41
Push-down accounting adjustments	—	4	—	—	—	4
Adoption of SFAS No. 158—measurement date provision	—	—	(4)	—	—	(4)
Balance at March 31, 2007	$ 762	$ 5,605	$ 88	$ (32)	$ (2)	$ 6,421
Balance at December 31, 2007	$ 762	$ 5,570	$ 227	$ (32)	$ 7	$ 6,534
Net income	—	—	133	—	—	133
Other comprehensive income, net of tax effect of ($1)						
Cash flow hedges	—	—	—	2	—	2
Total comprehensive income						135
Balance at March 31, 2008	$ 762	$ 5,570	$ 360	$ (30)	$ 7	$ 6,669

See Notes to Unaudited Consolidated Financial Statements

DUKE ENERGY OHIO, INC.

Notes To Unaudited Consolidated Financial Statements

1. Basis of Presentation

Nature of Operations and Basis of Consolidation. Duke Energy Ohio, Inc. (Duke Energy Ohio), an Ohio corporation organized in 1837, is a wholly-owned subsidiary of Cinergy Corp. (Cinergy). Cinergy is a wholly-owned subsidiary of Duke Energy Corporation (Duke Energy). Duke Energy Ohio is a combination electric and gas public utility company that provides service in the southwestern portion of Ohio and through Duke Energy Kentucky, Inc. (Duke Energy Kentucky) in nearby areas of Kentucky. Duke Energy Ohio's principal lines of business include generation, transmission and distribution of electricity, the sale of and/or transportation of natural gas, and energy marketing. Duke Energy Ohio's principal subsidiary is Duke Energy Kentucky, a Kentucky corporation organized in 1901. Duke Energy Kentucky's principal lines of business include generation, transmission and distribution of electricity as well as the sale of and/or transportation of natural gas. References herein to Duke Energy Ohio includes Duke Energy Ohio and its subsidiaries.

These Consolidated Financial Statements include, after eliminating intercompany transactions and balances, the accounts of Duke Energy Ohio and all majority-owned subsidiaries where Duke Energy Ohio has control. These Consolidated Financial Statements also reflect Duke Energy Ohio's proportionate share of certain generation and transmission facilities in Ohio and Kentucky.

These Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles (GAAP) in the United States of America (U.S.) for interim financial information and with the instructions to Form 10-Q and Regulation S-X. Accordingly, these Consolidated Financial Statements do not include all of the information and footnotes required by GAAP for annual financial statements. Because the interim Consolidated Financial Statements and Notes do not include all of the information and footnotes required by GAAP for annual financial statements, the Consolidated Financial Statements and other information included in this quarterly report should be read in conjunction with the Consolidated Financial Statements and Notes in Duke Energy Ohio's Form 10-K for the year ended December 31, 2007.

These Consolidated Financial Statements reflect all normal recurring adjustments that are, in the opinion of management, necessary to fairly present Duke Energy Ohio's financial position and results of operations. Amounts reported in the interim Consolidated Statements of Operations are not necessarily indicative of amounts expected for the respective annual periods due to the effects of seasonal temperature variations on energy consumption, regulatory rulings, the timing of maintenance on electric generating units, changes in mark-to-market valuations, changing commodity prices, and other factors.

Use of Estimates. To conform to GAAP in the U.S., management makes estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements and Notes. Although these estimates are based on management's best available knowledge at the time, actual results could differ.

Reclassifications. Certain prior period amounts on the Consolidated Balance Sheets have been reclassified in connection with the adoption of Financial Accounting Standards Board (FASB) Staff Position (FSP) No. FIN 39-1, "*Amendment of FASB Interpretation No. 39, Offsetting of Amounts Related to Certain Contracts*," (FSP No. FIN 39-1) on January 1, 2008, as discussed below, the effects of which require retrospective application to the Consolidated Balance Sheets.

Netting of cash collateral and derivative assets and liabilities under master netting arrangements. On January 1, 2008, Duke Energy Ohio adopted FSP No. FIN 39-1. In accordance with FSP No. FIN 39-1, Duke Energy Ohio offsets fair value amounts (or amounts that approximate fair value) recognized on its Consolidated Balance Sheets related to cash collateral amounts receivable or payable against fair value amounts recognized for derivative instruments executed with the same counterparty under the same master netting agreement. Prior to the adoption of FSP No. FIN 39-1, Duke Energy Ohio offset the fair value amounts recognized for derivative instruments executed with the same counterparty under the same master netting agreement in accordance with FIN 39, "*Offsetting of Amounts Related to Certain Contracts*," but presented cash collateral on a gross basis within the Consolidated Balance Sheets. At March 31, 2008 and December 31, 2007, Duke Energy Ohio had receivables related to the right to reclaim cash collateral of approximately $16 million and $5 million, respectively, and had payables related to obligations to return cash collateral of approximately $34 million and an immaterial amount, respectively, that have been offset against net derivative positions in the Consolidated Balance Sheets. Duke Energy Ohio had immaterial cash collateral receivables under master netting arrangements that have not been offset against net derivative positions at March 31, 2008 and December 31, 2007, respectively. Duke Energy Ohio had an immaterial amount of cash collateral payables under master netting arrangements that have not been offset against net derivative positions at March 31, 2008 and December 31, 2007.

Unbilled Revenue. Revenues on sales of electricity and gas are recognized when either the service is provided or the product is delivered. Unbilled revenues are estimated by applying an average revenue per kilowatt hour or per thousand cubic feet (Mcf) for all cus-

DUKE ENERGY OHIO, INC.

Notes To Unaudited Consolidated Financial Statements—(Continued)

tomer classes to the number of estimated kilowatt hours or Mcf's delivered but not billed. The amount of unbilled revenues can vary significantly period to period as a result of factors including seasonality, weather, customer usage patterns and customer mix. Receivables for unbilled revenues of $121 million and $145 million at March 31, 2008 and December 31, 2007, respectively are included in the sales of accounts receivable to Cinergy Receivables Company, LLC (Cinergy Receivables), an unconsolidated entity formed by Cinergy.

Other Regulatory Assets and Deferred Debits. The state of Ohio passed comprehensive electric deregulation legislation in 1999, and in 2000, the Public Utilities Commission of Ohio (PUCO) approved a stipulation agreement relating to Duke Energy Ohio's transition plan creating a Regulatory Transition Charge (RTC) designed to recover Duke Energy Ohio's generation-related regulatory assets and transition costs over a ten-year period beginning January 1, 2001 and ending December 2010. Accordingly, application of Statement of Financial Accounting Standards (SFAS) No. 71, "*Accounting for Certain Types of Regulation*," (SFAS No. 71) was discontinued for the generation portion of Duke Energy Ohio's business. Duke Energy Ohio has a RTC related regulatory asset balance of approximately $215 million and $239 million as of March 31, 2008 and December 31, 2007, respectively, which is classified in Other Regulatory Assets and Deferred Debits on the Consolidated Balance Sheets.

2. Business Segments

Duke Energy Ohio operates the following business units: Franchised Electric and Gas and Commercial Power. Duke Energy Ohio's chief operating decision maker regularly reviews financial information about each of these business units in deciding how to allocate resources and evaluate performance. Both of the business units are considered reportable segments under SFAS No. 131, "*Disclosures about Segments of an Enterprise and Related Information*." There is no aggregation within Duke Energy Ohio's defined business segments.

Franchised Electric and Gas generates, transmits, distributes and sells electricity in southwestern Ohio and northern Kentucky. Franchised Electric and Gas also transports and sells natural gas in southwestern Ohio and northern Kentucky. It conducts operations primarily through Duke Energy Ohio and Duke Energy Kentucky.

Commercial Power owns, operates and manages non-regulated power plants and engages in the wholesale marketing and procurement of electric power, fuel and emission allowances related to these plants as well as other contractual positions. Commercial Power's generation asset fleet consists of Duke Energy Ohio's non-regulated generation in Ohio and the five Midwestern gas-fired non-regulated generation assets. Commercial Power's assets comprise approximately 7,600 megawatts of power generation primarily located in the Midwestern U.S. The asset portfolio has a diversified fuel mix with baseload and mid-merit coal-fired units as well as combined cycle and peaking natural gas-fired units. Most of the generation asset output in Ohio has been contracted through the rate stabilization plan (RSP).

The remainder of Duke Energy Ohio's operations are presented as Other. While it is not considered a business segment, Other primarily includes certain allocated governance costs (see Note 8).

Duke Energy Ohio's reportable segments offer different products and services and are managed separately as business units. Accounting policies for Duke Energy Ohio's segments are the same as those described in the Notes to the Consolidated Financial Statements in Duke Energy Ohio's Annual Report on Form 10-K for the year ended December 31, 2007. Management evaluates segment performance based on earnings before interest and taxes from continuing operations (EBIT).

On a segment basis, EBIT excludes discontinued operations and represents all profits from continuing operations (both operating and non-operating and excluding corporate governance costs) before deducting interest and taxes. Cash, cash equivalents, and investments in marketable securities, if any, are managed centrally by Duke Energy, so the interest and dividend income on those balances are excluded from the segments' EBIT.

Transactions between reportable segments are accounted for on the same basis as unaffiliated revenues and expenses in the accompanying Consolidated Financial Statements.

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Notes To Unaudited Consolidated Financial Statements—(Continued)

Business Segment Data

	Unaffiliated Revenues[a]	Segment EBIT/ Consolidated Income from Continuing Operations Before Income Taxes	Depreciation and Amortization
		(in millions)	
Three Months Ended March 31, 2008			
Franchised Electric and Gas	$ 599	$ 97	$ 58
Commercial Power	392	145	41
Total reportable segments	991	242	99
Other	—	(18)	—
Interest expense	—	(26)	—
Interest income and other	—	8	—
Total consolidated	$ 991	$ 206	$ 99
Three months Ended March 31, 2007			
Franchised Electric and Gas	$ 570	$ 79	$ 53
Commercial Power	346	13	40
Total reportable segments	916	92	93
Other	—	(18)	—
Interest expense	—	(23)	—
Interest income and other	—	9	—
Total consolidated	$ 916	$ 60	$ 93

(a) There were no intersegment revenues for the three months ended March 31, 2008 and 2007.

Segment Assets

	March 31, 2008	December 31, 2007
	(in millions)	
Franchised Electric and Gas	$ 5,469	$ 5,530
Commercial Power	6,141	6,147
Total reportable segments/consolidated assets	$ 11,610	$ 11,677

3. Dispositions

For the three months ended March 31, 2008 and 2007, the sale of emission allowances resulted in approximately $12 million and $22 million, respectively, in proceeds and net pre-tax gains (losses) of $12 million and $(11) million, respectively, recorded in Gains (losses) on Sales of Other Assets and Other, net on the Consolidated Statements of Operations. These amounts primarily relate to Commercial Power's sales of emission allowances.

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Notes To Unaudited Consolidated Financial Statements—(Continued)

4. Inventory

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

	March 31, 2008	December 31, 2007
	(in millions)	
Gas held in storage	$ 22	$ 69
Fuel for use in electric generation	77	77
Materials and supplies	69	66
Total Inventory	$ 168	$ 212

5. Debt and Credit Facilities

Duke Energy Ohio receives support for its short-term borrowing needs through its participation with Duke Energy and other Duke Energy subsidiaries in a money pool arrangement, which allows Duke Energy Ohio to better manage its cash and working capital requirements. Under this arrangement, those companies with short-term funds may provide short-term loans to affiliates participating under this arrangement. As of March 31, 2008 and December 31, 2007, Duke Energy Ohio was in a payable position of $47 million and $189 million, respectively, classified within Notes payable in the accompanying Consolidated Balance Sheets. During the three months ended March 31, 2008 and 2007, the $142 million and $227 million change in the money pool, respectively, is reflected as a cash outflow in Notes payable to affiliate, net within Net cash used in financing activities on the Consolidated Statements of Cash Flows.

Available Credit Facilities and Restrictive Debt Covenants. In March 2008, Duke Energy entered into an amendment to its $2.65 billion master credit facility whereby the borrowing capacity was increased by $550 million to $3.2 billion. Pursuant to the amendment, the additional credit capacity of $550 million specifically increased the borrowing sub limit for Duke Energy Ohio (excluding Duke Energy Kentucky) by $250 million to $750 million. The borrowing sub limit of Duke Energy Kentucky did not change. In May 2008, Duke Energy reallocated the borrowing sub limits under the master credit facility and reduced Duke Energy Ohio's borrowing sub limit by $50 million to $700 million.

The issuance of commercial paper, letters of credit and other borrowings reduces the amount available under the credit facility.

Duke Energy's credit agreement contains various financial and other covenants, including, but not limited to, a covenant regarding the debt-to-total capitalization ratio at Duke Energy, Duke Energy Ohio and Duke Energy Kentucky to not exceed 65%. Duke Energy Ohio's debt agreements also contain various financial and other covenants. Failure to meet these covenants beyond applicable grace periods could result in accelerated due dates and/or termination of the agreements. As of March 31, 2008, Duke Energy and Duke Energy Ohio were in compliance with those covenants. In addition, some credit agreements may allow for acceleration of payments or termination of the agreements due to nonpayment, or the acceleration of other significant indebtedness of the borrower or some of its subsidiaries. None of the debt or credit agreements contain material adverse change clauses.

As of March 31, 2008 and December 31, 2007, approximately $96 million of certain pollution control bonds, which are short-term obligations by nature, are classified as Long-term Debt on the Consolidated Balance Sheets due to Duke Energy Ohio's intent and ability to utilize such borrowings as long-term financing. Duke Energy's credit facilities with non-cancelable terms in excess of one year as of the balance sheet date give Duke Energy Ohio the ability to refinance these short-term obligations on a long-term basis.

DUKE ENERGY OHIO, INC.
Notes To Unaudited Consolidated Financial Statements—(Continued)

6. Employee Benefit Obligations

Duke Energy Ohio participates in pension and other post-retirement benefit plans sponsored by Cinergy. Duke Energy Ohio's net periodic benefit costs as allocated by Cinergy were as follows:

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
	(in millions)	
Qualified Pension Benefits[a]	$ 2	$ 8
Other Post-retirement Benefits[b]	$ 3	$ 3

(a) These amounts exclude approximately $1 million and $3 million for the three months ended March 31, 2008 and 2007, respectively, of regulatory asset amortization resulting from purchase accounting.

(b) The three months ended March 31, 2007 excludes approximately $1 million of regulatory asset amortization resulting from purchase accounting.

Duke Energy's policy is to fund amounts for its U.S. qualified pension plans on an actuarial basis to provide assets sufficient to meet benefit payments to be paid to plan participants. Duke Energy did not make contributions to the legacy Cinergy qualified or non-qualified pension plans during the three months ended March 31, 2008 or 2007. Duke Energy does not anticipate making contributions to the legacy Cinergy qualified or non-qualified pension plans during 2008. Duke Energy also sponsors employee savings plans that cover substantially all U.S. employees. Duke Energy Ohio expensed pre-tax employer matching contributions of approximately $1 million for each of the three months ended March 31, 2008 and 2007.

7. Goodwill and Intangibles

The following table shows goodwill by business segment at March 31, 2008 and December 31, 2007:

Carrying Amount of Goodwill

	Balance at December 31, 2007	Changes	Balance at March 31, 2008
		(in millions)	
Business Segment:			
Commercial Power	$ 1,188	$ —	$ 1,188
Franchised Electric and Gas	1,137	—	1,137
Total Goodwill	$ 2,325	$ —	$ 2,325

The carrying amount and accumulated amortization of intangible assets as of March 31, 2008 and December 31, 2007 are as follows:

	March 31, 2008	December 31, 2007
	(in millions)	
Emission allowances	$ 349	$ 365
Gas, coal, and power contracts	271	271
Other	9	9
Total gross carrying amount	629	645
Accumulated amortization—gas, coal, and power contracts	(95)	(89)
Accumulated amortization—other	(5)	(5)
Total accumulated amortization	(100)	(94)
Total intangible assets, net	$ 529	$ 551

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Notes To Unaudited Consolidated Financial Statements—(Continued)

Emission allowances in the table above include emission allowances, which as part of the Duke Energy and Cinergy merger, were recorded at fair value on the date of the merger and emission allowances purchased by Duke Energy Ohio. Additionally, Duke Energy Ohio is allocated certain zero cost emission allowances on an annual basis. Carrying value of emission allowances sold or consumed during the three months ended March 31, 2008 and 2007 were $16 million and $67 million, respectively. See Note 3 for discussion of gains and losses on sales of emission allowances at Commercial Power during the three months ended March 31, 2008 and 2007.

Amortization expense for gas, coal and power contracts and other intangible assets for the three months ended March 31, 2008 and 2007 was approximately $6 million and $12 million, respectively.

In connection with the Duke Energy and Cinergy merger, Duke Energy Ohio recorded an intangible liability of approximately $113 million associated with the market based standard service offer (MBSSO) in Ohio, which is being recognized in earnings over the remaining regulatory period that ends on December 31, 2008. During the three months ended March 31, 2008 and 2007, Duke Energy Ohio amortized approximately $17 million and less than $1 million, respectively, to income related to this intangible liability. The carrying amount of this intangible liability was approximately $50 million and $67 million at March 31, 2008 and December 31, 2007, respectively. Duke Energy Ohio also recorded approximately $56 million of intangible liabilities associated with other power sale contracts in connection with the merger. The carrying amount of this intangible liability was approximately $21 million and $22 million at March 31, 2008 and December 31, 2007, respectively. During the three months ended March 31, 2008 and 2007, Duke Energy Ohio amortized approximately $1 million and $4 million, respectively, to income related to these power sale contracts.

8. Related Party Transactions

Duke Energy Ohio engages in related party transactions. These transactions are generally performed at cost and in accordance with the applicable state and federal commission regulations. Balances due to or due from related parties included in the Consolidated Balance Sheets as of March 31, 2008 and December 31, 2007 are as follows:

	March 31, 2008	December 31, 2007
	(In millions)	
Current assets due from affiliated companies[a][b]	$ 49	$ 58
Current liabilities due to affiliated companies[a][c]	$ (221)	$ (266)
Non-current liabilities due to affiliated companies[d]	$ (4)	$ —
Net deferred tax liabilities to Duke Energy[a][e]	$ (1,416)	$ (1,401)

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

(b) Of the balance at March 31, 2008, approximately ($38) million is classified as Receivables and ($11) million is classified as Other Current Assets. The balance at December 31, 2007 is classified as Receivables on the Consolidated Balance Sheets.

(c) Of the balance at March 31, 2008, approximately ($159) million is classified as Accounts payable and ($62) million is classified as Taxes accrued on the Consolidated Balance Sheets. Of the balance at December 31, 2007, approximately ($256) million is classified as Accounts payable and ($10) million is classified as Taxes accrued on the Consolidated Balance Sheets.

(d) The balance at March 31, 2008 is classified as Unrealized losses on mark-to-market and hedging transactions within Deferred Credits and Other Liabilities on the Consolidated Balance Sheets.

(e) Of the balance at March 31, 2008, approximately ($1,423) million is classified as Deferred income taxes, ($16) million is classified as Investment tax credits and $23 million is classified as Other within Current Assets on the Consolidated Balance Sheets. Of the balance at December 31, 2007, approximately ($1,409) million is classified as Deferred income taxes, ($16) million is classified as Investment tax credits and $24 million is classified as Other within Current Assets on the Consolidated Balance Sheets.

Duke Energy Ohio is allocated its proportionate share of corporate governance and other costs by a consolidated affiliate of Duke Energy and a consolidated affiliate of Cinergy. Corporate governance and other shared services costs are primarily allocations of corporate costs, such as human resources, legal and accounting fees, as well as other third party costs. The expenses associated with certain allocated corporate governance and other service costs for Duke Energy Ohio, which are recorded in Operation, maintenance and other within Operating Expenses on the Consolidated Statements of Operations were $61 million and $56 million for the three months ended March 31, 2008 and 2007, respectively.

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Notes To Unaudited Consolidated Financial Statements—(Continued)

See Note 6 for detail on expense amounts allocated from Cinergy to Duke Energy Ohio related to Duke Energy Ohio's participation in Cinergy's qualified and non-qualified defined benefit pension plans and post-retirement health care and insurance benefits. Additionally, Duke Energy Ohio has been allocated accrued pension and other post-retirement benefit obligations from Cinergy of approximately $293 million at March 31, 2008 and approximately $266 million at December 31, 2007. These amounts have been classified in the Consolidated Balance Sheets as follows:

	March 31, 2008	December 31, 2007
	(in millions)	
Other current liabilities	$ 5	$ 5
Accrued pension and other post-retirement benefit costs	$ 285	$ 259
Other deferred credits and other liabilities	$ 3	$ 2

Additionally, certain trade receivables have been sold by Duke Energy Ohio to Cinergy Receivables, an unconsolidated entity formed by Cinergy. The proceeds obtained from the sales of receivables are largely cash but do include a subordinated note from Cinergy Receivables for a portion of the purchase price. This subordinated note is classified by Duke Energy Ohio as Receivables in the Consolidated Balance Sheets and was approximately $175 million and $189 million as of March 31, 2008 and December 31, 2007, respectively. The interest income associated with Cinergy Receivables for Duke Energy Ohio, which is recorded in Other Income and Expenses, net on the Consolidated Statements of Operations, was approximately $8 million for the three months ended March 31, 2008 and 2007.

Duke Energy Ohio participates in a money pool with Duke Energy and other Duke Energy subsidiaries. As of March 31, 2008 and December 31, 2007, Duke Energy Ohio was in a payable position of $47 million and $189 million, respectively, classified within Notes payable in the accompanying Consolidated Balance Sheets. The expenses associated with money pool activity for Duke Energy Ohio, which are recorded in Interest Expense on the Consolidated Statements of Operations for the three months ended March 31, 2008 and 2007 were $1 million and $2 million, respectively. See Note 5 for further discussion of the money pool arrangement.

9. Risk Management Instruments

As discussed in Note 1, on January 1, 2008, Duke Energy Ohio adopted FSP No. FIN 39-1. In accordance with FSP No. FIN 39-1, Duke Energy Ohio offsets fair value amounts (or amounts that approximate fair value) recognized on its Consolidated Balance Sheets related to cash collateral amounts receivable or payable against fair value amounts recognized for derivative instruments executed with the same counterparty under the same master netting agreement. Amounts presented in the table below exclude cash collateral amounts which are disclosed separately in Note 1.

The following table shows the carrying value of Duke Energy Ohio's derivative portfolio as of March 31, 2008, and December 31, 2007.

Net Derivative Portfolio Assets (Liabilities) reflected in the Consolidated Balance Sheets: (In millions)

	March 31, 2008	December 31, 2007
Hedging	$ (23)	$ (23)
Undesignated	46	7
Total	$ 23	$ (16)

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

The $39 million increase in the undesignated derivative portfolio fair value is due primarily to unrealized mark-to-market gains within Commercial Power, primarily as a result of increasing coal prices.

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Commodity Cash Flow Hedges. As of March 31, 2008, approximately $38 million of the pre-tax unrealized net losses on derivative instruments related to commodity cash flow hedges included on the Consolidated Balance Sheet in Accumulated Other Comprehensive Loss (AOCI) are expected to be recognized in earnings during the next 12 months as the hedged transactions occur. However, due to the volatility of the commodities markets, the corresponding values in AOCI will likely change prior to its reclassification into earnings.

No gains or losses due to hedge ineffectiveness were recorded during the three months ended March 31, 2008 or 2007. The amount recognized for transactions that no longer qualified as cash flow hedges was not material for either the three months ended March 31, 2008 or March 31, 2007.

See Note 12 for additional information related to the fair value of Duke Energy Ohio's derivative instruments.

10. Regulatory Matters

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

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

- The KPSC required that Duke Energy Kentucky provide $8 million in rate reductions to its customers over five years, ending when new rates are established in the next rate case after January 1, 2008. Approximately $1 million of the rate reduction was passed through to customers during each of the three months ended March 31, 2008 and 2007.

- The FERC approved the merger without conditions.

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

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

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

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the nonresidential RTC terminates at the end of 2010 and agreed to give further consideration to whether Duke Energy Ohio may transfer its generating assets to an EWG.

On February 15, 2008, Duke Energy Ohio filed a notice of appeal with the Ohio Supreme Court challenging a portion of the PUCO's decision on remand regarding Duke Energy Ohio's RSP. The October 2007 order permits non-residential customers to avoid certain charges associated with the costs of Duke Energy Ohio standing ready to serve such customers if they return after being served by another supplier. Duke Energy Ohio believes the PUCO exceeded its authority in modifying the charges that may be avoided, resulting in Duke Energy Ohio having to subsidize Ohio's competitive electric market. Duke Energy Ohio has asked the Supreme Court to reverse the PUCO ruling and require that non-residential customers pay the charges associated with Duke Energy Ohio standing ready to serve them should they return from a competitive supplier. On March 28, 2008, Duke Energy Ohio voluntarily withdrew its appeal. The OCC filed a notice of appeal challenging the PUCO's October 2007 decision as unlawful and unreasonable. The OCC and Ohio Partners for Affordable Energy (OPAE) also filed appeals from the PUCO's November 20, 2007 order approving Duke Energy Ohio's MBSSO riders. Duke Energy Ohio has intervened in each appeal. Pending the Ohio Supreme Court's consideration of its initial appeal, the OCC has requested that the PUCO stay implementation of the Infrastructure Maintenance Fund charge to be collected from customers approved in the October 2007 order. On April 14, 2008, Duke Energy Ohio filed a motion to intervene in OCC's appeal and on April 30, 2008, the Ohio Supreme Court granted such motion to intervene. At this time, Duke Energy Ohio cannot predict whether the Ohio Supreme Court will reverse the PUCO's decision or whether the PUCO will grant the OCC's request for a stay. Additionally, Duke Energy Ohio cannot predict the outcome of the MBSSO rider appeal; however, Duke Energy Ohio does not anticipate the resolution of this matter will have a material impact on its results of operations, cash flows or financial position.

In August 2006, Duke Energy Ohio filed an application with the PUCO to amend its MBSSO through 2010. The proposal provides for continued electric system reliability, a simplified market price structure and clear price signals for customers, while helping to maintain a stable revenue stream for Duke Energy Ohio. On November 30, 2007, due to new legislation pending in the Ohio General Assembly regarding the pricing of competitive retail generation services, Duke Energy Ohio requested PUCO approval, which the PUCO granted, to withdraw the Duke Energy Ohio application to amend its MBSSO. New legislation (SB 221) was passed on April 23, 2008 and signed by the Governor of Ohio on May 1, 2008. The new law codifies the PUCO's authority to approve an electric utility's standard service offer through an electric security plan (ESP), which would allow for pricing structures similar to the current MBSSO. Electric utilities are required to file an ESP and may also file an application for a market rate option at the same time. The market rate option is a price determined through a competitive bidding process. If a market rate option price is approved, the utility would blend in the MBSSO or ESP price with the market rate option price over a two- to ten-year period, subject to the PUCO's discretion. SB 221 provides for the PUCO to approve non-by-passable charges for new generation, including construction work-in-process (CWIP) from the outset of construction, as part of an ESP. The new law grants the PUCO discretion to approve single issue rate adjustments to distribution and transmission rates and establishes new alternative energy resources portfolio standards, such that the utility's portfolio must consist of at least 25% of these resources by 2025. SB 221 also provides a separate requirement for energy efficiency, which must reduce 22% of the utility's load by 2025. The utility's earnings under the ESP are subject to an annual earnings test and the PUCO must order a refund if it finds that the utility's earnings significantly exceed the earnings of benchmark companies with similar business and financial risks. The earnings test acts as a cap to the ESP price. SB 221 also limits the ability of a utility to transfer its dedicated generating assets to an EWG absent PUCO approval. Duke Energy Ohio plans to file a new generation pricing formula before the MBSSO expires.

Duke Energy Ohio is currently preparing an ESP filing under SB 221. This filing will address pricing for generation service beginning January 1, 2009, when the current RSP is scheduled to expire. The plan will also provide for pricing for the advanced energy, renewables and energy efficiency portfolio standards that Duke Energy Ohio is required to meet under SB 221. Duke Energy Ohio expects to make the filing on or shortly after the effective date of the new legislation. At this time, Duke Energy Ohio cannot predict the outcome of this proceeding.

Duke Energy Ohio Gas Rate Case. In July 2007, Duke Energy Ohio filed an application with the PUCO for an increase in its base rates for gas service. Duke Energy Ohio sought an increase of approximately $34 million in revenue, or approximately 5.7%, to be effective in the spring of 2008. The application also requests approval to continue tracker recovery of costs associated with an accelerated gas main replacement program. The PUCO accepted the application for filing in September 2007. The staff of the PUCO issued a Staff Report in December 2007 recommending an increase of approximately $14 million to $20 million in revenue. The Staff Report also recommended approval for Duke Energy Ohio to continue tracker recovery of costs associated with an accelerated gas main replacement program. On February 28, 2008, Duke Energy Ohio reached a settlement agreement with the PUCO Staff and all of the intervening parties on its

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request for an increase in natural gas base rates. The settlement calls for an annual revenue increase of approximately $18 million in base revenue, or 3 percent over current revenue, and permits continued recovery of costs through 2018 for Duke Energy Ohio's accelerated gas main replacement program and permits recovery of carrying costs on gas stored underground via its monthly gas cost adjustment filing. The settlement is subject to the review and approval of the PUCO. An order is expected in the second quarter of 2008.

Duke Energy Kentucky Gas Rate Cases. In 2002, the KPSC approved Duke Energy Kentucky's gas base rate case which included, among other things, recovery of costs associated with an accelerated gas main replacement program. The approval authorized a tracking mechanism to recover certain costs including depreciation and a rate of return on the program's capital expenditures. The Kentucky Attorney General appealed to the Franklin Circuit Court the KPSC's approval of the tracking mechanism as well as the KPSC's subsequent approval of annual rate adjustments under this tracking mechanism. In 2005, both Duke Energy Kentucky and the KPSC requested that the court dismiss these cases.

In February 2005, Duke Energy Kentucky filed a gas base rate case with the KPSC requesting approval to continue the tracking mechanism and for a $14 million annual increase in base rates. A portion of the increase is attributable to recovery of the current cost of the accelerated gas main replacement program in base rates. In December 2005, the KPSC approved an annual rate increase of $8 million and re-approved the tracking mechanism through 2011. In February 2006, the Kentucky Attorney General appealed the KPSC's order to the Franklin Circuit Court, claiming that the order improperly allows Duke Energy Kentucky to increase its rates for gas main replacement costs in between general rate cases, and also claiming that the order improperly allows Duke Energy Kentucky to earn a return on investment for the costs recovered under the tracking mechanism which permits Duke Energy Kentucky to recover its gas main replacement costs.

In August 2007, the Franklin Circuit Court consolidated all the pending appeals and ruled that the KPSC lacks legal authority to approve the gas main replacement tracking mechanism, and any other annual rate adjustments under the tracking mechanism. To date, Duke Energy Kentucky has collected approximately $9 million in annual rate adjustments under the tracking mechanism. Duke Energy Kentucky and the KPSC have appealed these cases to the Kentucky Court of Appeals and Duke Energy Kentucky continues to utilize tracking mechanisms in its billed rates to customers. At this time, Duke Energy Kentucky cannot predict the outcome of these proceedings.

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

On November 15, 2007, Duke Energy Kentucky filed its annual application to continue existing energy efficiency programs, consisting of nine residential and two commercial and industrial programs, and to true-up its gas and electric tracking mechanism for recovery of lost revenues, program costs and shared savings. On February 11, 2008, Duke Energy Kentucky filed a motion to amend its energy efficiency programs and applied to reinstitute a low income Home Energy Assistance Program. An order on both applications is expected in the second quarter of 2008.

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

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

FERC 203 Application. On April 23, 2008, Duke Energy Ohio and certain affiliates filed an application with the FERC requesting approval to transfer Duke Energy Ohio's electric generating facilities, some of which are designated to serve Ohio customers, to affiliate companies. The transaction may also entail the transfer of certain liabilities and debt. The affiliate companies would be consolidated by Duke Energy, but may not be consolidated by Duke Energy Ohio. The FERC filing does not obligate Duke Energy to make the transfer of the electric generating facilities, and management is in the process of evaluating the potential transfer. Management believes the proposed asset transfer could provide greater financial flexibility for the assets. The asset transfer complies with Duke Energy Ohio's Corporate Separation Plan that was amended by the PUCO in 2007. The PUCO has requested that FERC not rule on the matter until after January 1, 2009. As previously discussed, SB 221 limits the ability of a utility to transfer its designated generating assets to an EWG absent PUCO approval. The filing does not impact Duke Energy Ohio's current rates.

Midwest Independent Transmission System Operator, Inc. (Midwest ISO) Resource Adequacy Filing. On December 28, 2007, the Midwest ISO filed its "Electric Tariff Filing Regarding Resource Adequacy" in compliance with the FERC's request that Midwest ISO file Phase II of its long-term Resource Adequacy plan by December 2007. The proposal establishes a resource adequacy requirement in the form of planning reserve margin. On March 26, 2008, the FERC ruled on the Midwest ISO's Resource Adequacy filing and ordered that the new tariff be effective March 27, 2008. This action established a Midwest ISO-wide resource adequacy requirement for the first Planning Year. In the Order, the FERC clarified that States have the authority to set their own planning reserve margins, as long as they are consistent with any FERC-approved reliability standard. The FERC also rejected the use of power purchase agreements or seller's choice contracts as capacity resources if the contracts do not specify resources. Duke Energy Ohio does not believe the Midwest ISO resource adequacy requirement will have a material impact on its consolidated results of operations, cash flows, or financial position.

Midwest ISO's Establishment of an Ancillary Services Market. On February 25, 2008, the FERC conditionally accepted the Midwest ISO proposal to implement a day-ahead and real-time ancillary services market (ASM), including a scarcity pricing proposal. The FERC's conditional approval is based upon "cost benefits" verification. By approving the ASM proposal, the FERC essentially approved the transfer to, and consolidation of, balancing authority responsibility in the Midwest ISO so that it will become the North American Electric Reliability Council-certified Balancing Authority for the entire Midwest ISO area. This transfer will allow the Midwest ISO to determine operating reserve requirements and procure operating reserves from all qualified resources from an organized market, in place of the current system of local management and procurement of reserves by the 24 balancing authorities. On March 21, 2008, Midwest ISO informed the FERC that it was delaying the ASM launch date until September 9, 2008. At this time, Duke Energy Ohio does not believe the establishment of the Midwest Ancillary Services Market will have a material impact on its consolidated results of operations, cash flows, or financial position.

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

11. Commitments and Contingencies

Environmental

Duke Energy Ohio is subject to federal, state and local regulations regarding air and water quality, hazardous and solid waste disposal and other environmental matters. These regulations can be changed from time to time, imposing new obligations on Duke Energy Ohio.

Remediation activities Duke Energy Ohio and its affiliates are responsible for environmental remediation at various contaminated sites. These include some properties that are part of ongoing Duke Energy Ohio operations, sites formerly owned or used by Duke

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Energy Ohio entities, and sites owned by third parties. Remediation typically involves management of contaminated soils and may involve groundwater remediation. Managed in conjunction with relevant federal, state and local agencies, activities vary with site conditions and locations, remedial requirements, complexity and sharing of responsibility. If remediation activities involve statutory joint and several liability provisions, strict liability, or cost recovery or contribution actions, Duke Energy Ohio or its affiliates could potentially be held responsible for contamination caused by other parties. In some instances, Duke Energy Ohio may share liability associated with contamination with other potentially responsible parties, and may also benefit from insurance policies or contractual indemnities that cover some or all cleanup costs. All of these sites generally are managed in the normal course of business or affiliate operations. Duke Energy Ohio believes that completion or resolution of these matters will have no material adverse effect on its consolidated results of operations, cash flows or financial position.

Clean Water Act 316(b). The U.S. Environmental Protection Agency (EPA) finalized its cooling water intake structures rule in July 2004. The rule established aquatic protection requirements for existing facilities that withdraw 50 million gallons or more of water per day from rivers, streams, lakes, reservoirs, estuaries, oceans, or other U.S. waters for cooling purposes. Three of six coal-fired generating facilities in which Duke Energy Ohio is either a whole or partial owner are affected sources under that rule. On January 25, 2007, the U.S. Court of Appeals for the Second Circuit issued its opinion in *Riverkeeper, Inc. v. EPA*, Nos. 04-6692-ag(L) et. al. (2d Cir. 2007) remanding most aspects of the EPA's rule back to the agency. The court effectively disallowed those portions of the rule most favorable to industry, and the decision creates a great deal of uncertainty regarding future requirements and their timing. Duke Energy Ohio is still unable to estimate costs to comply with the EPA's rule, although it is expected that costs will increase as a result of the court's decision. The magnitude of any such increase cannot be estimated at this time. On April 14, 2008, the U.S. Supreme Court issued an order granting review of the case. A decision is not likely until 2009 after briefs are submitted and oral argument occurs.

Clean Air Interstate Rule (CAIR). The EPA finalized its CAIR in May 2005. The CAIR limits total annual and summertime nitrogen oxides (NO_x) emissions and annual sulfur dioxide (SO_2) emissions from electric generating facilities across the Eastern U.S. through a two-phased cap-and-trade program. Phase 1 begins in 2009 for NO_x and in 2010 for SO_2. Phase 2 begins in 2015 for both NO_x and SO_2. Duke Energy Ohio currently estimates that it will spend approximately $150 million between 2008 and 2012 to comply with Phase 1 of CAIR at plants that Duke Energy Ohio owns or partially owns but does not operate. Duke Energy Ohio currently estimates that it will not incur any significant costs for complying with Phase 2 of CAIR. Duke Energy Ohio receives partial recovery of depreciation and financing costs related to environmental compliance projects for 2005-2008 through its RSP (see Note 10).

On March 25, 2008, the U.S. Court of Appeals for the District of Columbia heard oral arguments in a case involving multiple challenges to the CAIR. Nearly all aspects of the rule were challenged, but Duke Energy challenged only the portions pertaining to SO_2 allowance allocations. A decision is expected in the summer of 2008. The outcome and any resulting consequences cannot be estimated at this time.

Clean Air Mercury Rule (CAMR). The EPA finalized its CAMR in May 2005. The CAMR was to have limited total annual mercury emissions from coal-fired power plants across the U.S. through a two-phased cap-and-trade program beginning in 2010. On February 8, 2008 the U.S. Court of Appeals for the District of Columbia issued its opinion in *New Jersey v. EPA*, No. 05-1097, vacating the CAMR. The decision creates uncertainty regarding future mercury emission reduction requirements and their timing. The EPA and utilities have requested rehearing of the D.C. Circuit Court decision by the entire D.C. Circuit panel (en banc review). The court has ordered briefing on whether it should accept the case for en banc review. Thus, the matter remains unsettled until the court decides whether to rehear the case. Barring reversal of the decision if reheard, there will be a delay in the implementation of federal mercury requirements for existing coal-fired power plants while the EPA conducts a new rulemaking. Duke Energy Ohio is unable to estimate the costs to comply with a new EPA rule, although it is expected that costs will increase as a result of the court's decision.

Coal Combustion Product (CCP) Management. Duke Energy Ohio currently estimates that it will spend approximately $95 million over the period 2008-2012 to install synthetic caps and liners at existing and new CCP landfills and to convert CCP handling systems from wet to dry systems.

Extended Environmental Activities and Accruals. Included in Other within Deferred Credits and Other Liabilities on the Consolidated Balance Sheets were total accruals related to extended environmental-related activities of approximately $8 million as of March 31, 2008 and December 31, 2007, respectively. These accruals represent Duke Energy Ohio's provisions for costs associated with remediation

activities at some of its current and former sites, as well as other relevant environmental contingent liabilities. Duke Energy Ohio believes that completion or resolution of these matters will have no material impact on its consolidated results of operations, cash flows or financial position.

Litigation

New Source Review (NSR). In 1999-2000, the U.S. Department of Justice acting on behalf of the EPA, filed a number of complaints and notices of violation against multiple utilities across the country for alleged violations of the NSR provisions of the Clean Air Act (CAA). Generally, the government alleges that projects performed at various coal-fired units were major modifications, as defined in the CAA, and that the utilities violated the CAA when they undertook those projects without obtaining permits and installing the best available emission controls for SO_2, NO_x and particulate matter. The complaints seek injunctive relief to require installation of pollution control technology on various allegedly violating generating units, and unspecified civil penalties in amounts of up to $27,500 per day for each violation. Two of Duke Energy Ohio's plants have been subject to these allegations. Duke Energy Ohio asserts that there were no CAA violations because the applicable regulations do not require permitting in cases where the projects undertaken are "routine" or otherwise do not result in a net increase in emissions.

In November 1999, the U.S. brought a lawsuit in the U.S. Federal District Court for the Southern District of Indiana against Duke Energy Ohio alleging various violations of the CAA at Duke Energy Ohio's Beckjord and Miami Fort Stations. The lawsuit alleges that Duke Energy Ohio violated the CAA by not obtaining Prevention of Significant Deterioration, Non-Attainment New Source Review and Ohio's State Implementation Plan (SIP) permits. Additionally, the suit claims that Duke Energy Ohio violated an Administrative Consent Order entered into in 1998 between the EPA and Cinergy relating to alleged violations of Ohio's SIP provisions governing particulate matter at Duke Energy Ohio's Beckjord Station. Three northeast states and two environmental groups have intervened in the case. In June 2007, the trial court ruled, as a matter of law, that certain of the projects do not qualify for the "routine" exception in the regulations. The court ruled further that the defendants had "fair notice" of the EPA's interpretation of the applicable regulations. Duke Energy Ohio is arguing at trial that all of the projects were not reasonably expected to cause an increase in annual emissions and that certain of the projects are also exempt from the statute because they were "routine." A jury trial commenced on May 5, 2008.

Duke Energy Ohio has been informed by Dayton Power and Light (DP&L) that in June 2000, the EPA issued a Notice of Violation (NOV) to DP&L for alleged violations of CAA requirements at a station operated by DP&L and jointly-owned by DP&L, Columbus Southern Power Company (CSP), and Duke Energy Ohio. The NOV indicated the EPA may issue an order requiring compliance with the requirements of the Ohio SIP, or bring a civil action seeking injunctive relief and civil penalties of up to $27,500 per day for each violation. In September 2004, Marilyn Wall and the Sierra Club brought a lawsuit against Duke Energy Ohio, DP&L and CSP for alleged violations of the CAA at this same generating station. On December 14, 2007, the Court ordered a stay of the litigation pending settlement negotiations among the parties. That stay is set to expire on May 15, 2008. Trial is currently scheduled to commence in August 2008.

It is not possible to predict with certainty whether Duke Energy Ohio will incur any liability or to estimate the damages, if any, that Duke Energy Ohio might incur in connection with these matters. Ultimate resolution of these matters, even in settlement, could have a material adverse effect on Duke Energy Ohio's consolidated results of operations, cash flows or financial position. However, Duke Energy Ohio will pursue appropriate regulatory treatment for any costs incurred in connection with such resolution.

Section 126 Petitions. In March 2004, the state of North Carolina filed a petition under Section 126 of the CAA in which it alleges that sources in 13 upwind states, including Ohio, significantly contribute to North Carolina's non-attainment with certain ambient air quality standards. In August 2005, the EPA issued a proposed response to the petition. The EPA proposed to deny the ozone portion of the petition based upon a lack of contribution to air quality by the named states. The EPA also proposed to deny the particulate matter portion of the petition based upon the CAIR Federal Implementation Plan (FIP), that would address the air quality concerns from neighboring states. On April 28, 2006, the EPA denied North Carolina's petition based upon the final CAIR FIP described above. North Carolina has filed a legal challenge to the EPA's denial.

Carbon Dioxide (CO_2) Litigation. In July 2004, the states of Connecticut, New York, California, Iowa, New Jersey, Rhode Island, Vermont, Wisconsin and the City of New York brought a lawsuit in the U.S. District Court for the Southern District of New York against Cinergy, American Electric Power Company, Inc., American Electric Power Service Corporation, The Southern Company, Tennessee Valley Authority, and Xcel Energy Inc. A similar lawsuit was filed in the U.S. District Court for the Southern District of New York against the same companies by Open Space Institute, Inc., Open Space Conservancy, Inc., and The Audubon Society of New Hampshire. These

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lawsuits allege that the defendants' emissions of CO_2 from the combustion of fossil fuels at electric generating facilities contribute to global warming and amount to a public nuisance. The complaints also allege that the defendants could generate the same amount of electricity while emitting significantly less CO_2. The plaintiffs are seeking an injunction requiring each defendant to cap its CO_2 emissions and then reduce them by a specified percentage each year for at least a decade. In September 2005, the District Court granted the defendants' motion to dismiss the lawsuit. The plaintiffs have appealed this ruling to the Second Circuit Court of Appeals. Oral arguments were held before the Second Circuit Court of Appeals on June 7, 2006. It is not possible to predict with certainty whether Duke Energy Ohio will incur any liability or to estimate the damages, if any, that Duke Energy Ohio might incur in connection with this matter.

Zimmer Generating Station (Zimmer Station) Lawsuit. In November 2004, a citizen of the Village of Moscow, Ohio, the town adjacent to Duke Energy Ohio's Zimmer Station, brought a purported class action in the U.S. District Court for the Southern District of Ohio seeking monetary damages and injunctive relief against Duke Energy Ohio for alleged violations of the CAA, the Ohio SIP, and Ohio laws against nuisance and common law nuisance. The plaintiffs have filed a number of additional notices of intent to sue and two lawsuits raising claims similar to those in the original claim. One lawsuit was dismissed on procedural grounds, and the remaining two have been consolidated. On December 28, 2006, the District Court certified this case as a class action. Discovery in the case continues. At this time, Duke Energy Ohio cannot predict whether the outcome of this matter will have a material impact on its consolidated financial position, cash flows or results of operations. Duke Energy Ohio intends to defend this lawsuit vigorously in court.

Hurricane Katrina Lawsuit. In April 2006, Cinergy was named in the third amended complaint of a purported class action lawsuit filed in the U.S. District Court for the Southern District of Mississippi. Plaintiffs claim that Cinergy, along with numerous other utilities, oil companies, coal companies and chemical companies, are liable for damages relating to losses suffered by victims of Hurricane Katrina. Plaintiffs claim that defendants' greenhouse gas emissions contributed to the frequency and intensity of storms such as Hurricane Katrina. In October 2006, Cinergy was served with this lawsuit. On August 30, 2007, the court dismissed the case. The plaintiffs have filed their appeal to the Fifth Circuit Court of Appeals. Briefing is ongoing in the Fifth Circuit. It is not possible to predict with certainty whether Duke Energy Ohio will incur any liability or to estimate the damages, if any, that Duke Energy Ohio might incur in connection with this matter.

Ohio Antitrust Lawsuit. In January 2008, four plaintiffs, including individual, industrial and non-profit customers, filed a lawsuit against Duke Energy Ohio in federal court in the Southern District of Ohio. Plaintiffs allege that Duke Energy Ohio (then The Cincinnati Gas & Electric Company (CG&E)), conspired to provide inequitable and unfair price advantages for certain large business consumers by entering into non-public option agreements with such consumers in exchange for their withdrawal of challenges to Duke Energy Ohio's (then CG&E's) pending RSP, which was implemented in early 2005. Duke Energy Ohio strongly denies the allegations made in the lawsuit and on March 21, 2008, Duke Energy Ohio filed a motion to dismiss plaintiffs' claims. It is not possible to predict with certainty whether Duke Energy Ohio will incur any liability or to estimate the damages, if any, that Duke Energy Ohio might incur in connection with this matter.

Asbestos-related Injuries and Damages Claims. Duke Energy Ohio has been named as a defendant or co-defendant in lawsuits related to asbestos at its electric generating stations. The impact on Duke Energy Ohio's consolidated results of operations, cash flows, or financial position of these cases to date has not been material. Based on estimates under varying assumptions concerning uncertainties, such as, among others: (i) the number of contractors potentially exposed to asbestos during construction or maintenance of Duke Energy Ohio's generating plants; (ii) the possible incidence of various illnesses among exposed workers, and (iii) the potential settlement costs without federal or other legislation that addresses asbestos tort actions, Duke Energy Ohio estimates that the range of reasonably possible exposure in existing and future suits over the foreseeable future is not material. This estimated range of exposure may change as additional settlements occur and claims are made and more case law is established.

Other Litigation and Legal Proceedings. Duke Energy Ohio and its subsidiaries are involved in other legal, tax and regulatory proceedings arising in the ordinary course of business, some of which involve substantial amounts. Duke Energy Ohio believes that the final disposition of these proceedings will not have a material adverse effect on its consolidated results of operations, cash flows or financial position.

Duke Energy Ohio has exposure to certain legal matters that are described herein. As of March 31, 2008 and December 31, 2007, Duke Energy Ohio has recorded immaterial reserves for these proceedings and exposures. Duke Energy Ohio expenses legal costs related to the defense of loss contingencies as incurred.

Other Commitments and Contingencies

On March 10, 2008, the EPA issued a Clean Air Act Notice of Violation/Finding of Violation (NOV/FOV) asserting noncompliance with SO_2 emission limits, opacity standards, and permitting requirements at Duke Energy Ohio's Zimmer Generating Station. The NOV/FOV also asserts that a PSD permit should have been obtained for the installation in 2004 of a pollution control project in order to comply with the EPA's regional cap-and-trade program for NO_x emissions. Duke Energy Ohio disputes the legal and factual basis for the FOV/NOV. Duke Energy Ohio is unable to predict at this time what, if any, remedies or potential penalties may result from the FOV/NOV.

Other. Duke Energy Ohio enters into various fixed-price, non-cancelable commitments to purchase or sell power (tolling arrangements or power purchase contracts) that may or may not be recognized on the Consolidated Balance Sheets.

12. Fair Value of Financial Assets and Liabilities

On January 1, 2008, Duke Energy Ohio adopted SFAS No. 157, "*Fair Value Measurements*" (SFAS No. 157). Duke Energy Ohio's adoption of SFAS No. 157 is currently limited to financial instruments and to non-financial derivatives as, in February 2008, the FASB issued FSP No. 157-2, which delayed the effective date of SFAS No. 157 for one year for nonfinancial assets and liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. There was no cumulative effect adjustment to retained earnings for Duke Energy Ohio as a result of the adoption of SFAS No. 157.

SFAS No. 157 defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosure requirements about fair value measurements. Under SFAS No. 157, fair value is considered to be the exchange price in an orderly transaction between market participants to sell an asset or transfer a liability at the measurement date. The fair value definition under SFAS No. 157 focuses on an exit price, which is the price that would be received by Duke Energy Ohio to sell an asset or paid to transfer a liability versus an entry price, which would be the price paid to acquire an asset or received to assume a liability. Although SFAS No. 157 does not require additional fair value measurements, it applies to other accounting pronouncements that require or permit fair value measurements.

Duke Energy Ohio determines fair value of financial assets and liabilities based on the following fair value hierarchy, as prescribed by SFAS No. 157, which prioritizes the inputs to valuation techniques used to measure fair value into three levels:

Level 1 inputs – unadjusted quoted prices in active markets for identical assets or liabilities that Duke Energy Ohio has the ability to access. An active market for the asset or liability is one in which transactions for the asset or liability occur with sufficient frequency and volume to provide ongoing pricing information. Duke Energy Ohio does *not adjust quoted market prices on Level 1 inputs for any blockage factor.*

Level 2 inputs – inputs other than quoted market prices included in Level 1 that are observable, either directly or indirectly, for the asset or liability. Level 2 inputs include, but are not limited to, quoted prices for similar assets or liabilities in an active market, quoted prices for identical or similar assets or liabilities in markets that are not active and inputs other than quoted market prices that are observable for the asset or liability, such as interest rate curves and yield curves observable at commonly quoted intervals, volatilities, credit risk and default rates.

Level 3 inputs – unobservable inputs for the asset or liability.

In February 2007, the FASB issued SFAS No. 159, "*The Fair Value Option for Financial Assets and Financial Liabilities-including an amendment of FASB Statement No. 115*" (SFAS No. 159), which permits entities to elect to measure many financial instruments and certain other items at fair value. For Duke Energy Ohio, SFAS No. 159 was effective as of January 1, 2008 and had no impact on amounts presented for periods prior to the effective date. Duke Energy Ohio does not currently have any financial assets or financial liabilities for which the provisions of SFAS No. 159 have been elected. However, in the future, Duke Energy Ohio may elect to measure certain financial instruments at fair value in accordance with this standard.

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The following table provides the fair value measurement amounts for assets and liabilities recorded on Duke Energy Ohio's Consolidated Balance Sheets at fair value at March 31, 2008:

Description	Total Fair Value Amounts at March 31, 2008	Level 1	Level 2	Level 3
		(in millions)		
Derivative assets	$ 126	$ 51	$ —	$ 75
Derivative liabilities	$ 103	$ —	$ 3	$ 100

The following table provides a reconciliation of beginning and ending balances of assets measured at fair value on a recurring basis where the determination of fair value includes significant unobservable inputs (Level 3):

Rollforward of Level 3 Measurements

	Derivatives (net)
	(in millions)
Balance at January 1, 2008	$ (22)
Total pre-tax realized or unrealized gains included in earnings:	
Revenue, non-regulated	8
Total pre-tax losses included in other comprehensive income	(3)
Net purchases, sales, issuances and settlements	(8)
Balance at March 31, 2008	$ (25)
Pre-tax amounts included in the Consolidated Statements of Operations related to Level 3 measurements outstanding at March 31, 2008:	
Revenue, non-regulated	1
Total	$ 1

The valuation method of the primary fair value measurements disclosed above are as follows:

Commodity derivatives: The pricing for commodity derivatives is primarily a calculated value which incorporates the forward price and is adjusted for liquidity (bid-ask spread), credit or non-performance risk (after reflecting credit enhancements such as collateral) and discounted to present value. The primary difference between a Level 2 and a Level 3 measurement has to do with the level of activity in forward markets for the commodity. If the market is relatively inactive, the measurement is deemed to be a Level 3 measurement. Some commodity derivatives are NYMEX contracts, which Duke Energy Ohio classifies as Level 1 measurements.

13. New Accounting Standards

The following new accounting standards were adopted by Duke Energy Ohio subsequent to March 31, 2007 and the impact of such adoption, if applicable, has been presented in the accompanying Consolidated Financial Statements:

SFAS No. 157. Refer to Note 12 for a discussion of Duke Energy Ohio's adoption of SFAS No. 157.

SFAS No. 159. Refer to Note 12 for a discussion of Duke Energy Ohio's adoption of SFAS No. 159.

FSP No. FIN 39-1. Refer to Note 1 for a discussion of Duke Energy Ohio's adoption of FSP No. FIN 39-1.

The following new accounting standards have been issued, but have not yet been adopted by Duke Energy Ohio as of March 31, 2008:

SFAS No. 141 (revised 2007), "Business Combinations" (SFAS No. 141R). In December 2007, the FASB issued SFAS No. 141R, which replaces SFAS No. 141, "*Business Combinations.*" SFAS No. 141R retains the fundamental requirements in SFAS No. 141 that the acquisition method of accounting be used for all business combinations and that an acquirer be identified for each business combination. This statement also establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling (minority) interests in an acquiree, and any goodwill acquired in a business combination or gain recognized from a bargain purchase. For Duke Energy Ohio, SFAS No. 141R must be applied prospectively

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to business combinations for which the acquisition date occurs on or after January 1, 2009. The impact to Duke Energy Ohio of applying SFAS No. 141R for periods subsequent to implementation will be dependent upon the nature of any transactions within the scope of SFAS No. 141R.

SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities—an amendment to FASB Statement No. 133" (SFAS No. 161) In March 2008, the FASB issued SFAS No. 161, which amends and expands the disclosure requirements for derivative instruments and hedging activities prescribed by SFAS No. 133, "*Accounting for Derivative Instruments and Hedging Activities.*" SFAS No. 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. Duke Energy Ohio will adopt SFAS No. 161 as of January 1, 2009 and SFAS No. 161 encourages, but does not require, comparative disclosure for earlier periods at initial adoption. The adoption of SFAS No. 161 will not have any impact on Duke Energy Ohio's consolidated results of operations, cash flows or financial position.

14. Income Taxes and Other Taxes

The taxable income of Duke Energy Ohio is reflected in Duke Energy's U.S. federal and state income tax returns. Duke Energy Ohio has a tax sharing agreement with Duke Energy, where the separate return method is used to allocate tax expenses and benefits to the subsidiaries whose investments or results of operations provide these tax expenses and benefits. The accounting for income taxes essentially represents the income taxes that Duke Energy Ohio would incur if Duke Energy Ohio were a separate company filing its own tax return as a C-Corporation.

At March 31, 2008, Duke Energy Ohio has approximately $46 million recorded for unrecognized tax benefits and no portion of the total unrecognized tax benefits that, if recognized, would affect the effective tax rate. Additionally, at March 31, 2008, Duke Energy Ohio has approximately $7 million of unrecognized tax benefits related to pre-merger tax positions that, if recognized, would affect goodwill. It is reasonably possible that Duke Energy Ohio will reflect an approximate $35 million reduction in unrecognized tax benefits within the next twelve months due to expected settlements.

During the three months ended March 31, 2008, Duke Energy Ohio recognized net interest expense of approximately $1 million in the Consolidated Statements of Operations related to income taxes. At March 31, 2008, Duke Energy Ohio had approximately $7 million of interest payable, which reflects all interest related to income taxes, and no amount has been accrued for the payment of penalties in the Consolidated Balance Sheets.

Duke Energy Ohio has the following tax years open:

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

Excise Taxes. Certain excise taxes levied by state or local governments are collected by Duke Energy Ohio from its customers. These taxes, which are required to be paid regardless of Duke Energy Ohio's ability to collect from the customer, are accounted for on a gross basis. When Duke Energy Ohio acts as an agent, and the tax is not required to be remitted if it is not collected from the customer, the taxes are accounted for on a net basis. Duke Energy Ohio's excise taxes accounted for on a gross basis and recorded as Operating Revenues in the accompanying Consolidated Statements of Operations for the three months ended March 31, 2008 and 2007 were as follows:

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
	(in millions)	
Excise Taxes	$ 39	$ 39

15. Subsequent Events

For information on subsequent events related to debt and credit facilities, regulatory matters and commitments and contingencies, see Notes 5, 10 and 11, respectively.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

INTRODUCTION

EXECUTIVE OVERVIEW

Management's Discussion and Analysis should be read in conjunction with the Consolidated Financial Statements.

Duke Energy Ohio, Inc. (Duke Energy Ohio), is a wholly-owned subsidiary of Duke Energy Corp. (Duke Energy). Duke Energy Ohio's principal lines of business include generation, transmission and distribution of electricity, the sale of and/or transportation of natural gas, and energy marketing.

BASIS OF PRESENTATION

The results of operations and variance discussion for Duke Energy Ohio is presented in a reduced disclosure format in accordance with General Instructions H(2) of Form 10-Q.

RESULTS OF OPERATIONS

Results of Operations and Variances

Summary of Results (in millions)

	Three Months Ended March 31,		
	2008	2007	Increase (Decrease)
Operating revenues	$ 991	$ 916	$ 75
Operating expenses	781	831	(50)
Gains (losses) on sales of other assets and other, net	13	(11)	24
Operating income	223	74	149
Other income and expenses, net	9	9	—
Interest expense	26	23	3
Income tax expense	73	23	50
Net income	$ 133	$ 37	$ 96

The $96 million increase in Duke Energy Ohio's Net Income was primarily due to the following factors:

Operating Revenues.

The $75 million increase in operating revenues was driven primarily by:

- A $30 million increase in net mark-to-market revenues on non-qualifying power and capacity hedge contracts, consisting of mark-to-market losses of $14 million in 2008 compared to losses of $44 million in 2007,
- An $18 million increase in retail demand resulting from favorable weather in 2008 compared to 2007,
- A $17 million increase in revenues from the Midwest gas-fired generation assets due primarily to higher generation due to favorable weather in 2008 compared to 2007 and higher PJM capacity revenues,
- A $15 million increase in regulated fuel revenues driven mainly by higher natural gas costs, and
- An $11 million increase in retail electric revenues primarily due to increased amortization of purchase accounting valuation liability of rate stabilization plan.

Partially offsetting these increases was:

- A $16 million decrease in volumes of coal sales due to expiration of contracts.

Operating Expenses.
The $50 million decrease in operating expenses was driven primarily by:

- A $40 million decrease in fuel expense due to mark-to-market gains on non-qualifying fuel hedge contracts of $58 million in 2008 compared to gains of $18 million in 2007,
- An $18 million decrease due primarily to lower sulfur dioxide emission allowance expenses due to installation of flue gas desulphurization equipment, and
- A $17 million decrease in expenses associated with coal sales due to expiration of contracts.

Partially offsetting these decreases were:

- A $16 million increase in regulated fuel expense primarily due to higher natural gas costs, and
- A $7 million increase in fuel and operating expenses for the Midwest gas-fired generation assets primarily due to increased generation volumes in 2008 compared to 2007.

Gains (Losses) on Sales of Other Assets and Other, net
The $24 million increase in gains (losses) on sales of other assets and other, net is attributable to gains on sales of emission allowances in 2008 compared to losses on sales of emission allowances in 2007.

Income Tax Expense.
The $50 million increase in Income Tax Expense was primarily due to an increase in pre-tax income.

OTHER MATTERS
At March 31, 2008, Duke Energy Ohio had approximately $440 million of auction rate pollution control bonds outstanding. The maximum auction rate for the majority of this auction rate debt is 1.75 times one-month LIBOR. While Duke Energy Ohio has plans to refund and refinance these tax exempt auction rate bonds, the timing of such refinancing transactions is uncertain and subject to market conditions.

Item 4. *Controls and Procedures.*

Disclosure Controls and Procedures

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed by Duke Energy Ohio in the reports it files or submits under the Securities Exchange Act of 1934 (Exchange Act) is recorded, processed, summarized, and reported, within the time periods specified by the Securities and Exchange Commission's (SEC) rules and forms.

Disclosure controls and procedures include, without limitation, controls and procedures designed to provide reasonable assurance that information required to be disclosed by Duke Energy Ohio in the reports it files or submits under the Exchange Act is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, Duke Energy Ohio has evaluated the effectiveness of its disclosure controls and procedures (as such term is defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of March 31, 2008, and, based upon this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these controls and procedures are effective in providing reasonable assurance of compliance.

Changes in Internal Control over Financial Reporting

Under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, Duke Energy Ohio has evaluated changes in internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the fiscal quarter ended March 31, 2008 and, other than the third party sourcing arrangement discussed below, found no change that has materially affected, or is reasonably likely to materially affect, internal control over financial reporting.

During the first quarter of 2008, Duke Energy Ohio transferred payroll processing to the same third party provider currently used by other Duke Energy subsidiaries. Duke Energy Ohio reviewed the impact of this change on Duke Energy Ohio's internal control over financial reporting and made changes to internal control over financial reporting related to the data transmission to, and receipt from, the third party provider.

Item 1. Legal Proceedings

For information regarding legal proceedings that became reportable events or in which there were material developments in the first quarter of 2008, see Note 10 to the Consolidated Financial Statements, "Regulatory Matters" and Note 11 to the Consolidated Financial Statements, "Commitments and Contingencies."

Item 1A. Risk Factors

In addition to the other information set forth in this report, careful consideration should be given to the factors discussed in Part I, "Item 1A. Risk Factors" in Duke Energy Ohio's Annual Report on Form 10-K for the year ended December 31, 2007, which could materially affect Duke Energy Ohio's financial condition or future results. Additional risks and uncertainties not currently known to Duke Energy Ohio or that Duke Energy Ohio currently deems to be immaterial also may adversely affect Duke Energy Ohio's financial condition and/or results of operations.

Item 6. Exhibits

(a) Exhibits
Exhibits filed or furnished herewith are designated by an asterisk (*).

Exhibit Number	
10.1	Amendment No. 1 to the Amended and Restated Credit Agreement (filed on Form 8-K of Duke Energy Ohio, Inc., March 12, 2008, File No. 1-1232, as Exhibit 10.1).
*31.1	Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*31.2	Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*32.1	*Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
*32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

The total amount of securities of the registrant or its subsidiaries authorized under any instrument with respect to long-term debt not filed as an exhibit does not exceed 10% of the total assets of the registrant and its subsidiaries on a consolidated basis. The registrant agrees, upon request of the Securities and Exchange Commission, to furnish copies of any or all of such instruments to it.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DUKE ENERGY OHIO, INC.

Date: May 15, 2008

/s/ DAVID L. HAUSER

David L. Hauser
Group Executive and
Chief Financial Officer

Date: May 15, 2008

/s/ STEVEN K. YOUNG

Steven K. Young
Senior Vice President and
Controller

EXHIBIT 31.1

CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, James E. Rogers, certify that:

1) I have reviewed this quarterly report on Form 10-Q of Duke Energy Ohio, Inc.;

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Acts Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the *registrant's fourth fiscal quarter in the case of an annual report*) that *has materially affected, or is reasonably likely to materially affect*, the registrant's internal control over financial reporting; and

5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 15, 2008

/s/ JAMES E. ROGERS
James E. Rogers
Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION OF THE CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, David L. Hauser, certify that:

1) I have reviewed this quarterly report on Form 10-Q of Duke Energy Ohio, Inc.;

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Acts Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the *registrant's fourth fiscal quarter in the case of an annual report*) that *has materially affected, or is reasonably likely to materially affect*, the registrant's internal control over financial reporting; and

5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 15, 2008

/s/ DAVID L. HAUSER
David L. Hauser
Group Executive and
Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Duke Energy Ohio, Inc. ("Duke Energy Ohio") on Form 10-Q for the period ending March 31, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James E. Rogers, Chief Executive Officer of Duke Energy Ohio, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Duke Energy Ohio.

/s/ JAMES E. ROGERS
James E. Rogers
Chief Executive Officer
May 15, 2008

EXHIBIT 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Duke Energy Ohio, Inc. ("Duke Energy Ohio") on Form 10-Q for the period ending March 31, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David L. Hauser, Group Executive and Chief Financial Officer of Duke Energy Ohio, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Duke Energy Ohio.

/s/ DAVID L. HAUSER
David L. Hauser
Group Executive and Chief Financial Officer
May 15, 2008

FORM 8-K

Duke Energy Ohio, Inc. - N/A

Filed: March 12, 2008 (period: March 10, 2008)

Report of unscheduled material events or corporate changes.

Table of Contents

Source: Duke Energy Ohio, In, 8-K, March 12, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): March 10, 2008

DUKE ENERGY CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Delaware	**1-32853**	**20-2777218**
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

526 South Church Street, Charlotte, North Carolina 28202
(Address of Principal Executive Offices, including Zip code)

(704) 594-6200
(Registrant's telephone number, including area code)

DUKE ENERGY CAROLINAS, LLC

(Exact Name of Registrant as Specified in its Charter)

North Carolina	**001-04928**	**56-0205520**
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

526 South Church Street, Charlotte, North Carolina 28202-1904
(Address of Principal Executive Offices, including Zip code)

(704) 594-6200
(Registrant's telephone number, including area code)

DUKE ENERGY OHIO, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware	**001-1232**	**31-0240030**
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

139 East Fourth Street, Cincinnati, Ohio 45202
(Address of Principal Executive Offices, including Zip code)

(704) 594-6200
(Registrant's telephone number, including area code)

DUKE ENERGY INDIANA, INC.

(Exact Name of Registrant as Specified in its Charter)

Indiana	**1-3543**	**35-0594457**
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

1000 East Main Street, Plainfield, Indiana 46168
(Address of Principal Executive Offices, including Zip code)

(704) 594-6200

(Registrant's telephone number, including area code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240. 13e-4(c))

Item 1.01. Entry into a Material Definitive Agreement.

On March 10, 2008, Duke Energy Corporation and its wholly-owned subsidiaries, Duke Energy Carolinas, LLC, Duke Energy Ohio, Inc., Duke Energy Indiana, Inc. and Duke Energy Kentucky, Inc., entered into an amendment to the $2,650,000,000 Amended and Restated Credit Agreement dated June 28, 2007, among Duke Energy Corporation and such subsidiaries, as Borrowers, the banks listed therein, Wachovia Bank, National Association, as Administrative Agent, JPMorgan Chase Bank, National Association, Barclays Bank PLC, Bank of America, N.A. and Citibank, N.A., as Co-Syndication Agents and The Bank of Tokyo-Mitsubishi, Ltd., New York Branch and Credit Suisse, as Co-Documentation Agents. The Credit Agreement was described in a Form 8-K filed July 5, 2007. Pursuant to the amendment, the total commitments under the facility were increased to $3,200,000,000, and the borrowing sublimits for Duke Energy Ohio, Inc. and Duke Energy Indiana, Inc. were increased to $750,000,000 and $700,000,000, respectively. The amendment was entered into to increase the financial flexibility of Duke Energy and its utility subsidiaries.

The disclosure in this Item 1.01 is qualified in its entirety by the provisions of Amendment No.1 to the Amended and Restated Credit Agreement, which is attached hereto as Exhibit 10.1 and is incorporated herein by reference.

Item 9.01. Financial Statements and Exhibits

(d) *Exhibits.*

10.1 Amendment No.1 to Amended and Restated Credit Agreement.

SIGNATURE

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

DUKE ENERGY CORPORATION

Date: March 12, 2008

By: /s/ Stephen G. De May
Name: Stephen G. De May
Title: Vice President and Treasurer

DUKE ENERGY CAROLINAS, LLC

Date: March 12, 2008

By: /s/ Stephen G. De May
Name: Stephen G. De May
Title: Vice President and Treasurer

DUKE ENERGY OHIO, INC.

Date: March 12, 2008

By: /s/ Stephen G. De May
Name: Stephen G. De May
Title: Vice President and Treasurer

DUKE ENERGY INDIANA, INC.

Date: March 12, 2008

By: /s/ Stephen G. De May
Name: Stephen G. De May
Title: Vice President and Treasurer

EXHIBIT INDEX

Exhibit	Description
10.1	Amendment No.1 to Amended and Restated Credit Agreement.

Source: Duke Energy Ohio, In, 8-K, March 12, 2008

Exhibit 10.1

AMENDMENT NO. 1 TO AMENDED AND RESTATED CREDIT AGREEMENT

AMENDMENT dated as of March 10, 2008 to the Amended and Restated Credit Agreement dated as of June 28, 2007 (as heretofore amended, the "**Credit Agreement**") among DUKE ENERGY CORPORATION, DUKE ENERGY CAROLINAS, LLC, DUKE ENERGY OHIO, INC., DUKE ENERGY INDIANA, INC. and DUKE ENERGY KENTUCKY, INC. (the "**Borrowers**"), the BANKS (the "**Banks**") party hereto, JPMORGAN CHASE BANK, National Association, BARCLAYS BANK PLC, BANK OF AMERICA, N.A., and CITIBANK, N.A. as Co-Syndication Agents, THE BANK OF TOKYO-MITSUBISHI UFJ, LTD., New York Branch, and CREDIT SUISSE as, as Co-Documentation Agents, and WACHOVIA BANK, N.A., as Administrative Agent (the "**Administrative Agent**").

W I T N E S S E T H :

WHEREAS, the Company has requested an increase in the aggregate amount of the Commitments pursuant to Section 2.17 of the Credit Agreement that the parties desire to memorialize through this Amendment; and

WHEREAS, the parties hereto also desire to amend the Credit Agreement as set forth herein;

NOW, THEREFORE, the parties hereto agree as follows:

Section 1. *Defined Terms; References.* Unless otherwise specifically defined herein, each term used herein that is defined in the Credit Agreement has the meaning assigned to such term in the Credit Agreement. Each reference to "hereof", "hereunder", "herein" and "hereby" and each other similar reference and each reference to "this Agreement" and each other similar reference contained in the Credit Agreement shall, after this Amendment becomes effective, refer to the Credit Agreement as amended hereby.

Section 2. *Amendment.* The definition of "Maximum Sublimit" in Section 1.01 of the Credit Agreement is amended by changing the amount set forth for the Company from $1,200,000,000 to $1,100,000,000 and by changing the amount set forth for Duke Energy Indiana from $600,000,000 to $700,000,000.

Section 3. *Increase in Commitments.* With effect from and including the Amendment Effective Date, (i) pursuant to Section 2.17, the aggregate amount of the Commitments is increased by $550,000,000, (ii) each Person listed on the signature pages hereof which is not a party to the Credit Agreement (a "New Bank") shall become a Bank party to the Credit Agreement, (iii) the Commitment of each Bank shall be the amount set forth opposite the name of such Bank in the

Commitment Schedule attached hereto and (iv) the Commitment Schedule attached hereto shall replace the Commitment Schedule attached to the Credit Agreement.

Section 4. *Representations of Borrowers.* The Borrowers represent and warrant that (i) the representations and warranties of the Borrowers set forth in Article 4 of the Credit Agreement will be true on and as of the Amendment Effective Date and (ii) no Event of Default will have occurred and be continuing on such date.

Section 5. *Effect of Amendments.* Except as expressly set forth herein, the amendments contained herein shall not constitute a waiver or amendment of any term or condition of the Credit Agreement, and all such terms and conditions shall remain in full force and effect and are hereby ratified and confirmed in all respects.

Section 6. *Governing Law.* This Amendment shall be governed by and construed in accordance with the laws of the State of New York.

Section 7. *Counterparts.* This Amendment may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

Section 8. *Effectiveness.* This Amendment shall become effective as of the date hereof (the "**Amendment Effective Date**"), subject to satisfaction of the following conditions:

(a) the Administrative Agent shall have received from each of the Borrowers, each New Bank, each Bank whose Commitment is increased hereby and such other Banks (if any) as may be necessary in order that the signatories hereto comprise the Required Banks (determined before giving effect to this Amendment) a counterpart hereof signed by such party or facsimile or other written confirmation (in form satisfactory to the Administrative Agent) that such party has signed a counterpart hereof; and

(b) the Administrative Agent shall have received an opinion of the General Counsel or Assistant General Counsel of each of Duke Energy Indiana and Duke Energy Ohio dated as of the Amendment Effective Date, in form and substance satisfactory to the Administrative Agent; and

(c) the Administrative Agent shall have received evidence of corporate authorization of this Amendment on the part of Duke Energy Indiana (in form satisfactory to the Administrative Agent).

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed by their respective authorized officers as of the date first above written.

DUKE ENERGY CORPORATION

By: _____
Name:
Title:

DUKE ENERGY CAROLINAS, LLC

By: _____
Name:
Title:

DUKE ENERGY OHIO, INC.

By: _____
Name:
Title:

DUKE ENERGY INDIANA, INC.

By: _____
Name:
Title:

DUKE ENERGY KENTUCKY, INC.

By: _____
Name:
Title:

WACHOVIA BANK, NATIONAL
ASSOCIATION, as
Administrative Agent, as
an Issuing Bank, as
Swingline Bank and as a Bank

By: _____
Name:
Title:

JPMORGAN CHASE BANK,
NATIONAL ASSOCIATION, as
Co-Syndication Agent, as
an Issuing Bank and as a Bank

By: _____
Name:
Title:

BARCLAYS BANK PLC, as
Co-Syndication Agent, as
an Issuing Bank and as a Bank

By: _____
Name:
Title:

BANK OF AMERICA, N.A., as
Co-Syndication Agent and
as a Bank

By: _____
Name:
Title:

CITIBANK, N.A., as Co-Syndication
Agent and as a Bank

By: _____
Name:
Title:

THE BANK OF TOKYO-MITSUBISHI
UFJ, LTD., NEW YORK BRANCH
as a Bank

By: _____
Name:
Title:

CREDIT SUISSE, CAYMAN ISLANDS
BRANCH, as a Bank

By: _____
Name:
Title:

By: _____
Name:
Title:

THE BANK OF NEW YORK, as a
Bank

By: _____
Name:
Title:

DEUTSCHE BANK AG NEW YORK
BRANCH, as a Bank

By: _____
Name:
Title:

By: _____
Name:
Title:

WILLIAM STREET LLC, as a Bank

By: _____
Name:
Title:

KEYBANK NATIONAL
ASSOCIATION, as a Bank

By: _____
Name:
Title:

MERRILL LYNCH BANK, USA, as a
Bank

By: _____
Name:
Title:

MORGAN STANLEY BANK, as a Bank

By: _____
Name:
Title:

THE ROYAL BANK OF SCOTLAND,
PLC, as a Bank

By: _____
Name:
Title:

UBS LOAN FINANCE LLC, as a
Bank

By: _____
Name:
Title:

THE BANK OF NOVA SCOTIA, as a
Bank

By: _____
Name:
Title:

BNP PARIBAS, as a Bank

By: _____
Name:
Title:

By: _____
Name:
Title:

THE NORTHERN TRUST COMPANY, as a Bank

By: _____
Name:
Title:

SUNTRUST BANK, as a Bank

By: _____
Name:
Title:

WELLS FARGO BANK, NATIONAL ASSOCIATION,
as a Bank

By: _____
Name:
Title:

COMMITMENT SCHEDULE

Bank		Commitment
JPMorgan Chase Bank, National Association	**$**	**230,000,000.00**
Wachovia Bank, National Association	**$**	**230,000,000.00**
Bank of America, N.A.	**$**	**230,000,000.00**
Barclays Bank, PLC	**$**	**230,000,000.00**
Citibank, N.A.	**$**	**230,000,000.00**
The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch	**$**	**230,000,000.00**
Credit Suisse	**$**	**230,000,000.00**
The Royal Bank of Scotland plc, New York Branch	**$**	**125,000,000.00**
BNP Paribas	**$**	**115,000,000.00**
SunTrust Bank	**$**	**115,000,000.00**
The Bank of New York	**$**	**115,000,000.00**
Deutsche Bank AG New York Branch	**$**	**115,000,000.00**
William Street LLC	**$**	**115,000,000.00**
KeyBank National Association	**$**	**115,000,000.00**
Merrill Lynch Bank USA	**$**	***115,000,000.00***
Morgan Stanley Bank	**$**	**115,000,000.00**
UBS Loan Finance LLC	**$**	**115,000,000.00**
ABN AMRO Bank, N.V.	**$**	**100,000,000.00**
Lehman Brothers Bank, FSB	**$**	**100,000,000.00**
The Northern Trust Company	**$**	**60,000,000.00**
Wells Fargo Bank, N.A.	**$**	**60,000,000.00**
The Bank of Nova Scotia	**$**	**60,000,000.00**
Dresdner Bank AG	**$**	**50,000,000.00**
Total	**$**	**3,200,000,000.00**

FORM 8-K

Duke Energy Ohio, Inc. - N/A

Filed: July 05, 2007 (period: June 28, 2007)

Report of unscheduled material events or corporate changes.

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): **June 28, 2007**

DUKE ENERGY CORPORATION
(Exact Name of Registrant as Specified in its Charter)

Delaware	**1-32853**	**20-2777218**
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

526 South Church Street, Charlotte, North Carolina 28202
(Address of Principal Executive Offices, including Zip code)

(704) 594-6200
(Registrant's telephone number, including area code)

DUKE ENERGY CAROLINAS, LLC
(Exact Name of Registrant as Specified in its Charter)

North Carolina	**001-04928**	**56-0205520**
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

526 South Church Street, Charlotte, North Carolina 28202-1904
(Address of Principal Executive Offices, including Zip code)

(704) 594-6200
(Registrant's telephone number, including area code)

DUKE ENERGY OHIO, INC.
(Exact Name of Registrant as Specified in its Charter)

Delaware	**001-1232**	**31-0240030**
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

139 East Fourth Street, Cincinnati, Ohio 45202
(Address of Principal Executive Offices, including Zip code)

(704) 594-6200
(Registrant's telephone number, including area code)

DUKE ENERGY INDIANA, INC.
(Exact Name of Registrant as Specified in its Charter)

Indiana	**1-3543**	**35-0594457**
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

1000 East Main Street, Plainfield, Indiana 46168
(Address of Principal Executive Offices, including Zip code)

(704) 594-6200
(Registrant's telephone number, including area code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240. 13e-4(c))

Item 1.01. Entry into a Material Definitive Agreement.

On June 28, 2007, Duke Energy Corporation and its wholly-owned subsidiaries, Duke Energy Carolinas, LLC, Duke Energy Ohio, Inc., Duke Energy Indiana, Inc. and Duke Energy Kentucky, Inc., entered into a $2,650,000,000 Amended and Restated Credit Agreement among the registrant, such subsidiaries, as Borrowers, the banks listed therein, Wachovia Bank, National Association, as Administrative Agent, JPMorgan Chase Bank, National Association, Barclays Bank PLC, Bank of America, N.A. and Citibank, N.A., as Co-Syndication Agents and The Bank of Tokyo-Mitsubishi, Ltd., New York Branch and Credit Suisse, as Co-Documentation Agents, pursuant to which the terms and conditions of the facility were generally conformed to those of other prior Duke Energy Corporation syndicated facilities, and the term was extended to June 28, 2012. Under the facility, the initial borrowing sublimits for Duke Energy Corporation, Duke Energy Carolinas, LLC, Duke Energy Ohio, Inc., Duke Energy Indiana, Inc. and Duke Energy Kentucky, Inc. are $850,000,000, $800,000,000, $500,000,000, $400,000,000 and $100,000,000, respectively. The Amended and Restated Credit Agreement will, among other things, support the Duke Energy Corporation $1,500,000,000 commercial paper program, which began marketing on June 29, 2007, and the Duke Energy Carolinas commercial paper program. The disclosure in this Item 1.01 is qualified in its entirety by the provisions of the Amended and Restated Credit Agreement, which is attached hereto as Exhibit 10.1 and is incorporated herein by reference.

Item 9.01. Financial Statements and Exhibits

(d) *Exhibits.*

10.1 $2,650,000,000 Amended and Restated Credit Agreement, dated as of June 28, 2007, among Duke Energy Corporation, Duke Energy Carolinas, LLC, Duke Energy Ohio, Inc., Duke Energy Indiana, Inc. and Duke Energy Kentucky, Inc., as Borrowers, the banks listed therein, Wachovia Bank, National Association, as Administrative Agent, JPMorgan Chase Bank, National Association, Barclays Bank PLC, Bank of America, N.A. and Citibank, N.A., as Co-Syndication Agents and The Bank of Tokyo-Mitsubishi, Ltd., New York Branch and Credit Suisse, as Co-Documentation Agents.

SIGNATURE

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

DUKE ENERGY CORPORATION

Date: July 5, 2007

By: /s/Steven K. Young
Name: Steven K. Young
Title: Senior Vice President and Controller

DUKE ENERGY CAROLINAS, LLC

Date: July 5, 2007

By: /s/Steven K. Young
Name: Steven K. Young
Title: Senior Vice President and Controller

DUKE ENERGY OHIO, INC.

Date: July 5, 2007

By: /s/Steven K. Young
Name: Steven K. Young
Title: Senior Vice President and Controller

DUKE ENERGY INDIANA, INC.

Date: July 5, 2007

By: /s/Steven K. Young
Name: Steven K. Young
Title: Senior Vice President and Controller

EXHIBIT INDEX

Exhibit	Description
10.1	$2,650,000,000 Amended and Restated Credit Agreement, dated as of June 28, 2007, among Duke Energy Corporation, Duke Energy Carolinas, LLC, Duke Energy Ohio, Inc., Duke Energy Indiana, Inc. and Duke Energy Kentucky, Inc., as Borrowers, the banks listed therein, Wachovia Bank, National Association, as Administrative Agent, JPMorgan Chase Bank, National Association, Barclays Bank PLC, Bank of America, N.A. and Citibank, N.A., as Co-Syndication Agents and The Bank of Tokyo-Mitsubishi, Ltd., New York Branch and Credit Suisse, as Co-Documentation Agents.

Exhibit 10.1

$2,650,000,000

AMENDED AND RESTATED CREDIT AGREEMENT

dated as of
June 28, 2007

among

Duke Energy Corporation
Duke Energy Carolinas, LLC
Duke Energy Ohio, Inc.
Duke Energy Indiana, Inc.
and
Duke Energy Kentucky, Inc.,
as Borrowers,

The Banks Listed Herein,

Wachovia Bank, National Association,
as Administrative Agent,

JPMorgan Chase Bank, National Association
Barclays Bank PLC
Bank of America, N.A.
and
Citibank, N.A.,
as Co-Syndication Agents

and

The Bank of Tokyo-Mitsubishi, Ltd., New York Branch
and
Credit Suisse,
as Co-Documentation Agents

J.P. Morgan Securities Inc. and
Wachovia Capital Markets, LLC,
Co-Lead Arrangers and
Joint Bookrunners

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AMENDED AND RESTATED CREDIT AGREEMENT

AGREEMENT dated as of June 28, 2007 among DUKE ENERGY CORPORATION, DUKE ENERGY CAROLINAS, LLC, DUKE ENERGY OHIO, INC., DUKE ENERGY INDIANA, INC. and DUKE ENERGY KENTUCKY, INC., as Borrowers, the BANKS listed on the signature pages hereof, WACHOVIA BANK, NATIONAL ASSOCIATION, as Administrative Agent, and JPMORGAN CHASE BANK, NATIONAL ASSOCIATION, BARCLAYS BANK PLC, BANK OF AMERICA, N.A. and CITIBANK, N.A., as Co-Syndication Agents, and THE BANK OF TOKYO-MITSUBISHI, LTD., New York Branch and CREDIT SUISSE, as Co-Documentation Agents.

W I T N E S S E T H:

WHEREAS, certain of the parties hereto are parties to one or more of the Existing Agreements (as this and other capitalized terms are defined in Section 1.01 of this Agreement); and

WHEREAS, the parties hereto wish to consolidate the credit facilities under the Existing Agreements into a single multi-borrower credit facility, and in connection therewith to modify certain terms and conditions of the Existing Agreements, all as more fully set forth herein;

NOW, THEREFORE, the parties hereto hereby agree that, on and as of the Effective Date, the Existing Agreements are hereby amended and restated in their entirety as follows:

ARTICLE 1
DEFINITIONS

Section 1.01 *Definitions*. The following terms, as used herein, have the following meanings:

"**Additional Bank**" means any financial institution that becomes a Bank for purposes hereof pursuant to Section 2.17 or 8.06.

"**Administrative Agent**" means Wachovia in its capacity as administrative agent for the Banks hereunder, and its successors in such capacity.

"**Administrative Questionnaire**" means, with respect to each Bank, the administrative questionnaire in the form submitted to such Bank by the Administrative Agent and submitted to the Administrative Agent (with a copy to each Borrower) duly completed by such Bank.

"**Affiliate**" means, as to any Person (the "**specified Person**") (i) any Person that directly, or indirectly through one or more intermediaries, controls the

specified Person (a "**Controlling Person**") or (ii) any Person (other than the specified Person or a Subsidiary of the specified Person) which is controlled by or is under common control with a Controlling Person. As used herein, the term "**control**" means possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

"**Agent**" means any of the Administrative Agent, the Co-Syndication Agents or the Co-Documentation Agents.

"**Aggregate Exposure**" means, with respect to any Bank at any time, the aggregate amount of its Borrower Exposures to all Borrowers at such time.

"**Agreement**" means this Agreement as the same may be amended from time to time.

"**Applicable Lending Office**" means, with respect to any Bank, (i) in the case of its Base Rate Loans, its Domestic Lending Office and (ii) in the case of its Euro-Dollar Loans, its Euro-Dollar Lending Office.

"**Applicable Margin**" means, with respect to Euro-Dollar Loans or Swingline Loans to any Borrower, the applicable rate per annum for such Borrower determined in accordance with the Pricing Schedule.

"**Appropriate Share**" has the meaning set forth in Section 8.03(d).

"**Approved Fund**" means any Fund that is administered or managed by (i) a Bank, (ii) an Affiliate of a Bank or (iii) an entity or an Affiliate of an entity that administers or manages a Bank.

"**Approved Officer**" means the president, the chief financial officer, a vice president, the treasurer, an assistant treasurer or the controller of the Borrower or such other representative of the Borrower as may be designated by any one of the foregoing with the consent of the Administrative Agent.

"**Assignee**" has the meaning set forth in Section 9.06(c).

"**Availability Percentage**" means, with respect to each Borrower at any time, the percentage which such Borrower's Sublimit bears to the aggregate amount of the Commitments, all determined as of such time.

"**Bank**" means each bank or other financial institution listed on the signature pages hereof, each Additional Bank, each Assignee which becomes a Bank pursuant to Section 9.06(c), and their respective successors. Each reference herein to a "Bank" shall, unless the context otherwise requires, include the Swingline Bank and each Issuing Bank in such capacity.

"**Barclays**" means Barclays Bank PLC.

"**Base Rate**" means, for any day for which the same is to be calculated, the higher of (a) the Prime Rate and (b) the Federal Funds Rate for such day plus 1/2 of 1%. Each change in the Base Rate shall take effect simultaneously with the corresponding change in the rates described in clause (a) or clause (b) above, as the case may be.

"**Base Rate Loan**" means (i) a Loan which bears interest at the Base Rate pursuant to the applicable Notice of Borrowing or Notice of Interest Rate Election or the provisions of Article 8 or (ii) an overdue amount which was a Base Rate Loan immediately before it became overdue.

"**Borrower**" means each of Duke Energy Carolinas, Duke Energy Ohio, Duke Energy Indiana, Duke Energy Kentucky and the Company. References herein to "the Borrower" in connection with any Loan or Group of Loans or any Letter of Credit hereunder are to the particular Borrower to which such Loan or Loans are made or proposed to be made or at whose request and for whose account such Letter of Credit is issued or proposed to be issued.

"**Borrower Exposure**" means, with respect to any Bank and any Borrower at any time, (i) an amount equal to the product of such Bank's Percentage and such Borrower's Sublimit (whether used or unused) at such time or (ii) if such Bank's Commitment shall have terminated, either generally or with respect to such Borrower, or if such Borrower's Sublimit shall have been reduced to zero, the sum of the aggregate outstanding principal amount of its Loans (other than Swingline Loans) to such Borrower, the aggregate amount of its Letter of Credit Liabilities in respect of such Borrower and the amount of its Swingline Exposure in respect of such Borrower at such time.

"**Borrower Maturity Date**" means, with respect to any Revolving Credit Loan to any Borrower other than the Company, the first anniversary of the date of the Borrowing of such Revolving Credit Loan; *provided* that if the Borrower designates such Borrowing as long-term in its Notice of Borrowing, then the Borrower Maturity Date shall not be applicable thereto.

"**Borrowing**" has the meaning set forth in Section 1.03.

"**CG&E First Mortgage Trust Indenture**" means the first mortgage trust indenture, dated as of August 1, 1936, between Duke Energy Ohio and The Bank of New York (successor to Irving Trust Company), as trustee, as amended, modified or supplemented from time to time, and any successor or replacement mortgage trust indenture.

"**Cinergy**" means Cinergy Corp., a Delaware corporation.

"**Co-Documentation Agent**" means each of The Bank of Tokyo-Mitsubishi, Ltd., New York Branch and Credit Suisse, in its capacity as documentation agent in respect of this Agreement.

"**Commitment**" means (i) with respect to any Bank listed on the signature pages hereof, the amount set forth opposite its name on the Commitment Schedule as its Commitment and (ii) with respect to each Additional Bank or Assignee which becomes a bank pursuant to Sections 2.17, 8.06 and 9.06(c), the amount of the Commitment thereby assumed by it, in each case as such amount may from time to time be reduced pursuant to Sections 2.08, 2.10, 8.06 or 9.06(c) or increased pursuant to Sections 2.17, 8.06 or 9.06(c).

"**Commitment Schedule**" means the Commitment Schedule attached hereto.

"**Commitment Termination Date**" means, for each Bank, June 28, 2012, as such date may be extended from time to time with respect to such Bank pursuant to Section 2.01(c) or, if such day is not a Euro-Dollar Business Day, the next preceding Euro-Dollar Business Day.

"**Company**" means Duke Energy Corporation, a Delaware corporation.

"**Consolidated Capitalization**" means, with respect to any Borrower, the sum, without duplication, of (i) Consolidated Indebtedness of such Borrower, (ii) consolidated common equityholders' equity as would appear on a consolidated balance sheet of such Borrower and its Consolidated Subsidiaries prepared in accordance with generally accepted accounting principles, (iii) the aggregate liquidation preference of preferred or priority equity interests (other than preferred or priority equity interests subject to mandatory redemption or repurchase) of such Borrower and its Consolidated Subsidiaries upon involuntary liquidation, (iv) the aggregate outstanding amount of all Equity Preferred Securities of such Borrower and (v) minority interests as would appear on a consolidated balance sheet of such Borrower and its Consolidated Subsidiaries prepared in accordance with generally accepted accounting principles.

"**Consolidated Indebtedness**" means, at any date, with respect to any Borrower, all Indebtedness of such Borrower and its Consolidated Subsidiaries determined on a consolidated basis in accordance with generally accepted accounting principles; *provided* that Consolidated Indebtedness shall exclude, to the extent otherwise reflected therein, Equity Preferred Securities of such Borrower and its Consolidated Subsidiaries up to a maximum excluded amount equal to 15% of Consolidated Capitalization of such Borrower.

"**Consolidated Subsidiary**" means, for any Person, at any date any Subsidiary or other entity the accounts of which would be consolidated with those

of such Person in its consolidated financial statements if such statements were prepared as of such date.

"**Co-Syndication Agent**" means each of JPMCB, Barclays, Bank of America, N.A. and Citibank, N.A., in its capacity as syndication agent in respect of this Agreement.

"**Default**" means any condition or event which constitutes an Event of Default or which with the giving of notice or lapse of time or both would, unless cured or waived, become an Event of Default.

"**Departing Bank**" means any Person which has a commitment to extend credit under an Existing Agreement but does not have a Commitment under this Agreement.

"**Domestic Business Day**" means any day except a Saturday, Sunday or other day on which commercial banks in New York City or in the State of North Carolina are authorized by law to close.

"**Domestic Lending Office**" means, as to each Bank, its office located at its address set forth in its Administrative Questionnaire (or identified in its Administrative Questionnaire as its Domestic Lending Office) or such other office as such Bank may hereafter designate as its Domestic Lending Office by notice to the Borrowers and the Administrative Agent.

"**Duke Capital**" means Duke Capital, LLC, a former Subsidiary of the Company.

"**Duke Energy Carolinas**" means Duke Energy Carolinas, LLC, a North Carolina limited liability company (f/k/a Duke Power Company, LLC).

"**Duke Energy Carolinas Mortgage**" means the First and Refunding Mortgage between Duke Energy Carolinas and JPMCB, as successor trustee, dated as of December 1, 1927 as amended or supplemented from time to time.

"**Duke Energy Indiana**" means Duke Energy Indiana, Inc., an Indiana corporation (f/k/a PSI Energy, Inc.).

"**Duke Energy Kentucky**" means Duke Energy Kentucky, Inc., a Kentucky corporation (f/k/a The Union Light, Heat & Power Company).

"**Duke Energy Ohio**" means Duke Energy Ohio, Inc., an Ohio corporation (f/k/a The Cincinnati Gas & Electric Company).

"**Effective Date**" means the date this Agreement becomes effective in accordance with Section 3.01.

"**Endowment**" means the Duke Endowment, a charitable common law trust established by James B. Duke by Indenture dated December 11, 1924.

"**Environmental Laws**" means any and all federal, state, local and foreign statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, permits, concessions, grants, franchises, licenses, agreements or other governmental restrictions relating to the environment or to emissions, discharges, releases of pollutants, contaminants, chemicals, or industrial, toxic or hazardous substances or wastes into the environment including, without limitation, ambient air, surface water, ground water, or land, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport, or handling of pollutants, contaminants, chemicals, or industrial, toxic or hazardous substances or wastes.

"**Equity Preferred Securities**" means, with respect to any Borrower, any trust preferred securities or deferrable interest subordinated debt securities issued by such Borrower or any Subsidiary or other financing vehicle of such Borrower that (i) have an original maturity of at least twenty years and (ii) require no repayments or prepayments and no mandatory redemptions or repurchases, in each case, prior to the first anniversary of the latest Commitment Termination Date.

"**ERISA**" means the Employee Retirement Income Security Act of 1974, as amended.

"**ERISA Group**" means, with respect to any Borrower, such Borrower and all other members of a controlled group of corporations and all trades or businesses (whether or not incorporated) under common control which, together with such Borrower, are treated as a single employer under Section 414 of the Internal Revenue Code.

"**Euro-Dollar Business Day**" means any Domestic Business Day on which commercial banks are open for international business (including dealings in dollar deposits) in London.

"**Euro-Dollar Lending Office**" means, as to each Bank, its office, branch or affiliate located at its address set forth in its Administrative Questionnaire (or identified in its Administrative Questionnaire as its Euro-Dollar Lending Office) or such other office, branch or affiliate of such Bank as it may hereafter designate as its Euro-Dollar Lending Office by notice to the Borrowers and the Administrative Agent.

"**Euro-Dollar Loan**" means (i) a Loan which bears interest at a Euro-Dollar Rate pursuant to the applicable Notice of Borrowing or Notice of Interest Rate Election or (ii) an overdue amount which was a Euro-Dollar Loan immediately before it became overdue.

"**Euro-Dollar Rate**" means a rate of interest determined pursuant to Section 2.06(b) on the basis of a London Interbank Offered Rate.

"**Euro-Dollar Reference Banks**" means the principal London offices of JPMCB and Wachovia.

"**Euro-Dollar Reserve Percentage**" has the meaning set forth in Section 2.15.

"**Event of Default**" has the meaning set forth in Section 6.01.

"**Existing Agreements**" shall mean (a) the $400,000,000 Credit Agreement dated as of December 7, 2006, among the Company, the banks listed therein and Wachovia, as administrative agent, (b) the $1,500,000,000 Amended and Restated Credit Agreement dated as of June 29, 2006, among Cinergy, Duke Energy Ohio, Duke Energy Indiana, Duke Energy Kentucky, the banks listed therein and Barclays Bank PLC, as administrative agent, (c) the $600,000,000 Amended and Restated Credit Agreement dated as of June 29, 2006, among Duke Energy Carolinas, the banks listed therein and Citibank, N.A., as administrative agent, (d) the $75,000,000 Amended and Restated Credit Agreement, dated as of September 11, 2006, between Duke Energy Carolinas and Merrill Lynch Bank USA and (e) the $75,000,000 Credit Agreement, dated as of September 11, 2006, among Duke Energy Carolinas, the banks listed therein and Credit Suisse, Cayman Islands Branch, as administrative agent, in each case as amended and in effect on the Effective Date.

"**Existing Letters of Credit**" means the letters of credit set forth in Schedule 1.01.

"**Facility Fee Rate**" means, with respect to any Borrower, the applicable rate per annum for such Borrower determined in accordance with the Pricing Schedule.

"**Federal Funds Rate**" means, for any day, the rate per annum (rounded upwards, if necessary, to the nearest 1/100th of 1%) equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Domestic Business Day next succeeding such day, *provided* that (i) if such day is not a Domestic Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Domestic Business Day as so published on the next succeeding Domestic Business Day and (ii) if no such rate is so published on such next succeeding Domestic Business Day, the Federal Funds Rate for such day shall be the average rate quoted to Wachovia on such day on such transactions as determined by the Administrative Agent

"**Final Maturity Date**" means, for each Bank, the first anniversary of its Commitment Termination Date or, if such day is not a Euro-Dollar Business Day, the next preceding Euro-Dollar Business Day.

"**Fund**" means any Person (other than a natural Person) that is (or will be) engaged in making, purchasing, holding or otherwise investing in commercial loans and similar extensions of credit in the ordinary course of its business.

"**Group of Loans**" means at any time a group of Loans consisting of (i) all Loans to the same Borrower which are Base Rate Loans at such time or (ii) all Euro-Dollar Loans to the same Borrower having the same Interest Period at such time; *provided* that, if a Loan of any particular Bank is converted to or made as a Base Rate Loan pursuant to Article 8, such Loan shall be included in the same Group or Groups of Loans from time to time as it would have been if it had not been so converted or made.

"**Hedging Agreement**" means for any Person, any and all agreements, devices or arrangements designed to protect such Person or any of its Subsidiaries from the fluctuations of interest rates, exchange rates applicable to such party's assets, liabilities or exchange transactions, including, but not limited to, dollar-denominated or cross-currency interest rate exchange agreements, forward currency exchange agreements, interest rate cap or collar protection agreements, commodity swap agreements, forward rate currency or interest rate options, puts and warrants. Notwithstanding anything herein to the contrary, "Hedging Agreements" shall also include fixed-for-floating interest rate swap agreements and similar instruments.

"Increased Commitments" has the meaning set forth in Section 2.17.

"**Indebtedness**" of any Person means at any date, without duplication, (i) all obligations of such Person for borrowed money, (ii) all indebtedness of such Person for the deferred purchase price of property or services purchased (excluding current accounts payable incurred in the ordinary course of business), (iii) all indebtedness created or arising under any conditional sale or other title retention agreement with respect to property acquired, (iv) all indebtedness under leases which shall have been or should be, in accordance with generally accepted accounting principles, recorded as capital leases in respect of which such Person is liable as lessee, (v) the face amount of all outstanding letters of credit issued for the account of such Person (other than letters of credit relating to indebtedness included in Indebtedness of such Person pursuant to another clause of this definition) and, without duplication, the unreimbursed amount of all drafts drawn thereunder, (vi) indebtedness secured by any Lien on property or assets of such Person, whether or not assumed (but in any event not exceeding the fair market value of the property or asset), (vii) all direct guarantees of Indebtedness referred to above of another Person, (viii) all amounts payable in connection with

mandatory redemptions or repurchases of preferred stock or member interests or other preferred or priority equity interests and (ix) any obligations of such Person (in the nature of principal or interest) in respect of acceptances or similar obligations issued or created for the account of such Person.

"**Initial Sublimit**" means, with respect to each Borrower, the amount set forth opposite its name in the table below:

Borrower	Initial Sublimit
Company	$ 850,000,000
Duke Energy Carolinas	$ 800,000,000
Duke Energy Ohio	$ 500,000,000
Duke Energy Indiana	$ 400,000,000
Duke Energy Kentucky	$ 100,000,000

"**Interest Period**" means, with respect to each Euro-Dollar Loan, the period commencing on the date of borrowing specified in the applicable Notice of Borrowing or on the date specified in an applicable Notice of Interest Rate Election and ending one, two, three or six, or, if deposits of a corresponding maturity are generally available in the London interbank market, nine or twelve, months thereafter, as the Borrower may elect in such notice; *provided* that:

(a) any Interest Period which would otherwise end on a day which is not a Euro-Dollar Business Day shall be extended to the next succeeding Euro-Dollar Business Day unless such Euro-Dollar Business Day falls in another calendar month, in which case such Interest Period shall end on the next preceding Euro-Dollar Business Day; and

(b) any Interest Period which begins on the last Euro-Dollar Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Euro-Dollar Business Day of a calendar month;

provided further that: (x) no Interest Period applicable to any Loan of any Bank which begins before such Bank's Commitment Termination Date may end after such Bank's Commitment Termination Date; and (y) no Interest Period applicable to any Loan of any Bank may end after such Bank's Final Maturity Date.

"**Internal Revenue Code**" means the Internal Revenue Code of 1986, as amended, or any successor statute.

"**Investment Grade Status**" exists as to any Person at any date if all senior long-term unsecured debt securities of such Person outstanding at such date which had been rated by S&P or Moody's are rated BBB- or higher by S&P *or* Baa3 or higher by Moody's, as the case may be, or if such Person does not have a rating of its long-term unsecured debt securities, then if the corporate credit rating of such Person, if any exists, from S&P is BBB- or higher *or* the issuer rating of such Person, if any exists, from Moody's is Baa3 or higher.

"**Issuing Bank**" means (i) each of JPMCB and Wachovia, (ii) Barclays, with respect to any Existing Letter of Credit issued by it and (iii) any other Bank that may agree to issue letters of credit hereunder, in each case as issuer of a Letter of Credit hereunder. No Issuing Bank shall be obligated to issue any Letter of Credit hereunder if, after giving effect thereto, the aggregate Letter of Credit Liabilities in respect of all Letters of Credit issued by such Issuing Bank hereunder would exceed (i) in the case of Wachovia, $1,000,000,000 (as such amount may be modified from time to time by agreement between the Company and Wachovia), (ii) in the case of JPMCB, $500,000,000 (as such amount may be modified from time to time by agreement between the Company and such Issuing Bank) or (iii) with respect to any other Issuing Bank, such amount (if any) as may be agreed for this purpose from time to time by such Issuing Bank and the Company. For avoidance of doubt, the limitations in the preceding sentence are for the exclusive benefit of the respective Issuing Banks, are incremental to the other limitations specified herein on the availability of Letters of Credit and do not affect such other limitations.

"**JPMCB**" means JPMorgan Chase Bank, National Association.

"**Letter of Credit**" means a letter of credit issued or to be issued hereunder by an Issuing Bank in accordance with Section 2.15, including the Existing Letters of Credit.

"**Letter of Credit Liabilities**" means, for any Bank and at any time, such Bank's ratable participation in the sum of (x) the amounts then owing by all Borrowers in respect of amounts drawn under Letters of Credit and (y) the aggregate amount then available for drawing under all Letters of Credit.

"**LIBOR Market Index Rate**" means, for any day, the rate for one month U.S. dollar deposits as reported on page "3750" of the Telerate Service (or such other page as may replace the 3750 page of that service or if the Telerate Service shall cease displaying such rates, such other service or services as may be nominated by the British Bankers' Association for the purpose of displaying London interbank offered rates for U.S. dollar deposits), determined as of 11:00 a.m. London time, for such day; or if such day is not a Euro-Dollar Business Day, for the immediately preceding Euro-Dollar Business Day (or if not so reported,

then as determined by the Administrative Agent from another recognized source or interbank quotation.)

"**Lien**" means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such asset. For the purposes of this Agreement, any Borrower or any of its Subsidiaries shall be deemed to own subject to a Lien any asset which it has acquired or holds subject to the interest of a vendor or lessor under any conditional sale agreement, capital lease or other title retention agreement relating to such asset.

"**Loan**" means a Revolving Credit Loan, a Term Loan or a Swingline Loan; *provided* that Swingline Loans shall be subject to only those provisions of Article 2 which are specifically made applicable to Swingline Loans.

"**London Interbank Offered Rate**" has the meaning set forth in Section 2.06(b).

"**Material Debt**" means, with respect to any Borrower, Indebtedness of such Borrower or any of its Material Subsidiaries in an aggregate principal amount exceeding $150,000,000.

"**Material Plan**" has the meaning set forth in Section 6.01(i).

"**Material Subsidiary**" means at any time, with respect to any Borrower, any Subsidiary of such Borrower that is a "significant subsidiary" (as such term is defined on the Effective Date in Regulation S-X of the Securities and Exchange Commission (17 CFR 210.1-02(w)), but treating all references therein to the "registrant" as references to such Borrower).

"**Maximum Sublimit**" means, with respect to each Borrower, the amount set forth opposite its name in the table below:

Borrower	Maximum Sublimit
Company	$ 1,200,000,000
Duke Energy Carolinas	$ 1,200,000,000
Duke Energy Ohio	$ 750,000,000
Duke Energy Indiana	$ 600,000,000
Duke Energy Kentucky	$ 150,000,000

"**Moody's**" means Moody's Investors Service, Inc.

"**Mortgage Indenture**" means, in the case of each of Duke Energy Carolinas, Duke Energy Ohio, Duke Energy Indiana and Duke Energy Kentucky,

the Duke Energy Carolinas Mortgage, the CG&E First Mortgage Trust Indenture, PSI Energy First Mortgage Trust Indenture or ULH&P First Mortgage Trust Indenture, respectively.

"**Notes**" means promissory notes of a Borrower, in the form required by Section 2.04, evidencing the obligation of such Borrower to repay the Loans made to it, and "**Note**" means any one of such promissory notes issued hereunder.

"**Notice of Borrowing**" has the meaning set forth in Section 2.02.

"**Notice of Interest Rate Election**" has the meaning set forth in Section 2.09(b)

"**Notice of Issuance**" has the meaning set forth in Section 2.15(b).

"**Parent**" means, with respect to any Bank, any Person controlling such Bank.

"**Participant**" has the meaning set forth in Section 9.06(b).

"**PBGC**" means the Pension Benefit Guaranty Corporation or any entity succeeding to any or all of its functions under ERISA.

"**Percentage**" means, with respect to any Bank at any time, the percentage which the amount of its Commitment at such time represents of the aggregate amount of all the Commitments at such time.

"**Person**" means an individual, a corporation, a partnership, an association, a trust or any other entity or organization, including a government or political subdivision or an agency or instrumentality thereof.

"**Plan**" means at any time an employee pension benefit plan which is covered by Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Internal Revenue Code and is either (i) maintained by a member of the ERISA Group for employees of a member of the ERISA Group or (ii) maintained pursuant to a collective bargaining agreement or any other arrangement under which more than one employer makes contributions and to which a member of the ERISA Group is then making or accruing an obligation to make contributions or has within the preceding five plan years made contributions.

"**Pricing Schedule**" means the Pricing Schedule attached hereto.

"**Prime Rate**" means the per annum rate of interest established from time to time by the Administrative Agent at its principal office in Charlotte, North Carolina as its Prime Rate. Any change in the interest rate resulting from a

change in the Prime Rate shall become effective as of 12:01 a.m. of the Domestic Business Day on which each change in the Prime Rate is announced by the Administrative Agent. The Prime Rate is a reference rate used by the Administrative Agent in determining interest rates on certain loans and is not intended to be the lowest rate of interest charged on any extension of credit to any debtor.

"**PSI Energy First Mortgage Trust Indenture**" means the first mortgage trust indenture, dated as of September 1, 1939, between Duke Energy Indiana and LaSalle Bank National Association (formerly known as LaSalle National Bank Company and successor, as trustee, to First National Bank of Chicago), as trustee, as amended, modified or supplemented from time to time, and any successor or replacement mortgage trust indenture.

"**Quarterly Payment Date**" means the first Domestic Business Day of each January, April, July and October.

"**Regulation U**" means Regulation U of the Board of Governors of the Federal Reserve System, as in effect from time to time.

"**Reimbursement Obligation**" means, at any time, the obligation of the Borrower then outstanding under Section 2.15 to reimburse the Issuing Bank for amounts paid by the Issuing Bank in respect of any one or more drawings under a Letter of Credit.

"**Removed Borrower**" has the meaning set forth in Section 9.05(b)

"**Required Banks**" means, at any time, Banks having at least 51% in aggregate amount of the Aggregate Exposures at such time.

"**Revolving Credit Loan**" means a loan made or to be made by a Bank pursuant to Section 2.01(a); *provided* that, if any such loan or loans (or portions thereof) are combined or subdivided pursuant to a Notice of Interest Rate Election, the term "Revolving Credit Loan" shall refer to the combined principal amount resulting from such combination or to each of the separate principal amounts resulting from such subdivision, as the case may be.

"**Revolving Credit Period**" means, with respect to any Bank, the period from and including the Effective Date to but not including its Commitment Termination Date.

"**S&P**" means Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc.

"**Subsidiary**" means, as to any Person, any corporation or other entity of which securities or other ownership interests having ordinary voting power to

elect a majority of the board of directors or other persons performing similar functions are at the time directly or indirectly owned by such Person; unless otherwise specified, "Subsidiary" means a Subsidiary of a Borrower.

"**Substantial Assets**" means, with respect to any Borrower, assets sold or otherwise disposed of in a single transaction or a series of related transactions representing 25% or more of the consolidated assets of such Borrower and its Consolidated Subsidiaries, taken as a whole.

"**Sublimit**" means, with respect to each Borrower, its Initial Sublimit, as the same may be modified from time to time pursuant to Sections 2.08 and 2.17; *provided* that a Borrower's Sublimit shall at no time exceed such Borrower's Maximum Sublimit.

"**Swingline Bank**" means Wachovia, in its capacity as the Swingline Bank under the swing loan facility described in Section 2.18.

"**Swingline Exposure**" means, with respect to any Bank, an amount equal to such Bank's Percentage of the aggregate outstanding principal amount of Swingline Loans.

"**Swingline Loan**" means a loan made or to be made by the Swingline Bank pursuant to Section 2.18.

"**Swingline Termination Date**" means the tenth Domestic Business Day prior to Wachovia's Commitment Termination Date.

"**Term Loan**" means a loan made or to be made by a Bank pursuant to Section 2.01(b); *provided* that, if any such loan or loans (or portions thereof) are combined or subdivided pursuant to a Notice of Interest Rate Election, the term "Term Loan" shall refer to the combined principal amount resulting from such combination or to each of the separate principal amounts resulting from such subdivision, as the case may be.

"**Trust**" means The Doris Duke Trust, a trust established by James B. Duke by Indenture dated December 11, 1924 for the benefit of certain relatives.

"**ULH&P First Mortgage Trust Indenture**" means the first mortgage trust indenture, dated as of February 1, 1949, between Duke Energy Kentucky and The Bank of New York (successor to Irving Trust Company), as trustee, as amended, modified or supplemented from time to time, and any successor or replacement mortgage trust indenture.

"**Unfunded Vested Liabilities**" means, with respect to any Plan at any time, the amount (if any) by which (i) the present value of all benefits under such Plan exceeds (ii) the fair market value of all Plan assets allocable to such benefits,

all determined as of the then most recent valuation date for such Plan, but only to the extent that such excess represents a potential liability of a member of the ERISA Group to the PBGC or the Plan under Title IV of ERISA.

"**United States**" means the United States of America, including the States and the District of Columbia, but excluding its territories and possessions.

"**Utilization Limits**" means the requirements that (i) for any Bank, the aggregate outstanding principal amount of its Loans (other than Swingline Loans) to all Borrowers hereunder plus the aggregate amount of its Letter of Credit Liabilities plus its Swingline Exposure shall at no time exceed the amount of its Commitment and (ii) for any Borrower, the aggregate outstanding principal amount of Loans to such Borrower plus the aggregate amount of Letter of Credit Liabilities in respect of Letters of Credit issued for its account shall at no time exceed its Sublimit.

"**Wachovia**" means Wachovia Bank, National Association.

Section 1.02. *Accounting Terms and Determinations*. Unless otherwise specified herein, all accounting terms used herein shall be interpreted, all accounting determinations hereunder shall be made, and all financial statements required to be delivered hereunder shall be prepared in accordance with generally accepted accounting principles as in effect from time to time, applied on a basis consistent (except for changes concurred in by the relevant Borrower's independent public accountants) with the most recent audited consolidated financial statements of such Borrower and its Consolidated Subsidiaries delivered to the Banks.

Section 1.03. *Types of Borrowings*. The term "**Borrowing**" denotes the aggregation of Loans of one or more Banks to be made to a single Borrower pursuant to Article 2 on a single date and for a single Interest Period. Borrowings are classified for purposes of this Agreement by reference to the pricing of Loans comprising such Borrowing (*e.g.*, a "**Euro-Dollar Borrowing**" is a Borrowing comprised of Euro Dollar Loans).

ARTICLE 2
THE CREDITS

Section 2.01. *Commitments to Lend*. (a) *Revolving Credit Loans*. During its Revolving Credit Period, each Bank severally agrees, on the terms and conditions set forth in this Agreement, to make loans to each Borrower pursuant to this subsection from time to time, *provided* that, immediately after each such loan is made, the Utilization Limits are not exceeded. Each Borrowing under this subsection shall be in an aggregate principal amount of $10,000,000 or any larger

multiple of $1,000,000 (except that any such Borrowing may be in the aggregate amount available in accordance with Section 3.02(b)) and shall be made from the several Banks ratably in proportion to their respective Commitments in effect on the date of Borrowing; *provided* that, if the Interest Period selected by the Borrower for a Borrowing would otherwise end after the Commitment Termination Dates of some but not all Banks, the Borrower may in its Notice of Borrowing elect not to borrow from those Banks whose Commitment Termination Dates fall prior to the end of such Interest Period. Within the foregoing limits, the Borrowers may borrow under this subsection (a), or to the extent permitted by Section 2.11, prepay Loans and reborrow at any time during the Revolving Credit Periods under this subsection (a).

(b) *Term Loans*. Each Bank severally agrees, on the terms and conditions set forth in this Agreement, to make a loan to each Borrower on its Commitment Termination Date; *provided* that, immediately after each such loan is made, the Utilization Limits are not exceeded; and *provided further* that no Bank shall be obligated to make a loan pursuant to this subsection if any Commitment shall have been extended pursuant to Section 2.01(c) to a date later than the Commitment Termination Date of such Bank. Each Borrowing under this Section 2.01(b) shall be made from the several Banks having the same Commitment Termination Date ratably in proportion to their respective Commitments.

(c) *Extension of Commitments*. (i) The Company may, upon notice to the Administrative Agent not less than 60 days but no more than 90 days prior to any anniversary of the Effective Date, propose to extend the Commitment Termination Dates for an additional one-year period measured from the Commitment Termination Dates then in effect. The Administrative Agent shall promptly notify the Banks of receipt of such request. Each Bank shall endeavor to respond to such request, whether affirmatively or negatively (such determination in the sole discretion of such Bank), by notice to the Company and the Administrative Agent within 30 days. Subject to the execution by the Borrowers, the Administrative Agent and such Banks of a duly completed Extension Agreement in substantially the form of Exhibit E, the Commitment Termination Date applicable to the Commitment of each Bank so affirmatively notifying the Company and the Administrative Agent shall be extended for the period specified above; *provided* that no Commitment Termination Date of any Bank shall be extended unless Banks having Commitments in an aggregate amount equal to at least 51% in aggregate amount of the Commitments in effect at the time any such extension is requested shall have elected so to extend their Commitments.

(ii) Any Bank which does not give such notice to the Company and the Administrative Agent shall be deemed to have elected not to extend as requested, and the Commitment of each non-extending Bank shall terminate on its

Commitment Termination Date determined without giving effect to such requested extension. The Company may, in accordance with Section 8.06, designate another bank or other financial institution (which may be, but need not be, an extending Bank) to replace a non-extending Bank. On the date of termination of any Bank's Commitment as contemplated by this paragraph, the respective participations of the other Banks in all outstanding Letters of Credit and Swingline Loans shall be redetermined on the basis of their respective Commitments after giving effect to such termination, and the participation therein of the Bank whose Commitment is terminated shall terminate; *provided* that the Borrowers shall, if and to the extent necessary to permit such redetermination of participations in Letters of Credit and Swingline Loans within the limits of the Commitments which are not terminated, prepay on such date all or a portion of the outstanding Revolving Credit Loans, and such redetermination and termination of participations in outstanding Letters of Credit and Swingline Loans shall be conditioned upon their having done so.

Section 2.02. *Notice of Borrowings.* The Borrower shall give the Administrative Agent notice (a "**Notice of Borrowing**") not later than 11.00 A.M. (Eastern time) on (x) the date of each Base Rate Borrowing and (y) the third Euro-Dollar Business Day before each Euro-Dollar Borrowing, specifying.

(a) the date of such Borrowing, which shall be a Domestic Business Day in the case of a Domestic Borrowing or a Euro-Dollar Business Day in the case of a Euro-Dollar Borrowing;

(b) the aggregate amount of such Borrowing;

(c) whether the Loans comprising such Borrowing are to bear interest initially at the Base Rate or a Euro-Dollar Rate;

(d) in the case of a Euro-Dollar Borrowing, the duration of the initial Interest Period applicable thereto, subject to the provisions of the definition of Interest Period; and

(e) if applicable, the designation contemplated by the definition of Borrower Maturity Date.

Unless the Borrower shall have given notice to Administrative Agent not later than 11:00 A.M. (Eastern time) on the date on which any payment of a Reimbursement Obligation is due to an Issuing Bank or on the scheduled date of maturity of a Swingline Loan to the effect that the Borrower will make such payment with funds from another source, the Borrower shall be deemed to have given a Notice of Borrowing for a Base Rate Borrowing on such date in the minimum amount permitted by Section 2.01 that equals or exceeds the amount of such Reimbursement Obligation or Swingline Loan.

Section 2.03 *Notice to Banks; Funding of Loans.* (a) Upon receipt (or deemed receipt) of a Notice of Borrowing, the Administrative Agent shall promptly notify each Bank of the contents thereof and of such Bank's share (if any) of such Borrowing and such Notice of Borrowing shall not thereafter be revocable by the Borrower.

(b) Not later than 1:00 P.M. (Eastern time) on the date of each Borrowing, each Bank participating therein shall (except as provided in subsection (c) of this Section) make available its share of such Borrowing, in Federal or other immediately available funds, to the Administrative Agent at its address specified in or pursuant to Section 9.01. Unless the Administrative Agent determines that any applicable condition specified in Article 3 has not been satisfied, the Administrative Agent will make the funds so received from the Banks available to the Borrower at the Administrative Agent's aforesaid address; *provided* that to the extent that all or a portion of such Borrowing is to be applied to a Reimbursement Obligation or a Swingline Loan of the Borrower as contemplated by Sections 2.02 and 2.18(b), the Administrative Agent shall distribute to the applicable Issuing Bank or the Swingline Bank, as the case may be, the appropriate portion of such funds.

(c) Unless the Administrative Agent shall have received notice from a Bank prior to 1:00 P.M. (Eastern time) on the date of any Borrowing that such Bank will not make available to the Administrative Agent such Bank's share of such Borrowing, the Administrative Agent may assume that such Bank has made such share available to the Administrative Agent on the date of such Borrowing in accordance with subsection (b) of this Section 2.03 and the Administrative Agent may, in reliance upon such assumption, make available to the Borrower on such date a corresponding amount. If and to the extent that such Bank shall not have so made such share available to the Administrative Agent, such Bank and, if such Bank shall not have made such payment within two Domestic Business Days of demand therefor, the Borrower severally agree to repay to the Administrative Agent forthwith on demand such corresponding amount together with interest thereon, for each day from the date such amount is made available to the Borrower until the date such amount is repaid to the Administrative Agent, at (i) in the case of the Borrower, a rate per annum equal to the higher of the Federal Funds Rate and the interest rate applicable thereto pursuant to Section 2.06 and (ii) in the case of such Bank, the Federal Funds Rate. If such Bank shall repay to the Administrative Agent such corresponding amount, such amount so repaid shall constitute such Bank's Loan included in such Borrowing for purposes of this Agreement.

(d) The failure of any Bank to make the Loan to be made by it as part of any Borrowing shall not relieve any other Bank of its obligation, if any, hereunder to make a Loan on the date of such Borrowing, but no Bank shall be responsible for the failure of any other Bank to make a Loan to be made by such other Bank.

Section 2.04. *Registry, Notes.* (a) The Administrative Agent shall maintain a register (the "**Register**") on which it will record the Commitment of each Bank, each Loan made by such Bank and each repayment of any Loan made by such Bank. Any such recordation by the Administrative Agent on the Register shall be conclusive, absent manifest error. Failure to make any such recordation, or any error in such recordation, shall not affect the Borrowers' obligations hereunder.

(b) Each Borrower hereby agrees that, promptly upon the request of any Bank at any time, such Borrower shall deliver to such Bank a duly executed Note, in substantially the form of Exhibit A hereto, payable to the order of such Bank and representing the obligation of such Borrower to pay the unpaid principal amount of the Loans made to such Borrower by such Bank, with interest as provided herein on the unpaid principal amount from time to time outstanding.

(c) Each Bank shall record the date, amount and maturity of each Loan (including Swingline Loans) made by it and the date and amount of each payment of principal made by the Borrower with respect thereto, and each Bank receiving a Note pursuant to this Section, if such Bank so elects in connection with any transfer or enforcement of its Note, may endorse on the schedule forming a part thereof appropriate notations to evidence the foregoing information with respect to each such Loan then outstanding; *provided* that the failure of such Bank to make any such recordation or endorsement shall not affect the obligations of any Borrower hereunder or under the Notes. Such Bank is hereby irrevocably authorized by each Borrower so to endorse its Note and to attach to and make a part of its Note a continuation of any such schedule as and when required.

Section 2.05. *Maturity of Loans, Effect of Cash Collateralization of Letters of Credit.* (a) Each Revolving Credit Loan made by any Bank shall mature, and the principal amount thereof shall be due and payable together with accrued interest thereon, on the earlier of the Commitment Termination Date of such Bank and the applicable Borrower Maturity Date (if any).

(b) Each Term Loan of each Bank shall mature, and the principal amount thereof shall be due and payable, together with accrued interest thereon, on the Final Maturity Date of such Bank.

Section 2.06. *Interest Rates.* (a) Each Base Rate Loan shall bear interest on the outstanding principal amount thereof, for each day from the date such Loan is made until it becomes due, at a rate per annum equal to the Base Rate for such day. Such interest shall be payable quarterly in arrears on each Quarterly Payment Date, at maturity and on the date of termination of the Commitments in their entirety. Any overdue principal of or overdue interest on any Base Rate Loan shall bear interest, payable on demand, for each day until paid at a rate per annum equal to the sum of 1% plus the Base Rate for such day.

(b) Each Euro-Dollar Loan shall bear interest on the outstanding principal amount thereof, for each day during each Interest Period applicable thereto, at a rate per annum equal to the sum of the Applicable Margin for such day plus the London Interbank Offered Rate applicable to such Interest Period. Such interest shall be payable for each Interest Period on the last day thereof and, if such Interest Period is longer than three months, at intervals of three months after the first day thereof.

The "**London Interbank Offered Rate**" applicable to any Interest Period means the rate appearing on Page 3750 of the Telerate Service Company (or on any successor or substitute page of such service, or any successor to or substitute for such service, providing rate quotations comparable to those currently provided on such page of the Telerate Service, as may be nominated by the British Bankers' Association for purposes of providing quotations of interest rates applicable to U.S. dollar deposits in the London interbank market) as of 11:00 A.M. (London time) two Euro-Dollar Business Days prior to the commencement of such Interest Period, as the rate for U.S. dollar deposits with a maturity comparable to such Interest Period. In the event that such rate is not so available at such time for any reason, then the "**London Interbank Offered Rate**" for such Interest Period shall be the average (rounded upward, if necessary, to the next higher 1/16 of 1%) of the respective rates per annum at which deposits in U.S. dollars are offered to each of the Euro-Dollar Reference Banks in the London interbank market at approximately 11:00 A.M. (London time) two Euro-Dollar Business Days before the first day of such Interest Period in an amount approximately equal to the principal amount of the Loan of such Euro-Dollar Reference Bank to which such Interest Period is to apply and for a period of time comparable to such Interest Period. If any Euro-Dollar Reference Bank does not furnish a timely quotation, the Administrative Agent shall determine the relevant interest rate on the basis of the quotation furnished by the remaining Euro-Dollar Reference Bank or, if none of such quotations is available on a timely basis, the provisions of Section 8.01 shall apply.

(c) Any overdue principal of or overdue interest on any Euro-Dollar Loan shall bear interest, payable on demand, for each day from and including the date payment thereof was due to but excluding the date of actual payment, at a rate per annum equal to the sum of 1% plus the higher of (i) the sum of the Applicable Margin for such day plus the London Interbank Offered Rate applicable to such Loan at the date such payment was due and (ii) the Base Rate for such day.

(d) The Administrative Agent shall determine each interest rate applicable to the Loans hereunder. The Administrative Agent shall give prompt notice to the Borrower and the participating Banks by telecopy, telex or cable of each rate of interest so determined, and its determination thereof shall be

conclusive in the absence of manifest error unless the Borrower raises an objection thereto within five Domestic Business Days after receipt of such notice.

Section 2.07. *Fees*. (a) *Facility Fees*. Each Borrower shall pay to the Administrative Agent, for the account of the Banks ratably in proportion to their related Borrower Exposures, a facility fee calculated for each day at the Facility Fee Rate for such day (determined in accordance with the Pricing Schedule) on the aggregate amount of the related Borrower Exposures on such day. Such facility fee shall accrue for each day from and including the Effective Date but excluding the day on which the related Borrower Exposures are reduced to zero.

(b) *Letter of Credit Fees*. The Borrower shall pay to the Administrative Agent (i) for the account of the Banks ratably a letter of credit fee accruing daily on the aggregate amount then available for drawing under all outstanding Letters of Credit at a rate per annum equal to the then applicable Applicable Margin and (ii) for the account of each Issuing Bank a letter of credit fronting fee accruing daily on the aggregate amount then available for drawing under all Letters of Credit issued by such Issuing Bank at a rate per annum of 0.10% (or such other rate as may be mutually agreed from time to time by the Borrower and such Issuing Bank).

(c) *Payments*. Accrued fees under this Section for the account of any Bank shall be payable quarterly in arrears on each Quarterly Payment Date and upon such Bank's Commitment Termination Date and Final Maturity Date (and, if later, the date the Borrower Exposure of such Bank in respect of any Borrower is reduced to zero).

Section 2.08. *Optional Termination or Reduction of Sublimits; Changes to Sublimits*. (a) The Company may, upon not less than three Domestic Business Days' notice to the Administrative Agent, reallocate amounts of the Commitments among the respective Sublimits of the Borrowers (*i.e.*, reduce the Sublimits of one or more Borrowers and increase the Sublimits of one or more other Borrowers by the same aggregate amount); *provided* (i) each Sublimit shall be a multiple of $5,000,000 at all times, (ii) a Borrower's Sublimit may not be reduced to an amount less than the sum of the aggregate outstanding principal amount of Loans to such Borrower plus the aggregate amount of Letter of Credit Liabilities in respect of Letters of Credit issued for its account, (iii) a Borrower's Sublimit may not be increased to an amount greater than its Maximum Sublimit, (iv) the sum of the Sublimits of the respective Borrowers shall at all times equal the aggregate amount of the Commitments and (v) any such increase in a Borrower's Sublimit shall be accompanied or preceded by evidence reasonably satisfactory to the Administrative Agent as to appropriate corporate authorization therefor.

(b) Each Borrower other than the Company may, upon at least three Domestic Business Days' notice to the Administrative Agent, reduce its Sublimit (i) to zero, if no Loans to it or Letter of Credit Liabilities for its account are outstanding or (ii) by an amount of $5,000,000 or any larger multiple of $5,000,000 so long as, after giving effect to such reduction, its Sublimit is not less than the sum of the aggregate principal amount of Loans outstanding to it and the aggregate Letter of Credit Liabilities outstanding for its account. Upon any reduction in the Sublimit of a Borrower to zero pursuant to this Section 2.08(b), such Borrower shall cease to be a Borrower hereunder. The aggregate amount of the Commitments will be automatically and simultaneously reduced by the amount of each reduction in any Sublimit pursuant to this Section 2.08(b) or pursuant to Section 6.01.

Section 2.09. *Method of Electing Interest Rates* (a) The Loans included in each Borrowing shall bear interest initially at the type of rate specified by the Borrower in the applicable Notice of Borrowing. Thereafter, the Borrower may from time to time elect to change or continue the type of interest rate borne by each Group of Loans (subject in each case to the provisions of Article 8 and the last sentence of this subsection (a)), as follows:

(i) if such Loans are Base Rate Loans, the Borrower may elect to convert such Loans to Euro-Dollar Loans as of any Euro-Dollar Business Day; and

(ii) if such Loans are Euro-Dollar Loans, the Borrower may elect to convert such Loans to Base Rate Loans or elect to continue such Loans as Euro-Dollar Loans for an additional Interest Period, subject to Section 2.13 in the case of any such conversion or continuation effective on any day other than the last day of the then current Interest Period applicable to such Loans.

Each such election shall be made by delivering a notice (a "**Notice of Interest Rate Election**") to the Administrative Agent not later than 11:00 A.M. (Eastern time) on the third Euro-Dollar Business Day before the conversion or continuation selected in such notice is to be effective. A Notice of Interest Rate Election may, if it so specifies, apply to only a portion of the aggregate principal amount of the relevant Group of Loans; *provided* that (i) such portion is allocated ratably among the Loans comprising such Group and (ii) the portion to which such notice applies, and the remaining portion to which it does not apply, are each $10,000,000 or any larger multiple of $1,000,000.

(b) Each Notice of Interest Rate Election shall specify:

(i) the Group of Loans (or portion thereof) to which such notice applies;

(ii) the date on which the conversion or continuation selected in such notice is to be effective, which shall comply with the applicable clause of subsection 2.09(a) above;

(iii) if the Loans comprising such Group are to be converted, the new type of Loans and, if the Loans being converted are to be Euro-Dollar Loans, the duration of the next succeeding Interest Period applicable thereto; and

(iv) if such Loans are to be continued as Euro-Dollar Loans for an additional Interest Period, the duration of such additional Interest Period.

Each Interest Period specified in a Notice of Interest Rate Election shall comply with the provisions of the definition of the term "**Interest Period**".

(c) Promptly after receiving a Notice of Interest Rate Election from the Borrower pursuant to subsection 2.09(a) above, the Administrative Agent shall notify each Bank of the contents thereof and such notice shall not thereafter be revocable by the Borrower. If no Notice of Interest Rate Election is timely received prior to the end of an Interest Period for any Group of Loans, the Borrower shall be deemed to have elected that such Group of Loans be converted to Base Rate Loans as of the last day of such Interest Period.

(d) An election by the Borrower to change or continue the rate of interest applicable to any Group of Loans pursuant to this Section shall not constitute a "**Borrowing**" subject to the provisions of Section 3.02.

Section 2.10 *Mandatory Termination of Commitments.* The Commitment of each Bank shall terminate on such Bank's Commitment Termination Date.

Section 2.11 *Optional Prepayments.* (a) The Borrower may (i) upon notice to the Administrative Agent not later than 11.00 A M (Eastern time) on any Domestic Business Day prepay on such Domestic Business Day any Group of Base Rate Loans and (ii) upon at least three Euro-Dollar Business Days' notice to the Administrative Agent not later than 11.00 A M (Eastern time) prepay any Group of Euro-Dollar Loans, in each case in whole at any time, or from time to time in part in amounts aggregating $5,000,000 or any larger multiple of $1,000,000, by paying the principal amount to be prepaid together with accrued interest thereon to the date of prepayment and together with any additional amounts payable pursuant to Section 2 13 Each such optional prepayment shall be applied to prepay ratably the Loans of the several Banks included in such Group or Borrowing

(b) Upon receipt of a notice of prepayment pursuant to this Section, the Administrative Agent shall promptly notify each Bank of the contents thereof and of such Bank's share (if any) of such prepayment and such notice shall not thereafter be revocable by the Borrower.

Section 2.12. *General Provisions as to Payments.* (a) The Borrower shall make each payment of principal of, and interest on, the Loans and of fees hereunder, not later than 1.00 P.M. (Eastern time) on the date when due, in Federal or other funds immediately available in New York City, to the Administrative Agent at its address referred to in Section 9.01 and without reduction by reason of any set-off, counterclaim or deduction of any kind. The Administrative Agent will promptly distribute to each Bank in like funds its ratable share of each such payment received by the Administrative Agent for the account of the Banks. Whenever any payment of principal of, or interest on, the Base Rate Loans, Swingline Loans or Letter of Credit Liabilities or of fees shall be due on a day which is not a Domestic Business Day, the date for payment thereof shall be extended to the next succeeding Domestic Business Day. Whenever any payment of principal of, or interest on, the Euro-Dollar Loans shall be due on a day which is not a Euro-Dollar Business Day, the date for payment thereof shall be extended to the next succeeding Euro-Dollar Business Day unless such Euro-Dollar Business Day falls in another calendar month, in which case the date for payment thereof shall be the next preceding Euro-Dollar Business Day. If the date for any payment of principal is extended by operation of law or otherwise, interest thereon shall be payable for such extended time.

(b) Unless the Administrative Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Banks hereunder that the Borrower will not make such payment in full, the Administrative Agent may assume that the Borrower has made such payment in full to the Administrative Agent on such date and the Administrative Agent may, in reliance upon such assumption, cause to be distributed to each Bank on such due date an amount equal to the amount then due such Bank. If and to the extent that the Borrower shall not have so made such payment, each Bank shall repay to the Administrative Agent forthwith on demand such amount distributed to such Bank together with interest thereon, for each day from the date such amount is distributed to such Bank until the date such Bank repays such amount to the Administrative Agent, at the Federal Funds Rate.

Section 2.13. *Funding Losses.* If the Borrower makes any payment of principal with respect to any Euro-Dollar Loan or any Euro-Dollar Loan is converted to a Base Rate Loan or continued as a Euro-Dollar Loan for a new Interest Period (pursuant to Article 2, 6 or 8 or otherwise) on any day other than the last day of an Interest Period applicable thereto, or if the Borrower fails to borrow, prepay, convert or continue any Euro-Dollar Loans after notice has been given to any Bank in accordance with Section 2.03(a), 2.09(c) or 2.11(b), the

Borrower shall reimburse each Bank within 15 days after demand for any resulting loss or expense incurred by it (or by an existing or prospective Participant in the related Loan), including (without limitation) any loss incurred in obtaining, liquidating or employing deposits from third parties, but excluding loss of margin for the period after any such payment or conversion or failure to borrow, prepay, convert or continue; *provided* that such Bank shall have delivered to the Borrower a certificate setting forth in reasonable detail the calculation of the amount of such loss or expense, which certificate shall be conclusive in the absence of manifest error.

Section 2.14 *Computation of Interest and Fees* Interest based on the Base Rate or the LIBOR Market Index Rate and facility fees hereunder shall be computed on the basis of a year of 365 days (or 366 days in a leap year) and paid for the actual number of days elapsed (including the first day but excluding the last day) All other interest and Letter of Credit fees shall be computed on the basis of a year of 360 days and paid for the actual number of days elapsed (including the first day but excluding the last day)

Section 2.15 *Letters of Credit.*

(a) Subject to the terms and conditions hereof, each Issuing Bank agrees to issue Letters of Credit hereunder from time to time before its Commitment Termination Date upon the request and for the account of any Borrower; *provided* that, immediately after each Letter of Credit is issued, (i) the Utilization Limits shall not be exceeded and (ii) the aggregate amount of the Letter of Credit Liabilities shall not exceed $1,000,000,000. Upon the date of issuance by the Issuing Bank of a Letter of Credit, the Issuing Bank shall be deemed, without further action by any party hereto, to have sold to each Bank, and each Bank shall be deemed, without further action by any party hereto, to have purchased from the Issuing Bank, a participation to the extent of its Percentage in such Letter of Credit and the related Letter of Credit Liabilities.

(b) The Borrower shall give the Issuing Bank notice at least three Domestic Business Days prior to the requested issuance of a Letter of Credit, or in the case of a Letter of Credit substantially in the form of Exhibit G, at least one Business Day prior to the requested issuance of such Letter of Credit, specifying the date such Letter of Credit is to be issued and describing the terms of such Letter of Credit (such notice, including any such notice given in connection with the extension of a Letter of Credit, a "**Notice of Issuance**"), substantially in the form of Exhibit F, appropriately completed. Upon receipt of a Notice of Issuance, the Issuing Bank shall promptly notify the Administrative Agent, and the Administrative Agent shall promptly notify each Bank of the contents thereof and of the amount of such Bank's participation in such Letter of Credit. The issuance by the Issuing Bank of each Letter of Credit shall, in addition to the conditions precedent set forth in Article 3, be subject to the conditions precedent that such

Letter of Credit shall be denominated in U.S. dollars and shall be in such form and contain such terms as shall be reasonably satisfactory to the Issuing Bank. Unless otherwise notified by the Administrative Agent, the Issuing Bank may, but shall not be required to, conclusively presume that all conditions precedent set forth in Article 3 have been satisfied. The Borrower shall also pay to each Issuing Bank for its own account issuance, drawing, amendment and extension charges in the amounts and at the times as agreed between the Borrower and such Issuing Bank. Except for non-substantive amendments to any Letter of Credit for the purpose of correcting errors or ambiguities or to allow for administrative convenience (which amendments each Issuing Bank may make in its discretion with the consent of the Borrower), the amendment, extension or renewal of any Letter of Credit shall be deemed to be an issuance of such Letter of Credit. If any Letter of Credit contains a provision pursuant to which it is deemed to be automatically renewed unless notice of termination is given by the Issuing Bank of such Letter of Credit, the Issuing Bank shall timely give notice of termination if (i) as of close of business on the seventeenth day prior to the last day upon which the Issuing Bank's notice of termination may be given to the beneficiaries of such Letter of Credit, the Issuing Bank has received a notice of termination from the Borrower or a notice from the Administrative Agent that the conditions to issuance of such Letter of Credit have not been satisfied or (ii) the renewed Letter of Credit would have a term not permitted by subsection (c) below.

(c) No Letter of Credit shall have a term extending beyond the first anniversary of the Commitment Termination Date of the applicable Issuing Bank.

(d) Upon receipt from the beneficiary of any applicable Letter of Credit of any notice of a drawing under such Letter of Credit, the Issuing Bank shall notify the Administrative Agent and the Administrative Agent shall promptly notify the Borrower and each other Bank as to the amount to be paid as a result of such demand or drawing and the payment date. The Borrower shall be irrevocably and unconditionally obligated forthwith to reimburse the Issuing Bank for any amounts paid by the Issuing Bank upon any drawing under any Letter of Credit without presentment, demand, protest or other formalities of any kind. All such amounts paid by the Issuing Bank and remaining unpaid by the Borrower shall bear interest, payable on demand, for each day until paid at a rate per annum equal to the Base Rate for such day plus, if such amount remains unpaid for more than two Domestic Business Days, 1%. In addition, each Bank will pay to the Administrative Agent, for the account of the applicable Issuing Bank, immediately upon such Issuing Bank's demand at any time during the period commencing after such drawing until reimbursement therefor in full by the Borrower, an amount equal to such Bank's ratable share of such drawing (in proportion to its participation therein), together with interest on such amount for each day from the date of the Issuing Bank's demand for such payment (or, if such demand is made after 12:00 Noon (Eastern time) on such date, from the next

succeeding Domestic Business Day) to the date of payment by such Bank of such amount at a rate of interest per annum equal to the Federal Funds Rate and, if such amount remains unpaid for more than five Domestic Business Days after the Issuing Bank's demand for such payment, at a rate of interest per annum equal to the Base Rate plus 1%. The Issuing Bank will pay to each Bank ratably all amounts received from the Borrower for application in payment of its reimbursement obligations in respect of any Letter of Credit, but only to the extent such Bank has made payment to the Issuing Bank in respect of such Letter of Credit pursuant hereto.

(e) The obligations of the Borrower and each Bank under subsection 2.15(d) above shall be absolute, unconditional and irrevocable, and shall be performed strictly in accordance with the terms of this Agreement, under all circumstances whatsoever, including without limitation the following circumstances:

(i) the use which may be made of the Letter of Credit by, or any acts or omission of, a beneficiary of a Letter of Credit (or any Person for whom the beneficiary may be acting);

(ii) the existence of any claim, set-off, defense or other rights that the Borrower may have at any time against a beneficiary of a Letter of Credit (or any Person for whom the beneficiary may be acting), the Banks (including the Issuing Bank) or any other Person, whether in connection with this Agreement or the Letter of Credit or any document related hereto or thereto or any unrelated transaction;

(iii) any statement or any other document presented under a Letter of Credit proving to be forged, fraudulent or invalid in any respect or any statement therein being untrue or inaccurate in any respect whatsoever;

(iv) payment under a Letter of Credit to the beneficiary of such Letter of Credit against presentation to the Issuing Bank of a draft or certificate that does not comply with the terms of the Letter of Credit; *provided* that the determination by the Issuing Bank to make such payment shall not have been the result of its willful misconduct or gross negligence; or

(v) any other act or omission to act or delay of any kind by any Bank (including the Issuing Bank), the Administrative Agent or any other Person or any other event or circumstance whatsoever that might, but for the provisions of this subsection (v), constitute a legal or equitable discharge of the Borrower's or the Bank's obligations hereunder.

(f) The Borrower hereby indemnifies and holds harmless each Bank (including the Issuing Bank) and the Administrative Agent from and against any and all claims, damages, losses, liabilities, costs or expenses which such Bank or the Administrative Agent may incur (including, without limitation, any claims, damages, losses, liabilities, costs or expenses which the Issuing Bank may incur by reason of or in connection with (i) the failure of any other Bank to fulfill or comply with its obligations to such Issuing Bank hereunder (but nothing herein contained shall affect any rights the Borrower may have against such defaulting Bank) or (ii) any litigation arising with respect to this Agreement (whether or not the Issuing Bank shall prevail in such litigation)), and none of the Banks (including the Issuing Bank) nor the Administrative Agent nor any of their officers or directors or employees or agents shall be liable or responsible, by reason of or in connection with the execution and delivery or transfer of or payment or failure to pay under any Letter of Credit, including without limitation any of the circumstances enumerated in subsection 2.15(e) above, as well as (i) any error, omission, interruption or delay in transmission or delivery of any messages, by mail, cable, telegraph, telex or otherwise, (ii) any loss or delay in the transmission of any document required in order to make a drawing under a Letter of Credit and (iii) any consequences arising from causes beyond the control of the Issuing Bank, including, without limitation, any government acts or any other circumstances whatsoever, in making or failing to make payment under such Letter of Credit; *provided* that the Borrower shall not be required to indemnify the Issuing Bank for any claims, damages, losses, liabilities, costs or expenses, and the Borrower shall have a claim for direct (but not consequential) damage suffered by it, to the extent found by a court of competent jurisdiction to have been caused by (x) the willful misconduct or gross negligence of the Issuing Bank in determining whether a request presented under any Letter of Credit complied with the terms of such Letter of Credit or (y) the Issuing Bank's failure to pay under any Letter of Credit after the presentation to it of a request strictly complying with the terms and conditions of the Letter of Credit. Nothing in this subsection 2.15(f) is intended to limit the obligations of the Borrower under any other provision of this Agreement. To the extent the Borrower does not indemnify the Issuing Bank as required by this subsection, the Banks agree to do so ratably in accordance with their Commitments.

(g) The Issuing Bank shall act on behalf of the Banks with respect to any Letters of Credit issued by it and the documents associated therewith, and the Issuing Bank shall have all of the benefits and immunities (i) provided to the Administrative Agent in Article 7 (other than Sections 7.08 and 7.09) with respect to any acts taken or omissions suffered by the Issuing Bank in connection with Letters of Credit issued by it or proposed to be issued by it and the applications and agreements for letters of credit pertaining to such Letters of Credit as fully as if the term "Administrative Agent" as used in Article 7 included the Issuing Bank

with respect to such acts or omissions and (ii) as additionally provided herein with respect to the Issuing Bank.

(h) On the Effective Date, each Issuing Bank that has issued an Existing Letter of Credit shall be deemed, without further action by any party hereto, to have granted to each Bank, and each Bank shall be deemed, without further action by any party hereto, to have acquired from the Issuing Bank, a participation in such Existing Letter of Credit and the related Letter of Credit Liabilities in the proportion its respective Commitment bears to the aggregate Commitments. On and after the Effective Date, each Existing Letter of Credit shall constitute a Letter of Credit for all purposes hereof.

Section 2.16 *Regulation D Compensation* In the event that a Bank is required to maintain reserves of the type contemplated by the definition of "**Euro-Dollar Reserve Percentage**", such Bank may require the Borrower to pay, contemporaneously with each payment of interest on the Euro-Dollar Loans, additional interest on the related Euro-Dollar Loan of such Bank at a rate per annum determined by such Bank up to but not exceeding the excess of (i) (A) the applicable London Interbank Offered Rate divided by (B) one *minus* the Euro-Dollar Reserve Percentage over (ii) the applicable London Interbank Offered Rate Any Bank wishing to require payment of such additional interest (x) shall so notify the Borrower and the Administrative Agent, in which case such additional interest on the Euro-Dollar Loans of such Bank shall be payable to such Bank at the place indicated in such notice with respect to each Interest Period commencing at least three Euro-Dollar Business Days after the giving of such notice and (y) shall notify the Borrower at least three Euro-Dollar Business Days prior to each date on which interest is payable on the Euro-Dollar Loans of the amount then due it under this Section Each such notification shall be accompanied by such information as the Borrower may reasonably request

"**Euro-Dollar Reserve Percentage**" means for any day that percentage (expressed as a decimal) which is in effect on such day, as prescribed by the Board of Governors of the Federal Reserve System (or any successor) for determining the maximum reserve requirement for a member bank of the Federal Reserve System in New York City with deposits exceeding five billion dollars in respect of "**Eurocurrency liabilities**" (or in respect of any other category of liabilities which includes deposits by reference to which the interest rate on Euro-Dollar Loans is determined or any category of extensions of credit or other assets which includes loans by a non-United States office of any Bank to United States residents).

Section 2.17 *Increase In Commitments, Additional Banks* (a) Subsequent to the Effective Date, the Company may, upon at least 30 days' notice to the Administrative Agent (which shall promptly provide a copy of such notice to the Banks), propose to increase the aggregate amount of the Commitments,

provided that after giving effect to any such increase, the total Commitments shall not exceed $3,900,000,000 (the amount of any such increase, the "**Increased Commitments**"). Each Bank party to this Agreement at such time shall have the right (but no obligation), for a period of 15 days following receipt of such notice, to elect by notice to the Company and the Administrative Agent to increase its Commitment hereunder.

(b) If any Bank party to this Agreement shall not elect to increase its Commitment pursuant to subsection (a) of this Section, the Company may designate another bank or other lenders (which may be, but need not be, one or more of the existing Banks) which at the time agree to (i) in the case of any such lender that is an existing Bank, increase its Commitment and (ii) in the case of any other such lender (an "**Additional Bank**"), become a party to this Agreement. The sum of the increases in the Commitments of the existing Banks pursuant to this subsection (b) plus the Commitments of the Additional Banks shall not in the aggregate exceed the unsubscribed amount of the Increased Commitments.

(c) An increase in the aggregate amount of the Commitments pursuant to this Section 2.17 shall become effective upon the receipt by the Administrative Agent of an agreement in form and substance satisfactory to the Administrative Agent signed by the Borrowers, by each Additional Bank and by each other Bank whose Commitment is to be increased, setting forth the new Commitments of such Banks and setting forth the agreement of each Additional Bank to become a party to this Agreement and to be bound by all the terms and provisions hereof, together with such evidence of appropriate corporate authorization on the part of the Borrowers with respect to the Increased Commitments and such opinions of counsel for the Borrowers with respect to the Increased Commitments as the Administrative Agent may reasonably request.

Upon any increase in the aggregate amount of the Commitments pursuant to this Section 2.17, (i) the respective Letter of Credit Liabilities of the Banks shall be redetermined as of the effective date of such increase and (ii) within five Domestic Business Days, in the case of any Group of Base Rate Loans then outstanding, and at the end of the then current Interest Period with respect thereto, in the case of any Group of Euro-Dollar Loans then outstanding, the Borrower shall prepay such Group of Loans in its entirety and, to the extent the Borrower elects to do so and subject to the conditions specified in Article 3, the Borrower shall reborrow Revolving Credit Loans from the Banks in proportion to their respective Commitments after giving effect to such increase, until such time as all outstanding Revolving Credit Loans are held by the Banks in such proportion. In connection with any increase in the aggregate amount of the Commitments pursuant to this Section, the respective Sublimits of the Borrowers shall be increased by an equal aggregate amount as the Company may direct by notice to the Administrative Agent, subject to the limitations set forth in Section 2.08(a).

Section 2.18 *Swingline Loans*. (a) *Agreement to Lend* From time to time prior to the Swingline Termination Date, subject to the terms and conditions hereof, the Swingline Bank agrees to make Swingline Loans to each Borrower pursuant to this subsection from time to time; *provided* that, immediately after each Swingline Loan is made (i) the Utilization Limits are not exceeded and (ii) the aggregate outstanding principal amount of all Swingline Loans does not exceed $200,000,000. Each Swingline Loan shall be in a principal amount of $1,000,000 or any larger multiple thereof. No Swingline Loan may be used to refinance an outstanding Swingline Loan. Within the foregoing limits, the Borrower may borrow under this Section 2.18, prepay Swingline Loans and reborrow at any time prior to the Swingline Termination Date under this Section 2.18.

(b) *Swingline Borrowing Procedure*. The Borrower shall give the Swingline Bank notice not later than 2:00 P.M. (Eastern time) on the date of each Swingline Loan, specifying the amount of such Loan and the date of such borrowing, which shall be a Domestic Business Day. Not later than 3:00 P.M. (Eastern time) on the date of each Swingline Loan, the Swingline Bank shall, unless it determines that any applicable condition specified in Article 3 has not been satisfied, make available the amount of such Swingline Loan, in Federal or other immediately available funds, to the Borrower at the Swingline Bank's address specified in or pursuant to Section 9.01.

(c) *Interest*. Each Swingline Loan shall bear interest on the outstanding principal amount thereof, payable at maturity, at a rate per annum equal to the sum of the LIBOR Market Index Rate plus the Applicable Margin for such day (or such other rate per annum as the Swingline Bank and the Borrower may mutually agree). Such interest shall be payable at the maturity of such Swingline Loan and, with respect to the principal amount of any Swingline Loan prepaid pursuant to subsection (d) or (e) below, upon the date of such prepayment. Any overdue principal of or interest on any Swingline Loan shall bear interest, payable on demand, for each day until paid at a rate per annum equal to the sum of the Base Rate for such day plus 1%.

(d) *Maturity; Mandatory Prepayment*. Each Swingline Loan shall mature, and the principal amount thereof shall be due and payable, on the earlier of the date falling ten Domestic Business Days after such Loan is made and the Swingline Termination Date. In addition, on the date of each Borrowing of Revolving Credit Loans pursuant to Section 2.01, the Administrative Agent shall apply the proceeds thereof to prepay all Swingline Loans then outstanding.

(e) *Optional Prepayment*. The Borrower may prepay any Swingline Loan in whole at any time, or from time to time in part in a principal amount of $1,000,000 or any larger multiple thereof, by giving notice of such prepayment to

the Swingline Bank not later than 2:00 P.M. (Eastern time) on the date of prepayment.

(f) *Euro-Dollar Protections*. The Swingline Bank shall be entitled to the benefits of Sections 8.03 and 8.04 with respect to the Swingline Loans, and solely for this purpose such Swingline Loan shall be deemed to be a Euro-Dollar Loan having an Interest Period from and including the date such Swingline Loan was made to but not including its maturity date.

(g) *Payments*. All payments to any Swingline Bank under this Section 2.09 shall be made to it at its address specified in or pursuant to Section 9.01 in Federal or other immediately available funds, not later than 3:00 P.M. (Eastern time) on the date of payment.

(h) *Refunding Unpaid Swingline Loans*. If (w) any Swingline Loan is not paid in full on its maturity date and the Swingline Bank so requests, (x) the Swingline Loans become immediately due and payable pursuant to Article 6, (y) the Commitments terminate at a time any Swingline Loans are outstanding, or (z) requested by the Swingline Bank by written notice given to the Administrative Agent not later than 10:00 A.M. (Eastern time) on any Business Day, the Administrative Agent shall, by notice to the Banks (including the Swingline Bank, in its capacity as a Bank), require each Bank to pay to the Administrative Agent for the account of the Swingline Bank an amount equal to such Bank's Commitment Percentage of the aggregate unpaid principal amount of the Swingline Loans described in clause (w), (x), (y) or (z) above, as the case may be. Such notice shall specify the date on which such payments are to be made, which shall be the first Domestic Business Day after such notice is given. Not later than 3:00 P.M. (Eastern time) on the date so specified, each Bank shall pay the amount so notified to it to the Administrative Agent at its address specified in or pursuant to Section 9.01, in Federal or other funds immediately available in New York City. Promptly upon receipt thereof, the Administrative Agent shall remit such amounts to the Swingline Bank. The amount so paid by each Bank shall constitute a Base Rate Loan to the Borrower and shall be applied by the Swingline Bank to repay the outstanding Swingline Loans.

(i) *Purchase of Participations in Swingline Loans*. If at the time Loans would have otherwise been made pursuant to Section 2.18(h), one of the events described in Section 6.01(g) or Section 6.01(h) with respect to the Borrower shall have occurred and be continuing or the Commitments shall have terminated, each Bank shall, on the date such Loans would have been made pursuant to the notice from the Administrative Agent to the Banks referred to in Section 2.18(h) (the "**Refunding Date**"), purchase an undivided participating interest in the relevant Swingline Loans in an amount equal to such Bank's Percentage of the principal amount of each such Swingline Loan. On the Refunding Date, each Bank shall

transfer to the Administrative Agent, for the account of the Swingline Bank, in immediately available funds, such amount.

(j) *Payments on Participated Swingline Loans.* Whenever, at any time after the Swingline Bank has received from any Bank such Bank's payment pursuant to Section 2.18(i), the Swingline Bank receives any payment on account of the Swingline Loans in which the Banks have purchased participations pursuant to Section 2.18(i), its receipt of such payment will be as agent for and for the account of each such Bank and the Swingline Bank will promptly distribute to each such Bank its ratable share of such payment (appropriately adjusted, in the case of interest payments, to reflect the period of time during which such Bank's participating interest was outstanding and funded); *provided* that in the event that such payment received by the Swingline Bank is required to be returned, each such Bank will return to the Swingline Bank any portion thereof previously distributed to it by the Swingline Bank.

(k) *Obligations to Refund or Purchase Participations in Swingline Loans Absolute.* Each Bank's obligation to fund a Loan as provided in Section 2.18(h) or to purchase a participating interest pursuant to Section 2.18(i) shall be absolute and unconditional and shall not be affected by any circumstance, including, without limitation, (i) any set-off, counterclaim, recoupment, defense or other right which such Bank, any Borrower or any other Person may have against the Swingline Bank or any other Person, (ii) the occurrence or continuance of a Default or the termination or reduction of any Commitments, any adverse change in the condition (financial or otherwise) of any Borrower or any other Person, any breach of this Agreement by any Borrower, any other Bank or any other Person or any other circumstance, happening or event whatsoever, whether or not similar to any of the foregoing.

ARTICLE 3
CONDITIONS

Section 3.01. *Effectiveness.* This Agreement shall become effective on the date that each of the following conditions shall have been satisfied (or waived in accordance with Section 9 05(a))

(a) receipt by the Administrative Agent of counterparts hereof signed by each of the parties hereto (or, in the case of any party as to which an executed counterpart shall not have been received, receipt by the Administrative Agent in form satisfactory to it of telegraphic, telecopy, telex or other written confirmation from such party of execution of a counterpart hereof by such party);

(b) receipt by the Administrative Agent of (i) an opinion of internal counsel of each Borrower, substantially in the form of Exhibit B-1 hereto and (ii)

an opinion of Robinson, Bradshaw & Hinson, P.A., special counsel for the Borrowers, substantially in the form of Exhibit B-2 hereto, and, in each case, covering such additional matters relating to the transactions contemplated hereby as the Required Banks may reasonably request;

(c) receipt by the Administrative Agent of an opinion of Davis Polk & Wardwell, special counsel for the Agents, substantially in the form of Exhibit C hereto and covering such additional matters relating to the transactions contemplated hereby as the Required Banks may reasonably request;

(d) receipt by the Administrative Agent of a certificate signed by a Vice President, the Treasurer, an Assistant Treasurer or the Controller of the Company, dated the Effective Date, to the effect set forth in clauses (c) and (d) of Section 3.02;

(e) receipt by the Administrative Agent of all documents it may have reasonably requested prior to the date hereof relating to the existence of the Borrowers, the corporate authority for and the validity of this Agreement and the Notes, and any other matters relevant hereto, all in form and substance satisfactory to the Administrative Agent;

(f) receipt by the Administrative Agent of evidence satisfactory to it of (i) the payment of all principal of and interest on any funded amounts outstanding under, and of all accrued fees under, any Existing Agreement and (ii) the written consent of Cinergy and any other Person not a party to this Agreement whose consent is required by the terms of any Existing Agreement for it to be validly amended and restated pursuant to this Agreement; and

(g) receipt by the Administrative Agent for the account of the Banks of participation fees as heretofore mutually agreed by the Company and the Administrative Agent;

provided that this Agreement shall not become effective or be binding on any party hereto unless all of the foregoing conditions are satisfied not later than July 2, 2007. The Administrative Agent shall promptly notify the Company and the Banks of the Effective Date, and such notice shall be conclusive and binding on all parties hereto.

On the Effective Date, the Existing Agreements will be automatically amended and restated in their collective entirety to read as set forth herein. On and after the Effective Date, the rights and obligations of the parties hereto shall be governed by this Agreement; *provided* that the rights and obligations of each party hereto with respect to the period prior to the Effective Date shall continue to be governed by the provisions of the Existing Agreements to which it is a party. The commitment to extend credit of any Person which has such a commitment

under an Existing Agreement but not under this Agreement shall terminate on the Effective Date, and all accrued fees and other amounts payable to such Person shall be due on the Effective Date.

Section 3.02. *Borrowings and Issuance of Letters of Credit.* The obligation of any Bank to make a Loan on the occasion of any Borrowing by any Borrower and the obligation of any Issuing Bank to issue (or renew or extend the term of) any Letter of Credit at the request of any Borrower is subject to the satisfaction of the following conditions.

(a) receipt by the Administrative Agent of a Notice of Borrowing as required by Section 2.02 or receipt by the Issuing Bank of a Notice of Issuance as required by Section 2.15(b), as the case may be;

(b) the fact that, immediately after such Borrowing or issuance of such Letter of Credit, (i) the Utilization Limits shall not be exceeded, (ii) in the case of an issuance of a Letter of Credit the aggregate amount of the Letter of Credit Liabilities shall not exceed $1,000,000,000 and (iii) in the case of a Borrowing of a Swingline Loan, the aggregate outstanding principal amount of all Swingline Loans shall not exceed $200,000,000;

(c) the fact that, immediately after such Borrowing or issuance of such Letter of Credit, no Default with respect to the Borrower shall have occurred and be continuing; and

(d) the fact that the representations and warranties of the Borrower contained in this Agreement (except the representations and warranties set forth in Sections 4.04(c) and 4.06) shall be true on and as of the date of such Borrowing or issuance of such Letter of Credit.

Each Borrowing and issuance of a Letter of Credit hereunder shall be deemed to be a representation and warranty by the Borrower on the date of such Borrowing or issuance as to the facts specified in clauses (b), (c) and (d) of this Section.

ARTICLE 4
REPRESENTATIONS AND WARRANTIES

Each Borrower, severally but not jointly, represents and warrants that:

Section 4.01. *Organization and Power.* Such Borrower is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization and has all requisite powers and all material governmental licenses, authorizations, consents and approvals required to carry on its business as now conducted and is duly qualified to do business in each jurisdiction where such

qualification is required, except where the failure so to qualify would not have a material adverse effect on the business, financial position or results of operations of such Borrower and its Consolidated Subsidiaries, considered as a whole.

Section 4.02 *Corporate and Governmental Authorization; No Contravention.* The execution, delivery and performance by such Borrower of this Agreement and the Notes are within such Borrower's powers, have been duly authorized by all necessary company action, require no action by or in respect of, or filing with, any governmental body, agency or official (except for consents, authorizations or filings which have been obtained or made, as the case may be, and are in full force and effect) and do not contravene, or constitute a default under, any provision of applicable law or regulation or of the articles of incorporation, by-laws, certificate of formation or the limited liability company agreement of such Borrower or of any agreement, judgment, injunction, order, decree or other instrument binding upon such Borrower or result in the creation or imposition of any Lien on any asset of such Borrower or any of its Material Subsidiaries

Section 4.03 *Binding Effect* This Agreement constitutes a valid and binding agreement of such Borrower and each Note, if and when executed and delivered by it in accordance with this Agreement, will constitute a valid and binding obligation of such Borrower, in each case enforceable in accordance with its terms, except as the same may be limited by bankruptcy, insolvency or similar laws affecting creditors' rights generally and by general principles of equity

Section 4.04 *Financial Information* (a) The consolidated balance sheet of such Borrower and its Consolidated Subsidiaries as of December 31, 2006 and the related consolidated statements of income, cash flows, capitalization and retained earnings for the fiscal year then ended, reported on by Deloitte & Touche, copies of which have been delivered to each of the Banks by using such Borrower's IntraLinks site or otherwise made available, fairly present, in conformity with generally accepted accounting principles, the consolidated financial position of such Borrower and its Consolidated Subsidiaries as of such date and their consolidated results of operations and cash flows for such fiscal year With respect to the Company, the preceding representation is qualified as follows: As disclosed in the Form 10-Q of the Company dated May 9, 2007, for the quarter ended March 31, 2007, on January 2, 2007, the Company completed the spin-off of Spectra Energy, which principally consists of the Company's former Natural Gas Transmission business segment and the Company's former 50% ownership interest in DCP Midstream, to the Company's shareholders The results of operations of these businesses were presented as discontinued operations for the three months ended March 31, 2006 in the consolidated statement of operations in the Form 10-Q of the Company for the quarter ended March 31, 2007. However, since the spin-off did not occur until 2007, the results of operations for these businesses were presented as continuing operations in the

consolidated statements of operations in the Form 10-K of the Company for the year ended December 31, 2006. Since the consolidated statement of operations for the three months ended March 31, 2006 now reflects these businesses as discontinued operations, generally accepted accounting principles in the United States of America require the consolidated statements of operations for the periods covered in the Form 10-K of the Company for the year ended December 31, 2006 to be recast to reflect the results of these businesses as discontinued operations in order to continue to be deemed in compliance with generally accepted accounting principles as of the date of this Agreement.

(b) The unaudited consolidated balance sheet of such Borrower and its Consolidated Subsidiaries as of March 31, 2007 and the related unaudited consolidated statements of income and cash flows for the three months then ended, copies of which have been delivered to each of the Banks by using such Borrower's IntraLinks site or otherwise made available, fairly present, in conformity with generally accepted accounting principles applied on a basis consistent with the financial statements referred to in subsection (a) of this Section, the consolidated financial position of such Borrower and its Consolidated Subsidiaries as of such date and their consolidated results of operations and changes in financial position for such three-month period (subject to normal year-end adjustments and the absence of footnotes).

(c) Since December 31, 2006, there has been no material adverse change in the business, financial position or results of operations of such Borrower and its Consolidated Subsidiaries, considered as a whole, except (in the case of the Company) to the extent the spin-off of Duke Capital may be such a material adverse change.

Section 4.05 *Regulation U* Such Borrower and its Material Subsidiaries are not engaged in the business of extending credit for the purpose of purchasing or carrying margin stock (within the meaning of Regulation U issued by the Board of Governors of the Federal Reserve System) and no proceeds of any Borrowing by and no issuance of Letters of Credit for the account of such Borrower will be used to purchase or carry any margin stock or to extend credit to others for the purpose of purchasing or carrying any margin stock Not more than 25% of the value of the assets of such Borrower and its Material Subsidiaries is represented by margin stock

Section 4.06 *Litigation* Except as disclosed (i) in the Borrower's annual report on Form 10-K for the fiscal year ended December 31, 2006 and its quarterly report on Form 10-Q for the period ended March 31, 2007 and (ii) in the Company's current report on Form 8-K dated June 25, 2007, there is no action, suit or proceeding pending against, or to the knowledge of such Borrower threatened against or affecting, such Borrower or any of its Subsidiaries before any court or arbitrator or any governmental body, agency or official which would

be likely to be decided adversely to such Borrower or such Subsidiary and, as a result, have a material adverse effect upon the business, consolidated financial position or results of operations of such Borrower and its Consolidated Subsidiaries, considered as a whole, or which in any manner draws into question the validity of this Agreement or any Note.

Section 4.07. *Compliance with Laws*. Such Borrower and each of its Material Subsidiaries is in compliance in all material respects with all applicable laws, ordinances, rules, regulations and requirements of governmental authorities (including, without limitation, ERISA and Environmental Laws) except where (i) non-compliance would not have a material adverse effect on the business, financial position or results of operations of such Borrower and its Consolidated Subsidiaries, considered as a whole, or (ii) the necessity of compliance therewith is contested in good faith by appropriate proceedings.

Section 4.08. *Taxes*. Such Borrower and its Material Subsidiaries have filed all United States Federal income tax returns and all other material tax returns which are required to be filed by them and have paid all taxes due pursuant to such returns or pursuant to any assessment received by such Borrower or any such Material Subsidiary except (i) where nonpayment would not have a material adverse effect on the business, financial position or results of operations of such Borrower and its Consolidated Subsidiaries, considered as a whole, or (ii) where the same are contested in good faith by appropriate proceedings. The charges, accruals and reserves on the books of such Borrower and its Material Subsidiaries in respect of taxes or other governmental charges are, in the opinion of such Borrower, adequate.

ARTICLE 5
COVENANTS

Each Borrower, severally but not jointly, agrees that, so long as any Bank has any Commitment hereunder with respect to such Borrower or any amount payable hereunder remains unpaid by such Borrower or any Letter of Credit Liabilities remain outstanding:

Section 5.01. *Information*. Such Borrower will deliver to each of the Banks:

(a) as soon as available and in any event within 120 days after the end of each fiscal year of such Borrower, a consolidated balance sheet of such Borrower and its Consolidated Subsidiaries as of the end of such fiscal year and the related consolidated statements of income, cash flows, capitalization and retained earnings for such fiscal year, setting forth in each case in comparative form the figures for the previous fiscal year, all reported on in a manner consistent

with past practice and with applicable requirements of the Securities and Exchange Commission by Deloitte & Touche or other independent public accountants of nationally recognized standing;

(b) as soon as available and in any event within 60 days (75 days in the case of Duke Energy Kentucky) after the end of each of the first three quarters of each fiscal year of such Borrower, a consolidated balance sheet of such Borrower and its Consolidated Subsidiaries as of the end of such quarter and the related consolidated statements of income and cash flows for such quarter and for the portion of such Borrower's fiscal year ended at the end of such quarter, setting forth in each case in comparative form the figures for the corresponding quarter and the corresponding portion of such Borrower's previous fiscal year, all certified (subject to normal year-end adjustments) as to fairness of presentation, generally accepted accounting principles and consistency by an Approved Officer of such Borrower;

(c) within the maximum time period specified for the delivery of each set of financial statements referred to in clauses (a) and (b) above, a certificate of an Approved Officer of such Borrower (i) setting forth in reasonable detail the calculations required to establish whether such Borrower was in compliance with the requirements of Section 5.10 on the date of such financial statements and (ii) stating whether any Default exists on the date of such certificate and, if any Default then exists, setting forth the details thereof and the action which such Borrower is taking or proposes to take with respect thereto;

(d) within five days after any officer of such Borrower with responsibility relating thereto obtains knowledge of any Default, if such Default is then continuing, a certificate of an Approved Officer of such Borrower setting forth the details thereof and the action which such Borrower is taking or proposes to take with respect thereto;

(e) promptly upon the filing thereof, copies of all registration statements (other than the exhibits thereto and any registration statements on Form S-8 or its equivalent) and reports on Forms 10-K, 10-Q and 8-K (or their equivalents) which such Borrower shall have filed with the Securities and Exchange Commission;

(f) if and when any member of such Borrower's ERISA Group (i) gives or is required to give notice to the PBGC of any "**reportable event**" (as defined in Section 4043 of ERISA) with respect to any Material Plan which might constitute grounds for a termination of such Plan under Title IV of ERISA, or knows that the plan administrator of any Material Plan has given or is required to give notice of any such reportable event, a copy of the notice of such reportable event given or required to be given to the PBGC; (ii) receives notice of complete or partial withdrawal liability under Title IV of ERISA or notice that any Material Plan is in reorganization, is insolvent or has been terminated, a copy of such

notice; (iii) receives notice from the PBGC under Title IV of ERISA of an intent to terminate, impose material liability (other than for premiums under Section 4007 of ERISA) in respect of, or appoint a trustee to administer any Plan, a copy of such notice; (iv)applies for a waiver of the minimum funding standard under Section 412 of the Internal Revenue Code, a copy of such application; (v) gives notice of intent to terminate any Material Plan under Section 4041(c) of ERISA, a copy of such notice and other information filed with the PBGC; (vi) gives notice of withdrawal from any Material Plan pursuant to Section 4063 of ERISA, a copy of such notice; or (vii) fails to make any payment or contribution to any Material Plan or makes any amendment to any Material Plan which has resulted or could result in the imposition of a Lien or the posting of a bond or other security, a certificate of the chief financial officer or the chief accounting officer of such Borrower setting forth details as to such occurrence and action, if any, which such Borrower or applicable member of the ERISA Group is required or proposes to take;

(g) promptly, notice of any change in the ratings of such Borrower referred to in the Pricing Schedule; and

(h) from time to time such additional information regarding the financial position or business of such Borrower and its Subsidiaries as the Administrative Agent, at the request of any Bank, may reasonably request.

Information required to be delivered pursuant to these Sections 5.01(a), 5.01(b) and 5.01(e) shall be deemed to have been delivered on the date on which such information has been posted on the Securities and Exchange Commission website on the Internet at sec.gov/edaux/searches.htm, on such Borrower's IntraLinks or Syndtrak site or at another website identified in a notice from such Borrower to the Banks and accessible by the Banks without charge; *provided* that (i) a certificate delivered pursuant to Section 5.01(c) shall also be deemed to have been delivered upon being posted to such Borrower's IntraLinks or Syndtrak site and (ii) such Borrower shall deliver paper copies of the information referred to in Sections 5.01(a), 5.01(b) and 5.01(e) to any Bank which requests such delivery.

Section 5.02 *Payment of Taxes.* Such Borrower will pay and discharge, and will cause each of its Material Subsidiaries to pay and discharge, at or before maturity, all their tax liabilities, except where (i) nonpayment would not have a material adverse effect on the business, financial position or results of operations of such Borrower and its Consolidated Subsidiaries, considered as a whole, or (ii) the same may be contested in good faith by appropriate proceedings, and will maintain, and will cause each of its Material Subsidiaries to maintain, in accordance with generally accepted accounting principles, appropriate reserves for the accrual of any of the same

Section 5.03 *Maintenance of Property, Insurance* (a) Such Borrower will keep, and will cause each of its Material Subsidiaries to keep, all property useful and necessary in its business in good working order and condition, ordinary wear and tear excepted

(b) Such Borrower will, and will cause each of its Material Subsidiaries to, maintain (either in the name of such Borrower or in such Subsidiary's own name) with financially sound and responsible insurance companies, insurance on all their respective properties in at least such amounts and against at least such risks (and with such risk retention) as are usually insured against by companies of established repute engaged in the same or a similar business; *provided* that self-insurance by such Borrower or any such Material Subsidiary, shall not be deemed a violation of this covenant to the extent that companies engaged in similar businesses and owning similar properties self-insure; and will furnish to the Banks, upon request from the Administrative Agent, information presented in reasonable detail as to the insurance so carried.

Section 5.04 *Maintenance of Existence* Such Borrower will preserve, renew and keep in full force and effect, and will cause each of its Material Subsidiaries to preserve, renew and keep in full force and effect their respective corporate or other legal existence and their respective rights, privileges and franchises material to the normal conduct of their respective businesses; *provided* that nothing in this Section 5 04 shall prohibit the termination of any right, privilege or franchise of such Borrower or any such Material Subsidiary or of the corporate or other legal existence of any such Material Subsidiary, or the change in form of organization of such Borrower or any such Material Subsidiary, if such Borrower in good faith determines that such termination or change is in the best interest of such Borrower, is not materially disadvantageous to the Banks and, in the case of a change in the form of organization of such Borrower, the Administrative Agent has consented thereto

Section 5.05 *Compliance with Laws* Such Borrower will comply, and cause each of its Material Subsidiaries to comply, in all material respects with all applicable laws, ordinances, rules, regulations, and requirements of governmental authorities (including, without limitation, ERISA and Environmental Laws) except where (i) noncompliance would not have a material adverse effect on the business, financial position or results of operations of such Borrower and its Consolidated Subsidiaries, considered as a whole, or (ii) the necessity of compliance therewith is contested in good faith by appropriate proceedings

Section 5.06 *Books and Records* Such Borrower will keep, and will cause each of its Material Subsidiaries to keep, proper books of record and account in which full, true and correct entries shall be made of all financial transactions in relation to its business and activities in accordance with its customary practices, and will permit, and will cause each such Material

Subsidiary to permit, representatives of any Bank at such Bank's expense (accompanied by a representative of such Borrower, if such Borrower so desires) to visit any of their respective properties, to examine any of their respective books and records and to discuss their respective affairs, finances and accounts with their respective officers, employees and independent public accountants, all upon such reasonable notice, at such reasonable times and as often as may reasonably be desired.

Section 5.07 *Negative Pledge* Such Borrower will not create, assume or suffer to exist any Lien on any asset now owned or hereafter acquired by it, except.

(a) Liens granted by such Borrower existing as of the Effective Date securing Indebtedness outstanding on the date of this Agreement in an aggregate principal amount not exceeding $100,000,000;

(b) the Lien of such Borrower's Mortgage Indenture (if any) securing Indebtedness outstanding on the Effective Date or issued hereafter;

(c) any Lien on any asset of any Person existing at the time such Person is merged or consolidated with or into such Borrower and not created in contemplation of such event;

(d) any Lien existing on any asset prior to the acquisition thereof by such Borrower and not created in contemplation of such acquisition;

(e) any Lien on any asset securing Indebtedness incurred or assumed for the purpose of financing all or any part of the cost of acquiring such asset; *provided* that such Lien attaches to such asset concurrently with or within 180 days after the acquisition thereof;

(f) any Lien arising out of the refinancing, extension, renewal or refunding of any Indebtedness secured by any Lien permitted by any of the foregoing clauses of this Section; *provided* that such Indebtedness is not increased and is not secured by any additional assets;

(g) Liens for taxes, assessments or other governmental charges or levies not yet due or which are being contested in good faith by appropriate proceedings and with respect to which adequate reserves or other appropriate provisions are being maintained in accordance with generally accepted accounting principles;

(h) statutory Liens of landlords and Liens of carriers, warehousemen, mechanics, materialmen and other Liens imposed by law, created in the ordinary course of business and for amounts not past due for more than 60 days or which are being contested in good faith by appropriate proceedings which are sufficient

to prevent imminent foreclosure of such Liens, are promptly instituted and diligently conducted and with respect to which adequate reserves or other appropriate provisions are being maintained in accordance with generally accepted accounting principles;

(i) Liens incurred or deposits made in the ordinary course of business (including, without limitation, surety bonds and appeal bonds) in connection with workers' compensation, unemployment insurance and other types of social security benefits or to secure the performance of tenders, bids, leases, contracts (other than for the repayment of Indebtedness), statutory obligations and other similar obligations or arising as a result of progress payments under government contracts;

(j) easements (including, without limitation, reciprocal easement agreements and utility agreements), rights-of-way, covenants, consents, reservations, encroachments, variations and other restrictions, charges or encumbrances (whether or not recorded) affecting the use of real property;

(k) Liens with respect to judgments and attachments which do not result in an Event of Default;

(l) Liens, deposits or pledges to secure the performance of bids, tenders, contracts (other than contracts for the payment of money), leases (permitted under the terms of this Agreement), public or statutory obligations, surety, stay, appeal, indemnity, performance or other obligations arising in the ordinary course of business;

(m) other Liens including Liens imposed by Environmental Laws arising in the ordinary course of its business which (i) do not secure Indebtedness, (ii) do not secure any obligation in an amount exceeding $100,000,000 at any time at which Investment Grade Status does not exist as to such Borrower and (iii) do not in the aggregate materially detract from the value of its assets or materially impair the use thereof in the operation of its business;

(n) Liens securing obligations under Hedging Agreements entered into to protect against fluctuations in interest rates or exchange rates or commodity prices and not for speculative purposes, provided that such Liens run in favor of a Bank hereunder or a Person who was, at the time of issuance, a Bank; and

(o) Liens not otherwise permitted by the foregoing clauses of this Section on assets of such Borrower securing obligations in an aggregate principal or face amount at any date not to exceed (i) in the case of each of the Company and Duke Energy Carolinas, $500,000,000 and (ii) in the case of each other Borrower, $150,000,000.

Section 5.08. *Consolidations, Mergers and Sales of Assets.* Such Borrower will not (i) consolidate or merge with or into any other Person or (ii) sell, lease or otherwise transfer, directly or indirectly, Substantial Assets to any Person (other than a Subsidiary of such Borrower); *provided* that such Borrower may merge with another Person if such Borrower is the Person surviving such merger and, after giving effect thereto, no Default shall have occurred and be continuing.

Section 5.09. *Use of Proceeds.* The proceeds of the Loans made under this Agreement will be used by such Borrower for its general corporate purposes, including liquidity support for outstanding commercial paper and acquisitions. None of such proceeds will be used, directly or indirectly, for the purpose, whether immediate, incidental or ultimate, of buying or carrying any "**margin stock**" within the meaning of Regulation U.

Section 5.10. *Indebtedness/Capitalization Ratio.* The ratio of Consolidated Indebtedness of such Borrower to Consolidated Capitalization of such Borrower will at no time exceed 65%.

ARTICLE 6
DEFAULTS

Section 6.01. *Events of Default.* If one or more of the following events ("**Events of Default**") with respect to a particular Borrower shall have occurred and be continuing.

(a) such Borrower shall fail to pay when due any principal of any Loan to it or any Reimbursement Obligation owed by it or shall fail to pay, within five days of the due date thereof, any interest, fees or any other amount payable by it hereunder;

(b) such Borrower shall fail to observe or perform any covenant contained in Sections 5.04, 5.07, 5.08, 5.10 or the second sentence of 5.09, inclusive;

(c) such Borrower shall fail to observe or perform any covenant or agreement contained in this Agreement (other than those covered by clause (a) or (b) above) for 30 days after notice thereof has been given to such Borrower by the Administrative Agent at the request of any Bank;

(d) any representation, warranty, certification or statement made by such Borrower in this Agreement or in any certificate, financial statement or other document delivered pursuant to this Agreement shall prove to have been incorrect in any material respect when made (or deemed made);

(e) such Borrower or any of its Material Subsidiaries shall fail to make any payment in respect of Material Debt (other than Loans to and Reimbursement Obligations of such Borrower hereunder) when due or within any applicable grace period;

(f) any event or condition shall occur and shall continue beyond the applicable grace or cure period, if any, provided with respect thereto so as to result in the acceleration of the maturity of Material Debt;

(g) such Borrower or any of its Material Subsidiaries shall commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, or shall consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, or shall make a general assignment for the benefit of creditors, or shall admit in writing its inability to, or shall fail generally to, pay its debts as they become due, or shall take any corporate action to authorize any of the foregoing;

(h) an involuntary case or other proceeding shall be commenced against such Borrower or any of its Material Subsidiaries seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, and such involuntary case or other proceeding shall remain undismissed and unstayed for a period of 90 days; or an order for relief shall be entered against such Borrower or any of its Material Subsidiaries under the federal bankruptcy laws as now or hereafter in effect;

(i) any member of such Borrower's ERISA Group shall fail to pay when due an amount or amounts aggregating in excess of $25,000,000 which it shall have become liable to pay to the PBGC or to a Plan under Title IV of ERISA; or notice of intent to terminate a Plan or Plans of such ERISA Group having aggregate Unfunded Vested Liabilities in excess of $50,000,000 (collectively, a "**Material Plan**") shall be filed under Title IV of ERISA by any member of such ERISA Group, any plan administrator or any combination of the foregoing; or the PBGC shall institute proceedings under Title IV of ERISA to terminate or to cause a trustee to be appointed to administer any such Material Plan or a proceeding shall be instituted by a fiduciary of any such Material Plan against any member of such ERISA Group to enforce Section 515 or 4219(c)(5) of ERISA and such proceeding shall not have been dismissed within 90 days thereafter; or a condition shall exist by reason of which the PBGC would be

entitled to obtain a decree adjudicating that any such Material Plan must be terminated;

(j) a judgment or other court order for the payment of money in excess of $50,000,000 shall be rendered against such Borrower or any of its Material Subsidiaries and such judgment or order shall continue without being vacated, discharged, satisfied or stayed or bonded pending appeal for a period of 45 days; or

(k) any person or group of persons (within the meaning of Section 13 or 14 of the Securities Exchange Act of 1934, as amended (the "**Exchange Act**")) other than trustees and participants in employee benefit plans of the Company and its Subsidiaries or the Endowment or Trust, shall have acquired beneficial ownership (within the meaning of Rule 13d-3 promulgated by the Securities and Exchange Commission under the Exchange Act) of 50% or more of the outstanding shares of common stock of the Company; during any period of twelve consecutive calendar months, individuals who were directors of the Company on the first day of such period (together with any successors nominated or appointed by such directors in the ordinary course) shall cease to constitute a majority of the board of directors of the Company; or in the case of any Borrower other than the Company, such Borrower shall cease to be a Subsidiary of the Company;

then, and in every such event, the Administrative Agent shall (i) if requested by Banks having more than 66-2/3% in aggregate amount of the Commitments, by notice to such Borrower terminate the Commitments as to such Borrower and they shall thereupon terminate, and such Borrower shall no longer be entitled to borrow hereunder, and the Sublimit of such Borrower shall be reduced to zero, and (ii) if requested by Banks holding more than 66-2/3% in aggregate principal amount of the Loans and Reimbursement Obligations of such Borrower, by notice to such Borrower declare such Loans and Reimbursement Obligations (together with accrued interest thereon) to be, and such Loans and Reimbursement Obligations (together with accrued interest thereon) shall thereupon become, immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived by each Borrower; *provided* that in the case of any of the Events of Default specified in clause (g) or (h) above with respect to such Borrower, without any notice to such Borrower or any other act by the Administrative Agent or the Banks, the Commitments shall thereupon terminate with respect to such Borrower and the Loans and Reimbursement Obligations of such Borrower (together with accrued interest thereon) shall become immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived by each Borrower.

Section 6.02 *Notice of Default* The Administrative Agent shall give notice to a Borrower under Section 6 01(c) promptly upon being requested to do

so by any Bank and shall thereupon notify all the Banks and the Issuing Banks thereof.

Section 6.03. *Cash Cover.* Each Borrower agrees, in addition to the provisions of Section 6 01 hereof, that upon the occurrence and during the continuance of any Event of Default with respect to such Borrower, it shall, if requested by the Administrative Agent upon the instruction of the Banks having at least 66 2/3% in the aggregate amount of the Commitments (or, if the Commitments shall have been terminated, holding at least 66 2/3% of the Letter of Credit Liabilities for the account of such Borrower), deposit with the Administrative Agent an amount in immediately available funds (which funds shall be held as collateral pursuant to arrangements mutually satisfactory to the Administrative Agent and such Borrower) equal to the aggregate amount available for drawing under all Letters of Credit for the account of such Borrower then outstanding at such time, *provided* that upon the occurrence of any Event of Default specified in Section 6.01(g) or 6 01(h) with respect to such Borrower, such Borrower shall pay such amount forthwith without any notice or demand or any other act by the Administrative Agent or the Banks

ARTICLE 7
THE ADMINISTRATIVE AGENT

Section 7.01. *Appointment and Authorization.* Each Bank irrevocably appoints and authorizes the Administrative Agent to take such action as agent on its behalf and to exercise such powers under this Agreement and the Notes as are delegated to the Administrative Agent by the terms hereof or thereof, together with all such powers as are reasonably incidental thereto

Section 7.02. *Administrative Agent and Affiliates.* Wachovia shall have the same rights and powers under this Agreement as any other Bank and may exercise or refrain from exercising the same as though it were not the Administrative Agent, and Wachovia and its affiliates may accept deposits from, lend money to, and generally engage in any kind of business with any Borrower or any Subsidiary or affiliate of any Borrower as if it were not the Administrative Agent hereunder

Section 7.03. *Action by Administrative Agent.* The obligations of the Administrative Agent hereunder are only those expressly set forth herein Without limiting the generality of the foregoing, the Administrative Agent shall not be required to take any action with respect to any Default, except as expressly provided in Article 6

Section 7.04. *Consultation with Experts.* The Administrative Agent may consult with legal counsel (who may be counsel for a Borrower), independent public accountants and other experts selected by it and shall not be liable for any action taken or omitted to be taken by it in good faith in accordance with the advice of such counsel, accountants or experts.

Section 7.05. *Liability of Administrative Agent.* Neither the Administrative Agent nor any of its affiliates nor any of their respective directors, officers, agents or employees shall be liable to any Bank for any action taken or not taken by it in connection herewith (i) with the consent or at the request of the Required Banks or (ii) in the absence of its own gross negligence or willful misconduct. Neither the Administrative Agent nor any of its affiliates nor any of their respective directors, officers, agents or employees shall be responsible for or have any duty to ascertain, inquire into or verify (i) any statement, warranty or representation made in connection with this Agreement or any borrowing hereunder, (ii) the performance or observance of any of the covenants or agreements of any Borrower, (iii) the satisfaction of any condition specified in Article 3, except receipt of items required to be delivered to the Administrative Agent; or (iv) the validity, effectiveness or genuineness of this Agreement, the Notes or any other instrument or writing furnished in connection herewith. The Administrative Agent shall not incur any liability by acting in reliance upon any notice, consent, certificate, statement, or other writing (which may be a bank wire, telex or similar writing) believed by it in good faith to be genuine or to be signed by the proper party or parties. Without limiting the generality of the foregoing, the use of the term "agent" in this Agreement with reference to the Administrative Agent is not intended to connote any fiduciary or other implied (or express) obligations arising under agency doctrine of any applicable law. Instead, such term is used merely as a matter of market custom and is intended to create or reflect only an administrative relationship between independent contracting parties.

Section 7.06. *Indemnification.* Each Bank shall, ratably in accordance with its Commitment, indemnify the Administrative Agent, its affiliates and their respective directors, officers, agents and employees (to the extent not reimbursed by the Borrowers) against any cost, expense (including counsel fees and disbursements), claim, demand, action, loss, penalties or liability (except such as result from such indemnitees' gross negligence or willful misconduct) that such indemnitees may suffer or incur in connection with this Agreement or any action taken or omitted by such indemnitees thereunder.

Section 7.07. *Credit Decision.* Each Bank acknowledges that it has, independently and without reliance upon any Agent or any other Bank, and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Bank also acknowledges that it will, independently and without reliance upon any Agent or

any other Bank, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking any action under this Agreement.

Section 7.08. *Successor Administrative Agent.* The Administrative Agent may resign at any time by giving notice thereof to the Banks and the Borrowers. Upon any such resignation, (i) the Company, with the consent of the Required Banks (such consent not to be unreasonably withheld or delayed), or (ii) if an Event of Default has occurred and is continuing, then the Required Banks, shall have the right to appoint a successor Administrative Agent. If no successor Administrative Agent shall have been so appointed, and shall have accepted such appointment, within 30 days after the retiring Administrative Agent gives notice of resignation, then the retiring Administrative Agent may, on behalf of the Banks, appoint a successor Administrative Agent, which shall be a commercial bank organized or licensed under the laws of the United States of America or of any State thereof and having a combined capital and surplus of at least $250,000,000. Upon the acceptance of its appointment as Administrative Agent hereunder by a successor Administrative Agent, such successor Administrative Agent shall thereupon succeed to and become vested with all the rights and duties of the retiring Administrative Agent, and the retiring Administrative Agent shall be discharged from its duties and obligations hereunder, *provided* that if such successor Administrative Agent is appointed without the consent of the Company, such successor Administrative Agent may be replaced by the Company with the consent of the Required Banks so long as no Event of Default has occurred and is continuing at the time. After any retiring Administrative Agent's resignation hereunder as Administrative Agent, the provisions of this Article shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Administrative Agent.

Section 7.09. *Administrative Agent's Fee.* The Company shall pay to the Administrative Agent for its own account fees in the amounts and at the times previously agreed upon between the Company and the Administrative Agent.

Section 7.10. *Other Agents.* None of the Co-Syndication Agents or the Co-Documentation Agents, in their respective capacities as such, shall have any duties or obligations of any kind under this Agreement.

ARTICLE 8
CHANGE IN CIRCUMSTANCES

Section 8.01. *Basis for Determining Interest Rate Inadequate or Unfair.* If on or prior to the first day of any Interest Period for any Euro-Dollar Borrowing:

(a) the Administrative Agent is advised by the Euro-Dollar Reference Banks that deposits in dollars (in the applicable amounts) are not being offered to the Euro-Dollar Reference Banks in the relevant market for such Interest Period, or

(b) Banks having 66-2/3% or more of the aggregate amount of the affected Loans advise the Administrative Agent that the London Interbank Offered Rate as determined by the Administrative Agent will not adequately and fairly reflect the cost to such Banks of funding their Euro-Dollar Loans for such Interest Period,

the Administrative Agent shall forthwith give notice thereof to the Borrowers and the Banks, whereupon until the Administrative Agent notifies the Borrower that the circumstances giving rise to such suspension no longer exist, (i) the obligations of the Banks to make Euro-Dollar Loans or to continue or convert outstanding Loans as or into Euro-Dollar Loans shall be suspended and (ii) each outstanding Euro-Dollar Loan shall be converted into a Base Rate Loan on the last day of the then current Interest Period applicable thereto. Unless the Borrower notifies the Administrative Agent at least one Domestic Business Day before the date of any Euro-Dollar Borrowing for which a Notice of Borrowing has previously been given that it elects not to borrow on such date, such Borrowing shall instead be made as a Base Rate Borrowing.

Section 8.02 *Illegality.* If on or after the date of this Agreement, the adoption of any applicable law, rule or regulation, or any change in any applicable law, rule or regulation, or any change in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Bank (or its Euro-Dollar Lending Office) with any request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency shall make it unlawful or impossible for any Bank (or its Euro-Dollar Lending Office) to make, maintain or fund any of its Euro-Dollar Loans and such Bank shall so notify the Administrative Agent, the Administrative Agent shall forthwith give notice thereof to the other Banks and the Borrowers, whereupon until such Bank notifies the Borrowers and the Administrative Agent that the circumstances giving rise to such suspension no longer exist, the obligation of such Bank to make Euro-Dollar Loans, or to continue or convert outstanding Loans as or into Euro-Dollar Loans, shall be suspended Before giving any notice to the Administrative Agent pursuant to this Section, such Bank shall designate a different Euro-Dollar Lending Office if such designation will avoid the need for giving such notice and will not be otherwise disadvantageous to such Bank in the good faith exercise of its discretion If such notice is given, each Euro-Dollar Loan of such Bank then outstanding shall be converted to a Base Rate Loan either (a) on the last day of the then current Interest Period applicable to such Euro-Dollar Loan if such Bank may lawfully continue to maintain and fund such Loan

to such day or (b) immediately if such Bank shall determine that it may not lawfully continue to maintain and fund such Loan to such day.

Section 8.03 *Increased Cost and Reduced Return* (a) If on or after the date of this Agreement, the adoption of any applicable law, rule or regulation, or any change in any applicable law, rule or regulation, or any change in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Bank (the terms "Bank" and "Issuing Bank" shall include, for purposes of this Section 8 03, the holding company of any Issuing Bank) (or its Applicable Lending Office) with any request or directive (whether or not having the force of law) issued on or after such date of any such authority, central bank or comparable agency shall impose, modify or deem applicable any reserve, special deposit or similar requirement (including, without limitation, any such requirement imposed by the Board of Governors of the Federal Reserve System, but excluding with respect to any Euro-Dollar Loan any such requirement included in an applicable Euro-Dollar Reserve Percentage) against assets of, deposits with or for the account of, or credit extended by, any Bank (or its Applicable Lending Office) or shall impose on any Bank (or its Applicable Lending Office) or on the London interbank market any other condition (other than in respect of Taxes or Other Taxes) affecting its Euro-Dollar Loans, its Note or its obligation to make Euro-Dollar Loans or its obligations hereunder in respect of Letters of Credit and the result of any of the foregoing is to increase the cost to such Bank (or its Applicable Lending Office) of making or maintaining any Euro-Dollar Loan or of issuing or participating in any Letter of Credit, or to reduce the amount of any sum received or receivable by such Bank (or its Applicable Lending Office) under this Agreement or under its Note with respect thereto, by an amount deemed by such Bank to be material, then, within 15 days after demand by such Bank (with a copy to the Administrative Agent), each Borrower shall pay to such Bank its Appropriate Share of such additional amount or amounts as will compensate such Bank for such increased cost or reduction, *provided* that no such amount shall be payable with respect to any period commencing more than 90 days prior to the date such Bank first notifies the Borrowers of its intention to demand compensation therefor under this Section 8 03(a)

(b) If any Bank shall have determined that, on or after the date of this Agreement, the adoption of any applicable law, rule or regulation regarding capital adequacy, or any change in any such law, rule or regulation, or any change in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency given or made after the date of this Agreement, has or would have the effect of reducing the rate of return on capital of such Bank (or its Parent) as a consequence of such Bank's obligations hereunder to a level below that which such Bank (or its

Parent) could have achieved but for such adoption, change, request or directive (taking into consideration its policies with respect to capital adequacy) by an amount deemed by such Bank to be material, then from time to time, within 15 days after demand by such Bank (with a copy to the Administrative Agent), each Borrower shall pay to such Bank its Appropriate Share of such additional amount or amounts as will compensate such Bank (or its Parent) for such reduction; *provided* that no such amount shall be payable with respect to any period commencing less than 30 days after the date such Bank first notifies the Borrowers of its intention to demand compensation under this Section 8.03(b).

(c) Each Bank will promptly notify the Borrowers and the Administrative Agent of any event of which it has knowledge, occurring after the date hereof, which will entitle such Bank to compensation pursuant to this Section and will designate a different Applicable Lending Office if such designation will avoid the need for, or reduce the amount of, such compensation and will not, in the judgment of such Bank, be otherwise disadvantageous to such Bank. A certificate of any Bank claiming compensation under this Section and setting forth the additional amount or amounts to be paid to it hereunder shall be conclusive in the absence of manifest error. In determining such amount, such Bank may use any reasonable averaging and attribution methods.

(d) The "**Appropriate Share**" of a Borrower with respect to any amount payable hereunder is the sum of (i) to the extent such amount is properly allocable to Loans and Letters of Credit outstanding hereunder, the portion of such amount properly allocable to the Loans and Letter of Credit outstanding to or for the account of such Borrower, and (ii) to the extent such amount is not properly allocable to Loans and Letters of Credit outstanding hereunder, the Appropriate Share shall be the product of the Availability Percentage of such Borrower and such amount.

Section 8.04 *Taxes*. (a) For purposes of this Section 8 04 the following terms have the following meanings.

"**Taxes**" means any and all present or future taxes, duties, levies, imposts, deductions, charges or withholdings with respect to any payment by a Borrower pursuant to this Agreement or any Note, and all liabilities with respect thereto, *excluding* (i) in the case of each Bank and the Administrative Agent, taxes imposed on its income, net worth or gross receipts and franchise or similar taxes imposed on it by a jurisdiction under the laws of which such Bank or the Administrative Agent (as the case may be) is organized or in which its principal executive office is located or, in the case of each Bank, in which its Applicable Lending Office is located and (ii) in the case of each Bank, any United States

withholding tax imposed on such payments except to the extent that such Bank is subject to United States withholding tax by reason of a U.S. Tax Law Change.

"**Other Taxes**" means any present or future stamp or documentary taxes and any other excise or property taxes, or similar charges or levies, which arise from any payment made pursuant to this Agreement or under any Note or from the execution or delivery of, or otherwise with respect to, this Agreement or any Note.

"**U.S. Tax Law Change**" means with respect to any Bank or Participant the occurrence (x) in the case of each Bank listed on the signature pages hereof, after the date of its execution and delivery of this Agreement and (y) in the case of any other Bank, after the date such Bank shall have become a Bank hereunder, and (z) in the case of each Participant, after the date such Participant became a Participant hereunder, of the adoption of any applicable U.S. federal law, U.S. federal rule or U.S. federal regulation relating to taxation, or any change therein, or the entry into force, modification or revocation of any income tax convention or treaty to which the United States is a party.

(b) Any and all payments by any Borrower to or for the account of any Bank or the Administrative Agent hereunder or under any Note shall be made without deduction for any Taxes or Other Taxes; *provided* that, if any Borrower shall be required by law to deduct any Taxes or Other Taxes from any such payments, (i) the sum payable shall be increased as necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 8.04) such Bank or the Administrative Agent (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (ii) such Borrower shall make such deductions, (iii) such Borrower shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law and (iv) such Borrower shall furnish to the Administrative Agent, at its address referred to in Section 9.01, the original or a certified copy of a receipt evidencing payment thereof.

(c) Each Borrower agrees to indemnify each Bank and the Administrative Agent for its Appropriate Share of the full amount of Taxes or Other Taxes (including, without limitation, any Taxes or Other Taxes imposed or asserted by any jurisdiction on amounts payable under this Section 8.04) paid by such Bank or the Administrative Agent (as the case may be) and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto. This indemnification shall be paid within 15 days after such Bank or the Administrative Agent (as the case may be) makes demand therefor.

(d) Each Bank organized under the laws of a jurisdiction outside the United States, on or prior to the date of its execution and delivery of this

Agreement in the case of each Bank listed on the signature pages hereof and on or prior to the date on which it becomes a Bank in the case of each other Bank, and from time to time thereafter as required by law (but only so long as such Bank remains lawfully able to do so), shall provide the Borrowers two completed and duly executed copies of Internal Revenue Service form W-8BEN or W-8ECI, as appropriate, or any successor form prescribed by the Internal Revenue Service, or other documentation reasonably requested by the Borrowers, certifying that such Bank is entitled to benefits under an income tax treaty to which the United States is a party which exempts the Bank from United States withholding tax or reduces the rate of withholding tax on payments of interest for the account of such Bank or certifying that the income receivable pursuant to this Agreement is effectively connected with the conduct of a trade or business in the United States.

(e) For any period with respect to which a Bank has failed to provide the Borrowers with the appropriate form pursuant to Section 8.04(d) (unless such failure is due to a U.S. Tax Law Change), such Bank shall not be entitled to indemnification under Section 8.04(b) or 8.04(c) with respect to any Taxes or Other Taxes which would not have been payable had such form been so provided; *provided* that if a Bank, which is otherwise exempt from or subject to a reduced rate of withholding tax, becomes subject to Taxes because of its failure to deliver a form required hereunder, the Borrowers shall take such steps as such Bank shall reasonably request to assist such Bank to recover such Taxes (it being understood, however, that the Borrowers shall have no liability to such Bank in respect of such Taxes).

(f) If any Borrower is required to pay additional amounts to or for the account of any Bank pursuant to this Section 8.04, then such Bank will take such action (including changing the jurisdiction of its Applicable Lending Office) as in the good faith judgment of such Bank (i) will eliminate or reduce any such additional payment which may thereafter accrue and (ii) is not otherwise disadvantageous to such Bank.

(g) If any Bank or the Administrative Agent receives a refund (including a refund in the form of a credit against taxes that are otherwise payable by the Bank or the Administrative Agent) of any Taxes or Other Taxes for which any Borrower has made a payment under Section 8.04(b) or (c) and such refund was received from the taxing authority which originally imposed such Taxes or Other Taxes, such Bank or the Administrative Agent agrees to reimburse such Borrower to the extent of such refund; *provided* that nothing contained in this paragraph (g) shall require any Bank or the Administrative Agent to seek any such refund or make available its tax returns (or any other information relating to its taxes which it deems to be confidential).

Section 8.05. *Base Rate Loans Substituted for Affected Euro-Dollar Loans.* If (i) the obligation of any Bank to make or to continue or convert

outstanding Loans as or into Euro-Dollar Loans has been suspended pursuant to Section 8.02 or (ii) any Bank has demanded compensation under Section 8.03(a) or 8.04 with respect to its Euro-Dollar Loans and the Borrower shall, by at least five Euro-Dollar Business Days' prior notice to such Bank through the Administrative Agent, have elected that the provisions of this Section shall apply to such Bank, then, unless and until such Bank notifies the Borrowers that the circumstances giving rise to such suspension or demand for compensation no longer apply:

(a) all Loans which would otherwise be made by such Bank as (or continued as or converted to) Euro-Dollar Loans, as the case may be, shall instead be Base Rate Loans (on which interest and principal shall be payable contemporaneously with the related Euro-Dollar Loans of the other Banks), and

(b) after each of its Euro-Dollar Loans has been repaid, all payments of principal which would otherwise be applied to repay such Loans shall be applied to repay its Base Rate Loans instead.

If such Bank notifies the Borrowers that the circumstances giving rise to such suspension or demand for compensation no longer exist, the principal amount of each such Base Rate Loan shall be converted into a Euro-Dollar Loan on the first day of the next succeeding Interest Period applicable to the related Euro-Dollar Loans of the other Banks.

Section 8.06 *Substitution of Bank; Termination Option.* If (i) the obligation of any Bank to make or to convert or continue outstanding Loans as or into Euro-Dollar Loans has been suspended pursuant to Section 8 02, (ii) any Bank has demanded compensation under Section 8 03 or 8 04, (iii) any Bank exercises its right not to extend its Commitment Termination Date pursuant to Section 2 01(c) or (iv) Investment Grade Status ceases to exist as to any Bank, then

(a) the Company shall have the right, with the assistance of the Administrative Agent, to designate a substitute bank or banks (which may be one or more of the Banks) mutually satisfactory to the Company, the Administrative Agent, the Swingline Bank and the Issuing Banks (whose consent shall not be unreasonably withheld or delayed) to purchase for cash, pursuant to an Assignment and Assumption Agreement in substantially the form of Exhibit D hereto, the outstanding Loans of such Bank and assume the Commitment and Letter of Credit Liabilities of such Bank, without recourse to or warranty by, or expense to, such Bank, for a purchase price equal to the principal amount of all of such Bank's outstanding Loans and funded Letter of Credit Liabilities plus any accrued but unpaid interest thereon and the accrued but unpaid fees in respect of such Bank's Commitment hereunder and all other amounts payable by the Borrowers to such Bank hereunder plus such amount, if any, as would be payable

pursuant to Section 2.13 if the outstanding Loans of such Bank were prepaid in their entirety on the date of consummation of such assignment; and

(b) if at the time Investment Grade Status exists as to the Borrowers, the Company may elect to terminate this Agreement as to such Bank; *provided* that (i) the Company notifies such Bank through the Administrative Agent of such election at least three Euro-Dollar Business Days before the effective date of such termination, (ii) the Borrowers repay or prepay the principal amount of all outstanding Loans made by such Bank plus any accrued but unpaid interest thereon and the accrued but unpaid fees in respect of such Bank's Commitment hereunder plus all other amounts payable by the Borrowers to such Bank hereunder, not later than the effective date of such termination and (iii) if at the effective date of such termination, any Letter of Credit Liabilities or Swingline Loans are outstanding, the conditions specified in Section 3.02 would be satisfied (after giving effect to such termination) were the related Letters of Credit issued or the related Swingline Loans made on such date. Upon satisfaction of the foregoing conditions, the Commitment of such Bank shall terminate on the effective date specified in such notice, its participation in any outstanding Letters of Credit or Swingline Loans shall terminate on such effective date and the participations of the other Banks therein shall be redetermined as of such date as if such Letters of Credit had been issued or such Swingline Loans had been made on such date.

ARTICLE 9
MISCELLANEOUS

Section 9.01 *Notices.* All notices, requests and other communications to any party hereunder shall be in writing (including bank wire, telex, facsimile transmission or similar writing) and shall be given to such party. (x) in the case of any Borrower or the Administrative Agent, at its address or telecopy or telex number set forth on the signature pages hereof, (y) in the case of any Bank, at its address or telecopy or telex number set forth in its Administrative Questionnaire or (z) in the case of any party, such other address or telecopy or telex number as such party may hereafter specify for the purpose by notice to the Administrative Agent and the Borrowers Each such notice, request or other communication shall be effective (i) if given by telecopy or telex, when such telecopy or telex is transmitted to the telecopy or telex number specified in this Section and the appropriate answerback or confirmation slip, as the case may be, is received or (ii) if given by any other means, when delivered at the address specified in this Section, *provided* that notices to the Administrative Agent, the Swingline Bank or any Issuing Bank under Article 2 or Article 8 shall not be effective until delivered

Section 9.02 *No Waivers.* No failure or delay by the Administrative Agent or any Bank in exercising any right, power or privilege hereunder or under any Note shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies herein provided shall be cumulative and not exclusive of any rights or remedies provided by law

Section 9.03 *Expenses; Indemnification* (a) Each Borrower shall pay (i) its Appropriate Share of all reasonable out-of-pocket expenses of the Administrative Agent, including reasonable fees and disbursements of special counsel for the Agents, in connection with the preparation of this Agreement, any waiver or consent hereunder or any amendment hereof or any Default or alleged Default with respect to such Borrower hereunder and (ii) if an Event of Default with respect to such Borrower occurs, all reasonable out-of-pocket expenses incurred by the Administrative Agent or any Bank, including reasonable fees and disbursements of counsel, in connection with such Event of Default and collection and other enforcement proceedings resulting therefrom

(b) Each Borrower agrees to indemnify each Agent and each Bank, their respective affiliates and the respective directors, officers, agents and employees of the foregoing (each an "**Indemnitee**") and hold each Indemnitee harmless from and against any and all liabilities, losses, penalties, damages, costs and expenses of any kind, including, without limitation, the reasonable fees and disbursements of counsel, which may be incurred by such Indemnitee in connection with any investigative, administrative or judicial proceeding (whether or not such Indemnitee shall be designated a party thereto) relating to or arising out of this Agreement or any actual or proposed use of proceeds of Loans hereunder, in each case to the extent of such Borrower's Appropriate Share; *provided* that no Indemnitee shall have the right to be indemnified hereunder for such Indemnitee's own gross negligence or willful misconduct as determined by a court of competent jurisdiction.

Section 9.04 *Sharing of Set-offs.* Each Bank agrees that if it shall, by exercising any right of set-off or counterclaim or otherwise, receive payment of a proportion of the aggregate amount then due with respect to the Loans and Letter of Credit Liabilities held by it which is greater than the proportion received by any other Bank in respect of the aggregate amount then due with respect to the Loans and Letter of Credit Liabilities held by such other Bank, the Bank receiving such proportionately greater payment shall purchase such participations in the Loans and Letter of Credit Liabilities held by the other Banks, and such other adjustments shall be made, as may be required so that all such payments with respect to the Loans and Letter of Credit Liabilities held by the Banks shall be shared by the Banks pro rata; *provided* that (i) nothing in this Section shall impair the right of any Bank to exercise any right of set-off or counterclaim it may have and to apply the amount subject to such exercise to the payment of indebtedness

of a Borrower other than its indebtedness under this Agreement and (ii) this Section is not applicable to Swingline Loans.

Section 9.05 *Amendments and Waivers.* *(a)* Any provision of this Agreement or the Notes may be amended or waived if, but only if, such amendment or waiver is in writing and is signed by each Borrower and the Required Banks (and, if the rights or duties of any Agent, the Swingline Bank or any Issuing Bank are affected thereby, by such Person), *provided* that no such amendment or waiver shall (x) unless signed by each affected Bank, (i) increase the Commitment of any Bank or subject any Bank to any additional obligation, (ii) reduce the principal of or rate of interest on any Loan or the amount to be reimbursed in respect of any Letter of Credit or any interest thereon or any fees hereunder or (iii) postpone the date fixed for any payment of principal of or interest on any Loan or for reimbursement in respect of any Letter of Credit or interest thereon or any fees hereunder or for termination of any Commitment or (y) unless signed by all Banks, (i) change the definition of Required Banks or the provisions of this Section 9 05 or (ii) change the provisions of Section 9 04

(b) This Agreement may be amended by the Company to remove any other Borrower as a Borrower (a "**Removed Borrower**") hereunder subject to: (i) the receipt by the Administrative Agent of prior notice from the Company of such amendment, (ii) repayment in full of all Loans made to such Borrower, (iii) cash collateralization of all amounts available for drawing under Letters of Credit issued for the account of such Borrower (or the amendment of such Letter of Credit to provide for the Company as the account party) and (iv) repayment in full of all other amounts owing by such Borrower under this Agreement (it being agreed that any such repayment shall be in accordance with the other terms of this Agreement). Upon the satisfaction of the foregoing conditions the rights and obligations of such Removed Borrower hereunder shall terminate; *provided, however*, that the obligations of such Removed Borrower under Section 9.03 shall survive such amendment.

Section 9.06 *Successors and Assigns.* (a) The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns and each Indemnitee, except that no Borrower may assign or otherwise transfer any of its rights under this Agreement without the prior written consent of all Banks

(b) Any Bank may, with the consent (unless an Event of Default then exists) of the Company (such consent not to be unreasonably withheld or delayed), at any time grant to one or more banks or other institutions (each a "**Participant**") participating interests in its Commitment or any or all of its Loans and Letter of Credit Liabilities; *provided* that any Bank may, without the consent of any Borrower, at any time grant participating interests in its Commitment or any or all of its Loans and Letter of Credit Liabilities to another Bank, an

Approved Fund or an Affiliate of such transferor Bank. In the event of any such grant by a Bank of a participating interest to a Participant, whether or not upon notice to the Administrative Agent, such Bank shall remain responsible for the performance of its obligations hereunder, and the Borrowers, the Issuing Banks, the Swingline Bank and the Administrative Agent shall continue to deal solely and directly with such Bank in connection with such Bank's rights and obligations under this Agreement. Any agreement pursuant to which any Bank may grant such a participating interest shall provide that such Bank shall retain the sole right and responsibility to enforce the obligations of the Borrowers hereunder including, without limitation, the right to approve any amendment, modification or waiver of any provision of this Agreement; *provided* that such participation agreement may provide that such Bank will not agree to any modification, amendment or waiver of this Agreement described in clause (x) (i), (ii) or (iii) of Section 9.05(a) without the consent of the Participant. Each Borrower agrees that each Participant shall, to the extent provided in its participation agreement, be entitled to the benefits of Article 8 with respect to its participating interest, subject to the performance by such Participant of the obligations of a Bank thereunder. An assignment or other transfer which is not permitted by subsection (c) or (d) below shall be given effect for purposes of this Agreement only to the extent of a participating interest granted in accordance with this subsection (b).

(c) Any Bank may at any time assign to one or more banks or other financial institutions (each an "**Assignee**") all, or a proportionate part (equivalent to an initial Commitment of not less than $10,000,000 (unless the Company and the Administrative Agent shall otherwise agree)) of all, of its rights and obligations under this Agreement and its Note (if any), and such Assignee shall assume such rights and obligations, pursuant to an Assignment and Assumption Agreement in substantially the form of Exhibit D hereto executed by such Assignee and such transferor Bank, with (and only with and subject to) the prior written consent of the Swingline Bank, the Issuing Banks, the Administrative Agent (which shall not be unreasonably withheld or delayed) and, so long as no Event of Default has occurred and is continuing, the Company (which shall not be unreasonably withheld or delayed); *provided* that unless such assignment is of the entire right, title and interest of the transferor Bank hereunder, after making any such assignment such transferor Bank shall have a Commitment of at least $10,000,000 (unless the Company and the Administrative Agent shall otherwise agree). Upon execution and delivery of such instrument of assumption and payment by such Assignee to such transferor Bank of an amount equal to the purchase price agreed between such transferor Bank and such Assignee, such Assignee shall be a Bank party to this Agreement and shall have all the rights and obligations of a Bank with a Commitment as set forth in such instrument of assumption, and the transferor Bank shall be released from its obligations hereunder to a corresponding extent, and no further consent or action by any party shall be required. Upon the consummation of any assignment pursuant to this

subsection (c), the transferor Bank, the Administrative Agent and the Borrowers shall make appropriate arrangements so that, if required by the Assignee, a Note(s) is issued to the Assignee. If the Assignee is not incorporated under the laws of the United States of America or a state thereof, it shall, prior to the first date on which interest or fees are payable hereunder for its account, deliver to the Borrowers and the Administrative Agent certification as to exemption from deduction or withholding of any United States federal income taxes in accordance with Section 8.04. All assignments (other than assignments to Affiliates) shall be subject to a transaction fee established by, and payable by the transferor Bank to, the Administrative Agent for its own account (which shall not exceed $5,000).

(d) Any Bank may at any time assign all or any portion of its rights under this Agreement and its Note (if any) to a Federal Reserve Bank. No such assignment shall release the transferor Bank from its obligations hereunder or modify any such obligations.

(e) No Assignee, Participant or other transferee of any Bank's rights (including any Applicable Lending Office other than such Bank's initial Applicable Lending Office) shall be entitled to receive any greater payment under Section 8.03 or 8.04 than such Bank would have been entitled to receive with respect to the rights transferred, unless such transfer is made by reason of the provisions of Section 8.02, 8.03 or 8.04 requiring such Bank to designate a different Applicable Lending Office under certain circumstances or at a time when the circumstances giving rise to such greater payment did not exist.

Section 9.07 *Collateral.* Each of the Banks represents to the Administrative Agent and each of the other Banks that it in good faith is not relying upon any "**margin stock**" (as defined in Regulation U) as collateral in the extension or maintenance of the credit provided for in this Agreement

Section 9.08 *Confidentiality.* Each Agent and each Bank agrees to keep any information delivered or made available by any Borrower pursuant to this Agreement confidential from anyone other than persons employed or retained by such Bank and its affiliates who are engaged in evaluating, approving, structuring or administering the credit facility contemplated hereby, *provided* that nothing herein shall prevent any Bank from disclosing such information (a) to any other Bank or any Agent, (b) to any other Person if reasonably incidental to the administration of the credit facility contemplated hereby, (c) upon the order of any court or administrative agency, (d) upon the request or demand of any regulatory agency or authority, (e) which had been publicly disclosed other than as a result of a disclosure by any Agent or any Bank prohibited by this Agreement, (f) in connection with any litigation to which any Agent, any Bank or its subsidiaries or Parent may be a party, (g) to the extent necessary in connection with the exercise of any remedy hereunder, (h) to such Bank's or any Agent's legal counsel and independent auditors, (i) subject to provisions substantially

similar to those contained in this Section 9.08, to any actual or proposed Participant or Assignee and (j) to any direct, indirect, actual or prospective counterparty (and its advisor) to any swap, derivative or securitization transaction related to the obligations under this Agreement.

Section 9.09. *Governing Law; Submission to Jurisdiction.* This Agreement and each Note (if any) shall be construed in accordance with and governed by the law of the State of New York. Each Borrower hereby submits to the nonexclusive jurisdiction of the United States District Court for the Southern District of New York and of any New York State court sitting in New York City for purposes of all legal proceedings arising out of or relating to this Agreement or the transactions contemplated hereby. Each Borrower irrevocably waives, to the fullest extent permitted by law, any objection which it may now or hereafter have to the laying of the venue of any such proceeding brought in such a court and any claim that any such proceeding brought in such a court has been brought in an inconvenient forum.

Section 9.10. *Counterparts; Integration.* This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. This Agreement constitutes the entire agreement and understanding among the parties hereto and supersedes any and all prior agreements and understandings, oral or written, relating to the subject matter hereof.

Section 9.11. *WAIVER OF JURY TRIAL.* EACH OF THE BORROWERS, THE AGENTS, THE ISSUING BANKS AND THE BANKS, TO THE FULLEST EXTENT IT MAY EFFECTIVELY DO SO UNDER APPLICABLE LAW, HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

Section 9.12. *USA Patriot Act.* Each Bank hereby notifies each Borrower that pursuant to the requirements of the USA Patriot Act, Title III of Pub. L. 107-56 (signed into law October 26, 2001) (the "**Act**"), it is required to obtain, verify and record information that identifies such Borrower, which information includes the name and address of such Borrower and other information that will allow such Bank to identify such Borrower in accordance with the Act.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

DUKE ENERGY CORPORATION

By: _____

Title:	Senior Vice President and Treasurer
Address:	526 South Church Street Charlotte, NC 28202-1904
Attention:	Lynn J. Good
Telecopy number:	704-382-3288
Taxpayer ID:	20-2777218

DUKE ENERGY CAROLINAS, LLC

By: _____

Title:	Senior Vice President and Treasurer
Address:	526 South Church Street Charlotte, NC 28202-1904
Attention:	Lynn J. Good
Telecopy number:	704-382-3288
Taxpayer ID:	56-0205520

DUKE ENERGY OHIO, INC.

By: _____

Title:	Senior Vice President and Treasurer
Address:	526 South Church Street Charlotte, NC 28202-1904
Attention:	Lynn J. Good
Telecopy number:	704-382-3288
Taxpayer ID:	31-0240030

DUKE ENERGY INDIANA, INC.

By: _____

Title:	Senior Vice President and Treasurer
Address:	526 South Church Street Charlotte, NC 28202-1904
Attention:	Lynn J. Good
Telecopy number:	704-382-3288
Taxpayer ID:	35-0594457

DUKE ENERGY KENTUCKY, INC.

By: _____

Title:	Senior Vice President and Treasurer
Address:	526 South Church Street Charlotte, NC 28202-1904
Attention:	Lynn J. Good
Telecopy number:	704-382-3288
Taxpayer ID:	31-0473080

WACHOVIA BANK, NATIONAL ASSOCIATION, as
Administrative Agent, as an Issuing Bank, as Swingline Bank
and as a Bank

By: _____
Name:
Title:

JPMORGAN CHASE BANK, NATIONAL ASSOCIATION, as
Co-Syndication Agent, as an Issuing Bank and as a Bank

By: _____
Name:
Title:

BARCLAYS BANK PLC, as Co-Syndication Agent, as an Issuing Bank and as a Bank

By: _____
Name:
Title:

BANK OF AMERICA, N.A., as Co-Syndication Agent and as a Bank

By: _____
Name:
Title:

CITIBANK, N.A., as Co-Syndication Agent and as a Bank

By: _____
Name:
Title:

THE BANK OF TOKYO-MITSUBISHI UFJ, LTD., NEW YORK BRANCH as a Bank

By: _____
Name:
Title:

CREDIT SUISSE, CAYMAN ISLANDS BRANCH, as a Bank

By: _____
Name:
Title:

By: _____
Name:
Title:

ABN AMRO BANK, N.V., as a Bank

By: _____
Name:
Title:

By: _____
Name:
Title:

THE BANK OF NEW YORK, as a Bank

By: _____
Name:
Title:

DEUTSCHE BANK AG NEW YORK BRANCH, as a Bank

By: _____
Name:
Title:

By: _____
Name:
Title:

WILLIAM STREET COMMITMENT CORPORATION, as a Bank
(Recourse only to assets of William Street Commitment Corporation)

By: _____
Name:
Title:

KEYBANK NATIONAL ASSOCIATION, as a Bank

By: _____
Name:
Title:

LEHMAN BROTHERS BANK, FSB, as a Bank

By: _____
Name:
Title:

MERRILL LYNCH BANK, USA, as a Bank

By: _____
Name:
Title:

MORGAN STANLEY BANK, as a Bank

By: _____
Name:
Title:

THE ROYAL BANK OF SCOTLAND, PLC, as a Bank

By: _____
Name:
Title:

UBS LOAN FINANCE LLC, as a Bank

By: _____
Name:
Title:

THE BANK OF NOVA SCOTIA, as a Bank

By: _____
Name:
Title:

BNP PARIBAS, as a Bank

By: _____
Name:
Title:

By: _____
Name:
Title:

DRESDNER BANK AG, NEW YORK AND GRAND CAYMAN BRANCHES, as a Bank

By: _____
Name:
Title:

By: _____
Name:
Title:

THE NORTHERN TRUST COMPANY, as a Bank

By: _____
Name:
Title:

SUNTRUST BANK, as a Bank

By: _____
Name:
Title:

The undersigned has duly executed this Amended and Restated Credit Agreement solely to amend and restate the Amended and Restated Credit Agreement dated as of June 29, 2006 among Cinergy Corp. and the other Borrowers listed therein, the Banks listed therein, Barclays Bank PLC, as Administrative Agent and JPMorgan Chase Bank, N.A., as Syndication Agent. The undersigned is not a party to this Amended and Restated Credit Agreement, and will have no rights or obligations under it.

CINERGY CORP.

By: _____
Name: Lynn J. Good
Title: Vice President and Treasurer

COMMITMENT SCHEDULE

Bank		Commitment
JPMorgan Chase Bank, National Association	$	200,000,000.00
Wachovia Bank, National Association	$	200,000,000.00
Bank of America, N.A.	$	200,000,000.00
Barclays Bank, PLC	$	200,000,000.00
Citibank, N.A.	$	200,000,000.00
The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch	$	200,000,000.00
Credit Suisse	$	200,000,000.00
ABN AMRO Bank, N.V.	$	100,000,000.00
The Bank of New York	$	100,000,000.00
Deutsche Bank AG New York Branch	$	100,000,000.00
William Street Commitment Corporation	$	100,000,000.00
KeyBank National Association	$	100,000,000.00
Lehman Brothers Bank, FSB	$	100,000,000.00
Merrill Lynch Bank USA	$	100,000,000.00
Morgan Stanley Bank	$	100,000,000.00
The Royal Bank of Scotland plc, New York Branch	$	100,000,000.00
UBS Loan Finance LLC	$	100,000,000.00
The Bank of Nova Scotia	$	50,000,000.00
BNP Paribas	$	50,000,000.00
Dresdner Bank AG	$	50,000,000.00
The Northern Trust Company	$	50,000,000.00
SunTrust Bank	$	50,000,000.00
Total	$	2,650,000,000.00

Pricing Schedule

Each of "**Applicable Margin**" and "**Facility Fee Rate**" means, for any date, the rate set forth below in the applicable row and column corresponding to the credit rating of the applicable Borrower and the applicable Utilization that exist on such date:

(basis points per annum)

Borrower's Credit Rating	at least A by S&P or A2 by Moody's	at least A- by S&P or A3 by Moody's	at least BBB+ by S&P or Baa1 by Moody's	at least BBB by S&P or Baa2 by Moody's	at least BBB- by S&P or Baa3 by Moody's	less than BBB- by S&P and less than Baa3 by Moody's
Facility Fee Rate	5.0	6.0	7.0	9.0	11.0	15.0
Applicable Margin						
Utilization** ≤ 50%	15.0	19.0	23.0	31.0	44.0	55.0
Utilization **> 50%	20.0	24.0	28.0	36.0	49.0	60.0

The Applicable Margin for any Term Loan shall equal the sum of (i) the rate that would otherwise be in effect based upon the table above and (ii) 12.5 basis points.

The **"Utilization"** applicable to any Borrower at any date is the percentage equivalent of a fraction the numerator of which is the sum of (i) the aggregate outstanding principal amount of the Loans to such Borrower determined at such date after giving effect, if one or more Loans are being made at such time, to any substantially concurrent application of the proceeds thereof to repay one or more other Loans plus (ii) the aggregate amount of the Letter of Credit Liabilities of all Banks for the account of such Borrower at such date and the denominator of which is such Borrower's Sublimit at such date. If for any reason any such Loans or Letter of Credit Liabilities remain outstanding following termination of the Commitments either in their entirety or with respect to such Borrower or following the reduction of the Sublimit of such Borrower to zero, its Utilization will be deemed to be 100%.

Each Borrower must obtain a long-term unsecured credit rating from two leading rating agencies, to include at a minimum either Standard & Poor's, a division of the McGraw-Hill Companies, together with its successors ("**S&P**"), or Moody's Investors Service ("**Moody's**"), or if such a credit rating is not available, then a corporate credit rating from S&P or an issuer rating from Moody's, and formally notify the Administrative Agent of the current ratings. The Facility Fee Rate and Applicable Margin applicable to each Borrower will be based upon such Borrower's credit rating. The ratings in effect for any day are those in effect at

the close of business on such day. A change in credit rating will result in an immediate change in the applicable pricing. In the case of split ratings from S&P and Moody's, the rating to be used to determine the applicable pricing will be the higher of the two; *provided* that if the rating differential is more than one notch, the applicable pricing will be based on a rating one notch lower than the higher of the two.

SCHEDULE 1.01 - EXISTING LETTERS OF CREDIT

Issuing Bank	Amount of L/C	Expiration Date	Borrower	L/C Number
Barclays Bank PLC	$1,000,000.00	12/31/07	Cinergy Corp.	SB00001
Barclays Bank PLC	$100,000.00	12/31/07	Cinergy Corp. on behalf of Cinergy Capital + Trading	SB01032
Barclays Bank PLC	$25,000.00	12/31/07	Cinergy Corp. on behalf of Cinergy Services Inc.	SB01034
Barclays Bank PLC	$25,000.00	12/31/07	Cinergy Corp. on behalf of CinCap V, LLC	SB01033
Barclays Bank PLC	$300,000.00	12/31/07	Cinergy Corp. on behalf of CinCap V, LLC	SB01031
Total:	$1,450,000.00			
JPMorgan Chase Bank, N.A.	$4,007,222.32	12/01/07	Duke Energy Corp.	P-210408
JPMorgan Chase Bank, N.A.	$250,000.00	12/15/07	Duke Energy Corp.	P-206072
JPMorgan Chase Bank, N.A.	$985,328.13	01/07/08	Duke Energy Corp.	P-220992
JPMorgan Chase Bank, N.A.	$16,500.00	06/05/07	Duke Energy Corp.	P-214336
Wachovia Bank, N.A.	$570,000.00	10/01/07	Duke Energy Corp.	SM222278W
Wachovia Bank, N.A.	$2,622,000.00	08/31/07	Duke Energy Corp.	SM204493W
Wachovia Bank, N.A.	$0.00	09/30/07	Duke Energy Corp.	SM204839W
Wachovia Bank, N.A.	$272,000.00	05/23/08	Duke Energy Corp.	SM211026W
Wachovia Bank, N.A.	$521,000.00	9/1/2007	Duke Energy Corp.	SM215404W
Wachovia Bank, N.A.	$75,000.00	9/27/2007	Duke Energy Corp.	LC968-131011
Wachovia Bank, N.A.	$3,149,500.00	5/18/2008	Duke Energy Corp.	SM225924W
Wachovia Bank, N.A.	$2,600,000.00	1/31/2008	Duke Energy Corp.	SM218102W

Wachovia Bank, N.A.	$30,000.00	10/09/07	Duke Energy Corp.	SM202061W
Wachovia Bank, N.A.	$10,000.00	04/19/08	Duke Energy Corp.	SM207431W
Wachovia Bank, N.A.	$75,000.00	03/21/08	Duke Energy Corp.	SM218754W
Wachovia Bank, N.A.	$1,552,887.00	07/31/07	Duke Energy Corp.	SM211136W
Wachovia Bank, N.A.	$463,373.99	09/30/07	Duke Energy Corp.	SM204906W
Wachovia Bank, N.A.	$7,625,402.50	06/01/08	Duke Energy Corp.	SM213329W
Wachovia Bank, N.A.	$16,500,000.00	01/03/08	Duke Energy Corp.	SM201544W
Wachovia Bank, N.A.	$3,025,000.00	06/28/08	Duke Energy Corp.	SM214407W
Wachovia Bank, N.A.	$0.00	06/01/07	Duke Energy Corp.	SM213611W
Wachovia Bank, N.A.	$112,500.00	01/02/08	Duke Energy Corp.	SM206350W
Wachovia Bank, N.A.	$255,000.00	04/19/08	Duke Energy Corp.	SM212235W
Wachovia Bank, N.A.	$139,420.00	05/05/08	Duke Energy Corp.	LC968-121173
Wachovia Bank, N.A.	$25,000.00	5/31/2008	Duke Energy Corp.	SM214420W
Wachovia Bank, N.A.	$1,100,000.00	10/31/2007	Duke Energy Corp.	SM218400W
Wachovia Bank, N.A.	$2,131,400.00	12/7/2007	Duke Energy Corp.	SM219114W
Wachovia Bank, N.A.	$0.00	5/25/2007	Duke Energy Corp.	SM223451W
Wachovia Bank, N.A.	$500,809.00	1/15/2008	Duke Energy Corp.	SM223856W
Total:	$48,614,342.94			
Wachovia Bank, N.A.	$3,520,000.00	10/10/07	Duke Energy Carolinas, LLC	SM222414W
Wachovia Bank, N.A.	$415,000.00	04/01/08	Duke Energy Carolinas, LLC	SM207518W
Wachovia Bank, N.A.	$1,750,000.00	7/5/2008	Duke Energy Carolinas, LLC	LC968-129556
Total:	$5,685,000.00			

EXHIBIT A

NOTE

New York, New York
, 20

For value received, [Duke Energy Corporation., a Delaware corporation] [Duke Energy Carolinas, LLC, a North Carolina limited liability company] [Duke Energy Ohio, Inc., a Ohio corporation] [Duke Energy Indiana, Inc., an Indiana corporation] [Duke Energy Kentucky, Inc., a Kentucky corporation] (the "**Borrower**"), promises to pay to the order of (the "**Bank**"), for the account of its Applicable Lending Office, the unpaid principal amount of each Loan made by the Bank to the Borrower pursuant to the Credit Agreement referred to below on the date specified in the Credit Agreement. The Borrower promises to pay interest on the unpaid principal amount of each such Loan on the dates and at the rate or rates provided for in the Credit Agreement. All such payments of principal and interest shall be made in lawful money of the United States in Federal or other immediately available funds at the office of Wachovia Bank, National Association, Charlotte Plaza, 201 S. College Street, CP-8, NC-0680, Charlotte, North Carolina 28288-0680.

All Loans made by the Bank, the respective types and maturities thereof and all repayments of the principal thereof shall be recorded by the Bank, and the Bank, if the Bank so elects in connection with any transfer or enforcement of its Note, may endorse on the schedule attached hereto appropriate notations to evidence the foregoing information with respect to the Loans then outstanding; *provided* that the failure of the Bank to make any such recordation or endorsement shall not affect the obligations of the Borrower hereunder or under the Credit Agreement.

This note is one of the Notes referred to in the Amended and Restated Credit Agreement dated as of June 28, 2007 among Duke Energy Corporation, Duke Energy Carolinas, LLC, Duke Energy Ohio, Inc., Duke Energy Indiana, Inc., Duke Energy Kentucky, Inc., the banks listed on the signature pages thereof, Wachovia Bank, National Association, as Administrative Agent, and the other Agents party thereto (as the same may be amended from time to time, the "**Credit Agreement**"). Terms defined in the Credit Agreement are used herein with the same meanings. Reference is made to the Credit Agreement for provisions for the prepayment hereof and the acceleration of the maturity hereof.

[DUKE ENERGY CORPORATION]

[DUKE ENERGY CAROLINAS, LLC]

[DUKE ENERGY OHIO, INC]

[DUKE ENERGY INDIANA, INC.]

[DUKE ENERGY KENTUCKY, INC.]

By: _____

Title:

Note (cont'd)

LOANS AND PAYMENTS OF PRINCIPAL

Date	Amount of Loan	Type of Loan	Amount of Principal Repaid	Maturity Date	Notation Made By

EXHIBIT B-1

OPINION OF INTERNAL COUNSEL OF THE BORROWER

[Effective Date]

To the Banks and the Administrative Agent
Referred to Below

c/o Wachovia Bank, National Association
as Administrative Agent
Charlotte Plaza
201 S. College Street
CP-8, NC-0680
Charlotte, NC 28288-0680
Attn: Syndication Agency Services

Ladies and Gentlemen:

I am [title of internal counsel] of [Duke Energy Corporation] [Duke Energy Carolinas, LLC] [Duke Energy Ohio, Inc.] [Duke Energy Indiana, Inc.] [Duke Energy Kentucky, Inc.] (the "**Borrower**") and have acted as its counsel in connection with the Amended and Restated Credit Agreement (the "**Credit Agreement**"), dated as of June 28, 2007, among Duke Energy Corporation, Duke Energy Carolinas, LLC, Duke Energy Ohio, Inc., Duke Energy Indiana, Inc., Duke Energy Kentucky, Inc. (the "**Borrowers**"), the banks listed on the signature pages thereof, Wachovia Bank, National Association, as Administrative Agent, and the other Agents party thereto. Capitalized terms defined in the Credit Agreement are used herein as therein defined. This opinion letter is being delivered pursuant to Section 3.01(b) of the Credit Agreement.

In such capacity, I or attorneys under my direct supervision have examined originals or copies, certified or otherwise identified to my satisfaction, of such documents, corporate records, certificates of public officials and other instruments and have conducted such other investigations of fact and law as I have deemed necessary or advisable for purposes of this opinion.

Upon the basis of the foregoing, I am of the opinion that:

1. The Borrower is [a Delaware corporation] [a North Carolina limited liability company] [an Ohio corporation] [an Indiana corporation] [a

Kentucky corporation], validly existing and in good standing under the laws of [Delaware] [North Carolina] [Ohio] [Indiana] [Kentucky].

2. The execution, delivery and performance by the Borrower of the Credit Agreement and any Notes are within the Borrower's corporate powers, have been duly authorized by all necessary corporate action, require no action by or in respect of, or filing with, any governmental body, agency or official (except for [list exceptions], which have been obtained or made, as the case may be, and are in full force and effect) and do not contravene, or constitute a default under, any provision of applicable law or regulation or of the articles of incorporation or by-laws of the Borrower or, to my knowledge, of any agreement, judgment, injunction, order, decree or other instrument binding upon the Borrower or, to my knowledge, result in the creation or imposition of any Lien on any asset of the Borrower or any of its Material Subsidiaries.

3. The Credit Agreement and any Notes executed and delivered as of the date hereof have been duly executed and delivered by the Borrower.

4. Except as disclosed in the Borrower's annual report on Form 10-K for the fiscal year ended December 31, 2006 and its quarterly report on Form 10-Q for the period ended March 31, 2007, to my knowledge (but without independent investigation), there is no action, suit or proceeding pending or threatened against or affecting, the Borrower or any of its Subsidiaries before any court or arbitrator or any governmental body, agency or official, which would be likely to be decided adversely to the Borrower or such Subsidiary and, as a result, to have a material adverse effect upon the business, consolidated financial position or consolidated results of operations of the Borrower and its Consolidated Subsidiaries, considered as a whole, or which in any manner draws into question the validity of the Credit Agreement or any Notes.

The phrase "to my knowledge", as used in the foregoing opinion, refers to my actual knowledge without any independent investigation as to any such matters.

I am a member of the Bar of the State of [Delaware] [North Carolina] [Ohio] [Indiana] [Kentucky] and do not express any opinion herein concerning any law other than the law of the State of [Delaware] [North Carolina] [Ohio] [Indiana] [Kentucky] and the federal law of the United States of America.

The opinions expressed herein are limited to the matters expressly stated herein, and no opinion is to be inferred or may be implied beyond the matters expressly so stated. This opinion is rendered to you in connection with the above-referenced matter and may not be relied upon by you for any other purpose, or relied upon by, or furnished to, any other Person, firm or corporation without my prior written consent, except for Additional Banks and Assignees. My opinions expressed herein are as of the date hereof, and I undertake no obligation to advise you of any changes of applicable law or any other matters that may come to my attention after the date hereof that may affect my opinions expressed herein.

Very truly yours,

EXHIBIT B-2

OPINION OF
ROBINSON, BRADSHAW & HINSON, P.A.,
SPECIAL COUNSEL FOR THE BORROWER

[Effective Date]

To the Banks and the Administrative Agent
Referred to Below

c/o Wachovia Bank, National Association
as Administrative Agent
Charlotte Plaza
201 S. College Street
CP-8, NC-0680
Charlotte, NC 28288-0680
Attn: Syndication Agency Services

Ladies and Gentlemen:

We have acted as counsel to [Duke Energy Corporation., a Delaware corporation] [Duke Energy Carolinas, LLC, a North Carolina limited liability company] [Duke Energy Ohio, Inc., a Ohio corporation] [Duke Energy Indiana, Inc., an Indiana corporation] [Duke Energy Kentucky, Inc., a Kentucky corporation] (the "**Borrower**"), in connection with the Amended and Restated Credit Agreement (the "**Credit Agreement**"), dated as of June 28, 2007, among Duke Energy Corporation, Duke Energy Carolinas, LLC, Duke Energy Ohio, Inc., Duke Energy Indiana, Inc., Duke Energy Kentucky, Inc. (the "**Borrowers**"), the banks listed on the signature pages thereof, Wachovia Bank, National Association, as Administrative Agent, and the other Agents party thereto. Capitalized terms used herein and not defined shall have the meanings given to them in the Credit Agreement. This opinion letter is being delivered pursuant to Section 3.01(b) of the Credit Agreement.

In connection with this opinion, we also examined originals, or copies identified to our satisfaction, of such other documents and considered such matters of law and fact as we, in our professional judgment, have deemed appropriate to render the opinions contained herein. Where we have considered it appropriate, as to certain facts we have relied, without investigation or analysis of any underlying data contained therein, upon certificates or other comparable

documents of public officials and officers or other appropriate representatives of the Borrower.

In rendering the opinions contained herein, we have assumed, among other things, that the Credit Agreement and any Notes to be executed (i) are within the Borrower's corporate powers, (ii) have been duly authorized by all necessary corporate action, (iii) have been duly executed and delivered, (iv) require no action by or in respect of, or filing with, any governmental body, agency of official and (v) do not contravene, or constitute a default under, any provision of applicable law or regulation or of the Borrower's certificate of incorporation or by-laws or any agreement, judgment, injunction, order, decree or other instrument binding upon the Borrower or result in the creation or imposition of any Lien on any asset of the Borrower. In addition, we have assumed that the Credit Agreement fully states the agreement between the Borrower and the Banks with respect to the matters addressed therein, and that the Credit Agreement constitutes a legal, valid and binding obligation of each Bank, enforceable in accordance with its respective terms.

The opinions set forth herein are limited to matters governed by the laws of the State of North Carolina and the federal laws of the United States, and no opinion is expressed herein as to the laws of any other jurisdiction. For purposes of our opinions, we have disregarded the choice of law provisions in the Credit Agreement and, instead, have assumed with your permission that the Credit Agreement and the Notes are governed exclusively by the internal, substantive laws and judicial interpretations of the State of North Carolina. We express no opinion concerning any matter respecting or affected by any laws other than laws that a lawyer in North Carolina exercising customary professional diligence would reasonably recognize as being directly applicable to the Borrower, the Loans, or any of them.

Based upon and subject to the foregoing and the further limitations and qualifications hereinafter expressed, it is our opinion that the Credit Agreement constitutes the legal, valid and binding obligation of the Borrower and the Notes, if and when issued, will constitute legal, valid and binding obligations of the Borrower, in each case, enforceable against the Borrower in accordance with its terms.

The opinions expressed above are subject to the following qualifications and limitations:

1. Enforcement of the Credit Agreement and the Notes is subject to the effect of applicable bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium and similar laws affecting the enforcement of creditors' rights generally.

2. Enforcement of the Credit Agreement and the Notes is subject to the effect of general principles of equity (regardless of whether considered in a proceeding in equity or at law) by which a court with proper jurisdiction may deny rights of specific performance, injunction, self-help, possessory remedies or other remedies.

3. We do not express any opinion as to the enforceability of any provisions contained in the Credit Agreement or any Note that (i) purport to excuse a party for liability for its own acts, (ii) purport to make void any act done in contravention thereof, (iii) purport to authorize a party to act in its sole discretion, (iv) require waivers or amendments to be made only in writing, (v) purport to effect waivers of constitutional, statutory or equitable rights or the effect of applicable laws, (vi) impose liquidated damages, penalties or forfeiture, or (vii) purport to indemnify a party for its own negligence or willful misconduct. Indemnification provisions in the Credit Agreement are subject to and may be rendered unenforceable by applicable law or public policy, including applicable securities law.

4. We do not express any opinion as to the enforceability of any provisions contained in the Credit Agreement or the Notes purporting to require a party thereto to pay or reimburse attorneys' fees incurred by another party, or to indemnify another party therefor, which may be limited by applicable statutes and decisions relating to the collection and award of attorneys' fees, including but not limited to North Carolina General Statutes § 6-21.2.

5. We do not express any opinion as to the enforceability of any provisions contained in the Credit Agreement purporting to waive the right of jury trial. Under North Carolina General Statutes § 22B-10, a provision for the waiver of the right to a jury trial is unconscionable and unenforceable.

6. We do not express any opinion as to the enforceability of any provisions contained in the Credit Agreement concerning choice of forum or consent to the jurisdiction of courts, venue of actions or means of service of process.

7. It is likely that North Carolina courts will enforce the provisions of the Credit Agreement providing for interest at a higher rate resulting from a Default or Event of Default (a "**Default Rate**") which rate is higher than the rate otherwise stipulated in the Credit Agreement. The law, however, disfavors penalties, and it is possible that interest at the Default Rate may be held to be an unenforceable penalty, to the extent such rate exceeds the rate applicable prior to a default under the Credit Agreement. Also, since North Carolina General Statutes § 24-10.1 expressly provides for late charges, it is possible that North Carolina courts, when faced specifically with the issue, might rule that this statutory late charge preempts any other charge (such as default interest) by a

bank for delinquent payments. The only North Carolina case which we have found that addresses this issue is a 1978 Court of Appeals decision, which in our opinion is of limited precedential value, *North Carolina National Bank v. Burnette*, 38 N.C. App. 120, 247 S.E.2d 648 (1978), *rev'd on other grounds*, 297 N.C. 524, 256 S.E.2d 388 (1979). While the court in that case did allow interest after default (commencing with the date requested in the complaint) at a rate six percent in excess of pre-default interest, we are unable to determine from the opinion that any question was raised as to this being penal in nature, nor does the court address the possible question of the statutory late charge preempting a default interest surcharge. Therefore, since the North Carolina Supreme Court has not ruled in a properly presented case raising issues of its possible penal nature and those of North Carolina General Statutes § 24-10.1, we are unwilling to express an unqualified opinion that the Default Rate of interest prescribed in the Credit Agreement is enforceable.

8. We do not express any opinion as to the enforceability of any provisions contained in the Credit Agreement relating to evidentiary standards or other standards by which the Credit Agreement are to be construed.

This opinion letter is delivered solely for your benefit in connection with the Credit Agreement and, except for any Additional Bank or any Assignee which becomes a Bank pursuant to Section 2.17 or 9.06(c) of the Credit Agreement, may not be used or relied upon by any other Person or for any other purpose without our prior written consent in each instance. Our opinions expressed herein are as of the date hereof, and we undertake no obligation to advise you of any changes of applicable law or any other matters that may come to our attention after the date hereof that may affect our opinions expressed herein.

Very truly yours,

EXHIBIT C

OPINION OF
DAVIS POLK & WARDWELL, SPECIAL COUNSEL
FOR THE AGENTS

[Effective Date]

To the Banks and the Administrative Agent
Referred to Below

c/o Wachovia Bank, National Association
as Administrative Agent
Charlotte Plaza
201 S. College Street
CP-8, NC-0680
Charlotte, NC 28288-0680
Attn: Syndication Agency Services

Dear Sirs:

We have participated in the preparation of the Amended and Restated Credit Agreement (the "**Credit Agreement**") dated as of June 28, 2007 among Duke Energy Corporation, a Delaware corporation, Duke Energy Carolinas, LLC, a North Carolina limited liability company, Duke Energy Ohio, Inc. a Ohio corporation, Duke Energy Indiana, Inc., an Indiana corporation and Duke Energy Kentucky, Inc., a Kentucky corporation (the "**Borrowers**", each individually, a "**Borrower**"), the banks listed on the signature pages thereof (the "**Banks**"), Wachovia Bank, National Association, as Administrative Agent (the "**Administrative Agent**"), and the other Agents party thereto, and have acted as special counsel for the Agents for the purpose of rendering this opinion pursuant to Section 3.01(c)of the Credit Agreement. Terms defined in the Credit Agreement are used herein as therein defined.

We have examined originals or copies, certified or otherwise identified to our satisfaction, of such documents, corporate records, certificates of public officials and other instruments and have conducted such other investigations of fact and law as we have deemed necessary or advisable for purposes of this opinion.

In rendering the opinion contained herein, we have assumed, among other things, that the Credit Agreement and any Notes to be executed (i) are within each

Borrower's corporate powers, (ii) have been duly authorized by all necessary corporate action, (iii) have been duly executed and delivered, (iv) require no action by or in respect of, or filing with, any governmental body, agency of official and (v) do not contravene, or constitute a default under, any provision of applicable law or regulation or of any Borrower's certificate of incorporation or by-laws or any agreement, judgment, injunction, order, decree or other instrument binding upon any Borrower or result in the creation or imposition of any Lien on any asset of any Borrower.

Upon the basis of the foregoing, we are of the opinion that the Credit Agreement constitutes a valid and binding agreement of each Borrower and the Notes, if and when issued by a Borrower, constitute valid and binding obligations of such Borrower enforceable in accordance with their respective terms, except as the same may be limited by bankruptcy, insolvency or similar laws affecting creditors' rights generally and by general principles of equity.

In giving the foregoing opinion, we express no opinion as to the effect (if any) of any law of any jurisdiction (except the State of New York) in which any Bank is located which limits the rate of interest that such Bank may charge or collect.

This opinion is rendered solely to you in connection with the above matter. This opinion may not be relied upon by you for any other purpose or relied upon by or furnished to any other person, firm or corporation without our prior written consent, except for Additional Banks and all Participants.

Very truly yours,

EXHIBIT D

ASSIGNMENT AND ASSUMPTION AGREEMENT

AGREEMENT dated as of , 20 among [ASSIGNOR] (the "**Assignor**"), [ASSIGNEE] (the "**Assignee**"), [DUKE ENERGY CORPORATION] and WACHOVIA BANK, NATIONAL ASSOCIATION, as Administrative Agent (the "**Administrative Agent**").

W I T N E S S E T H

WHEREAS, this Assignment and Assumption Agreement (the "**Agreement**") relates to the Amended and Restated Credit Agreement dated as of June 28, 2007 among Duke Energy Corporation, Duke Energy Carolinas, LLC, Duke Energy Ohio, Inc., Duke Energy Indiana, Inc., and Duke Energy Kentucky, Inc. (the "**Borrowers**", each individually, a "**Borrower**"), the Assignor and the other Banks party thereto, as Banks, the Administrative Agent and the other Agents party thereto (the "**Credit Agreement**");

WHEREAS, as provided under the Credit Agreement, the Assignor has a Commitment to make Loans to the Borrowers and participate in Letters of Credit in an aggregate principal amount at any time outstanding not to exceed $;(1)

WHEREAS, Loans made to the Borrowers by the Assignor under the Credit Agreement in the aggregate principal amount of $ are outstanding at the date hereof;

WHEREAS, Letters of Credit with a total amount available for drawing thereunder of $ are outstanding at the date hereof; and

WHEREAS, the Assignor proposes to assign to the Assignee all of the rights of the Assignor under the Credit Agreement in respect of a portion of its Commitment thereunder in an amount equal to $ (the "**Assigned Amount**"), together with a corresponding portion of its outstanding Loans and Letter of Credit Liabilities, and the Assignee proposes to accept assignment of such rights and assume the corresponding obligations from the Assignor on such terms;*

NOW, THEREFORE, in consideration of the foregoing and the mutual agreements contained herein, the parties hereto agree as follows:

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(1)The asterisked provisions shall be appropriately revised in the event of an assignment after the Commitment Termination Date.

SECTION 1 *Definitions*. All capitalized terms not otherwise defined herein shall have the respective meanings set forth in the Credit Agreement

SECTION 2 *Assignment*. The Assignor hereby assigns and sells to the Assignee all of the rights of the Assignor under the Credit Agreement to the extent of the Assigned Amount, and the Assignee hereby accepts such assignment from the Assignor and assumes all of the obligations of the Assignor under the Credit Agreement to the extent of the Assigned Amount, including the purchase from the Assignor of the corresponding portion of the principal amount of the Loans made by, and Letter of Credit Liabilities of, the Assignor outstanding at the date hereof. Upon the execution and delivery hereof by the Assignor, the Assignee [, Duke Energy Corporation] [, the Issuing Banks] and the Administrative Agent, the payment of the amounts specified in Section 3 required to be paid on the date hereof (i) the Assignee shall, as of the date hereof, succeed to the rights and be obligated to perform the obligations of a Bank under the Credit Agreement with a Commitment in an amount equal to the Assigned Amount, and (ii) the Commitment of the Assignor shall, as of the date hereof, be reduced by a like amount and the Assignor released from its obligations under the Credit Agreement to the extent such obligations have been assumed by the Assignee. The assignment provided for herein shall be without recourse to the Assignor.

SECTION 3 *Payments*. As consideration for the assignment and sale contemplated in Section 2 hereof, the Assignee shall pay to the Assignor on the date hereof in Federal funds the amount heretofore agreed between them (2). It is understood that facility [and Letter of Credit] fees accrued to the date hereof in respect of the Assigned Amount are for the account of the Assignor and such fees accruing from and including the date hereof are for the account of the Assignee. Each of the Assignor and the Assignee hereby agrees that if it receives any amount under the Credit Agreement which is for the account of the other party hereto, it shall receive the same for the account of such other party to the extent of such other party's interest therein and shall promptly pay the same to such other party.

SECTION 4 *Consent to Assignment*. This Agreement is conditioned upon the consent of [Duke Energy Corporation,] [the Issuing Banks] and the Administrative Agent pursuant to Section 9.06(c) of the Credit Agreement. The execution of this Agreement by [Duke Energy Corporation,] [the Issuing Banks] and the Administrative Agent is evidence of this consent. Pursuant to Section 9.06(c) each Borrower agrees to execute and deliver a Note, if required by the

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(2)Amount should combine principal together with accrued interest and breakage compensation, if any, to be paid by the Assignee. It may be preferable in an appropriate case to specify these amounts generically or by formula rather than as a fixed sum.

Assignee, payable to the order of the Assignee to evidence the assignment and assumption provided for herein.

SECTION 5 *Non-reliance on Assignor.* The Assignor makes no representation or warranty in connection with, and shall have no responsibility with respect to, the solvency, financial condition, or statements of any Borrower, or the validity and enforceability of the obligations of any Borrower in respect of the Credit Agreement or any Note The Assignee acknowledges that it has, independently and without reliance on the Assignor, and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement and will continue to be responsible for making its own independent appraisal of the business, affairs and financial condition of each Borrower

SECTION 6 *Governing Law* This Agreement shall be governed by and construed in accordance with the laws of the State of New York

SECTION 7 *Counterparts* This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument

SECTION 8 *Administrative Questionnaire* Attached is an Administrative Questionnaire duly completed by the Assignee

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed and delivered by their duly authorized officers as of the date first above written.

[ASSIGNOR]

By: _____
Title:

[ASSIGNEE]

By: _____
Title:

[DUKE ENERGY CORPORATION]

By: _____
Title:

WACHOVIA BANK, NATIONAL
ASSOCIATION, as Administrative Agent

By: _____
Title:

EXHIBIT E

EXTENSION AGREEMENT

Wachovia Bank, National Association, as Administrative
Agent under the Credit Agreement referred to below
Charlotte Plaza
201 S. College Street
CP-8, NC-0680
Charlotte, NC 28288-0680
Attn: Syndication Agency Services

Ladies and Gentlemen:

Effective as of [date], the undersigned hereby agrees to extend its Commitment and Commitment Termination Date under the Amended and Restated Credit Agreement dated as of June 28, 2007 among Duke Energy Corporation, Duke Energy Carolinas, LLC, Duke Energy Ohio, Inc., Duke Energy Indiana, Inc., Duke Energy Kentucky Inc. (the "**Borrowers**", each individually, a "**Borrower**"), the Banks party thereto, Wachovia Bank, National Association, as Administrative Agent, and the other Agents party thereto (the "**Credit Agreement**") for one year to [date to which its Commitment Termination Date is to be extended] pursuant to Section 2.01(c) of the Credit Agreement. Terms defined in the Credit Agreement are used herein as therein defined.

This Extension Agreement shall be construed in accordance with and governed by the law of the State of New York. This Extension Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

[NAME OF BANK]

By: _____
Title:

Agreed and Accepted:

DUKE ENERGY CORPORATION.
as Borrower

By: _____
Title:

DUKE ENERGY CAROLINAS, LLC,
as Borrower

By: _____
Title:

DUKE ENERGY OHIO, INC.,
as Borrower

By: _____
Title:

DUKE ENERGY INDIANA, INC.,
as Borrower

By: _____
Title:

DUKE ENERGY KENTUCKY, INC.,
as Borrower

By: _____
Title:

WACHOVIA BANK, NATIONAL ASSOCIATION,
as Administrative Agent

By: _____
Title:

EXHIBIT F

NOTICE OF ISSUANCE

Date:_____

To: Wachovia Bank, National Association, as Administrative Agent
_____, as Issuing Bank

From: [Duke Energy Corporation] [Duke Energy Carolinas, LLC] [Duke Energy Ohio, Inc.] [Duke Energy Indiana, Inc.] [Duke Energy Kentucky, Inc.]

Re: Amended and Restated Credit Agreement dated as of June 28, 2007 (as amended from time to time, the "Credit Agreement") among Duke Energy Corporation, Duke Energy Carolinas, LLC, Duke Energy Ohio, Inc., Duke Energy Indiana, Inc., Duke Energy Kentucky, Inc. (the "**Borrowers**", each individually, a "**Borrower**"), the Banks party thereto, Wachovia Bank, National Association, as Administrative Agent and the other Agents party thereto

[Duke Energy Corporation] [Duke Energy Carolinas, LLC] [Duke Energy Ohio, Inc.] [Duke Energy Indiana, Inc.] [Duke Energy Kentucky, Inc.] hereby gives notice pursuant to Section 2.15(b) of the Credit Agreement that it requests the above-named Issuing Bank to issue on or before _____ a Letter of Credit containing the terms attached hereto as Schedule I (the "**Requested Letter of Credit**").

The Requested Letter of Credit will be subject to [UCP 500] [ISP98].

[Duke Energy Corporation] [Duke Energy Carolinas, LLC] [Duke Energy Ohio, Inc.] [Duke Energy Indiana, Inc.] [Duke Energy Kentucky, Inc.] hereby represents and warrants to the Issuing Bank, the Administrative Agent and the Banks that:

(a) immediately after the issuance of the Requested Letter of Credit, (i) the Utilization Limits are not exceeded and (ii) the aggregate amount of the Letter of Credit Liabilities shall not exceed $1,000,000,000;

(b) immediately after the issuance of the Requested Letter of Credit, no Default shall have occurred and be continuing; and

(c) the representations and warranties contained in the Credit Agreement (except the representations and warranties set forth in Section 4.04(c) and 4.06 of the Credit Agreement) shall be true on and as of the date of issuance of the Requested Letter of Credit.

[Duke Energy Corporation] [Duke Energy Carolinas, LLC] [Duke Energy Ohio, Inc.] [Duke Energy Indiana, Inc.] [Duke Energy Kentucky, Inc.] hereby authorizes the Issuing Bank to issue the Requested Letter of Credit with such variations from the above terms as the Issuing Bank may, in its discretion, determine are necessary and are not materially inconsistent with this Notice of Issuance. The opening of the Requested Letter of Credit and [Duke Energy Corporation] [Duke Energy Carolinas, LLC] [Duke Energy Ohio, Inc.] [Duke Energy Indiana, Inc.] [Duke Energy Kentucky, Inc.]'s responsibilities with respect thereto are subject to [UCP 500] [ISP98] as indicated above and the terms and conditions set forth in the Credit Agreement.

Terms used herein and not otherwise defined herein have the meanings assigned to them in the Credit Agreement.

[DUKE ENERGY CORPORATION]

[DUKE ENERGY CAROLINAS, LLC]

[DUKE ENERGY OHIO, INC.]

[DUKE ENERGY INDIANA, INC.]

[DUKE ENERGY KENTUCKY, INC.]

By: _____
Title: _____

SCHEDULE I

Application and Agreement for
Irrevocable Standby Letter of Credit

To: _____ ("Bank")

Please TYPE information in the fields below. We reserve the right to return illegible applications for clarification.

Date:		The undersigned Applicant hereby requests Bank to issue and transmit by: ❑ Overnight Carrier ❑ Teletransmission ❑ Mail ❑ Other:
L/C No. (Bank Use Only)		Explain: an Irrevocable Standby Letter of Credit (the "Credit") substantially as set forth below. In issuing the Credit, Bank is expressly authorized to make such changes from the terms herein below set forth as it, in its sole discretion, may deem advisable.

Applicant (Full name & address)	Advising Bank (Designate name & address only, if desired)
Beneficiary (Full name & address)	Currency and amount in figures:
	Currency and amount in words:
	Expiration Date:
Charges: the Bank's charges are for our account; all other banking charges are to be paid by beneficiary.	

Credit to be available for payment against Beneficiary's draft(s) at sight drawn on Bank or its correspondent at Bank's option accompanied by the following documents:

☐ Statement, purportedly signed by the Beneficiary, reading as follows (please state below exact wording to appear on the statement):

☐ Other Documents

☐ Special Conditions (including, if Applicant has a preference, selection of UCP as herein defined or ISP98 as herein defined).

☐ Issue substantially in form of attached specimen. (Specimen must also be signed by applicant.)

Complete only when the Beneficiary (Foreign Bank, or other Financial Institution) is to issue its undertaking based on this Credit.
☐ Request Beneficiary to issue and deliver their (specify type of undertaking) in favor of for an amount not exceeding the amount specified above, effective immediately relative to (specify contract number or other pertinent reference) to expire on . (This date must be at least 15 days prior to expiry date indicated above.) It is understood that if the Credit is issued in favor of any bank or other financial or commercial entity which has issued or is to issue an undertaking on behalf of the Applicant of the Credit in connection with the Credit, the Applicant hereby agrees to remain liable under this Application and Agreement in respect of the Credit (even after its stated expiry date) until Bank is released by such bank or entity.

Each Applicant signing below affirms that it has fully read and agrees to this Application. (Note: If a bank, trust company, or other financial institution signs as Applicant or joint and several co-Applicant for its customer, or if two Applicants jointly and severally apply, both parties sign below.) Documents may be forwarded to the Bank by the beneficiary, or the negotiating bank, in one mail. Bank may forward documents to Applicant's customhouse broker, or Applicant if specified above, in one mail. Applicant understands and agrees that this Credit will be subject to the Uniform Customs and Practice for Documentary Credits of the International Chamber of Commerce currently in effect, and in use by Bank ("UCP") or to the International Standby Practices of the International Chamber of Commerce, Publication 590 or any subsequent version currently in effect and in use by Bank ("ISP98").

(Print or type name of Applicant)	(Print or type name of Applicant)
(Address)	(Address)
Authorized Signature (Title)	Authorized Signature (Title)
Authorized Signature (Title)	Authorized Signature (Title)
Customer Contact:	Phone:

BANK USE ONLY
NOTE: Application will **NOT** be processed if this section is not complete.

Approved (Authorized Signature)			Date:	
Approved (Print name and title)			City:	
Customer SIC Code:	Borrower Default Grade:		Telephone:	
Charge DDA#:	Fee:	RC #:	CLAS Bank #:	CLAS Obligor #:
Other (please explain):				

EXHIBIT G

APPROVED FORM OF LETTER OF CREDIT

IRREVOCABLE STANDBY LETTER OF CREDIT NO.

BENEFICIARY:

LADIES AND GENTLEMEN:

WE HEREBY ISSUE OUR IRREVOCABLE STANDBY LETTER OF CREDIT NUMBER , IN FAVOR OF [INSERT BENEFICIARY NAME], BY ORDER AND FOR THE ACCOUNT OF [DUKE ENERGY CORPORATION] [DUKE ENERGY CAROLINAS, LLC] [DUKE ENERGY OHIO, INC.] [DUKE ENERGY INDIANA, INC.] [DUKE ENERGY KENTUCKY, INC.], [ON BEHALF OF [INSERT NAME OF [DUKE ENERGY CORPORATION] [DUKE ENERGY CAROLINAS, LLC] [DUKE ENERGY OHIO, INC.] [DUKE ENERGY INDIANA, INC.] [DUKE ENERGY KENTUCKY, INC.]'S AFFILIATE OR SUBSIDIARY],] AT SIGHT FOR UP TO U.S. DOLLARS (UNITED STATES DOLLARS) AGAINST THE FOLLOWING DOCUMENTS:

1) A BENEFICIARY'S SIGNED CERTIFICATE STATING "[[DUKE ENERGY CORPORATION] [DUKE ENERGY CAROLINAS, LLC] [DUKE ENERGY OHIO, INC.] [DUKE ENERGY INDIANA, INC.] [DUKE ENERGY KENTUCKY, INC.]/[INSERT NAME OF [DUKE ENERGY CORPORATION] [DUKE ENERGY CAROLINAS, LLC] [DUKE ENERGY OHIO, INC.] [DUKE ENERGY INDIANA, INC.] [DUKE ENERGY KENTUCKY, INC.]'S AFFILIATE OR SUBSIDIARY]] IS IN DEFAULT UNDER ONE OR MORE AGREEMENTS BETWEEN [[DUKE ENERGY CORPORATION] [DUKE ENERGY CAROLINAS, LLC] [DUKE ENERGY OHIO, INC.] [DUKE ENERGY INDIANA, INC.] [DUKE ENERGY KENTUCKY, INC.]/[INSERT NAME OF [DUKE ENERGY CORPORATION] [DUKE ENERGY CAROLINAS, LLC] [DUKE ENERGY OHIO, INC.] [DUKE ENERGY INDIANA, INC.] [DUKE ENERGY KENTUCKY, INC.]'S AFFILIATE OR SUBSIDIARY]] AND [INSERT BENEFICIARY'S NAME]."

OR

2) A BENEFICIARY'S SIGNED CERTIFICATE STATING "[INSERT BENEFICIARY'S NAME] HAS REQUESTED ALTERNATE SECURITY FROM [[DUKE ENERGY CORPORATION] [DUKE ENERGY CAROLINAS, LLC] [DUKE ENERGY OHIO, INC.] [DUKE ENERGY INDIANA, INC.] [DUKE ENERGY KENTUCKY, INC.]/[INSERT NAME OF [DUKE ENERGY CORPORATION] [DUKE ENERGY CAROLINAS, LLC] [DUKE ENERGY OHIO, INC.] [DUKE ENERGY INDIANA, INC.] [DUKE ENERGY KENTUCKY, INC.]'S AFFILIATE OR SUBSIDIARY]] AND [DUKE ENERGY

CORPORATION] [DUKE ENERGY CAROLINAS, LLC] [DUKE ENERGY OHIO, INC.] [DUKE ENERGY INDIANA, INC.] [DUKE ENERGY KENTUCKY, INC.]/[INSERT NAME OF [DUKE ENERGY CORPORATION] [DUKE ENERGY CAROLINAS, LLC] [DUKE ENERGY OHIO, INC.] [DUKE ENERGY INDIANA, INC.] [DUKE ENERGY KENTUCKY, INC.]'S AFFILIATE OR SUBSIDIARY]] HAS NOT PROVIDED ALTERNATE SECURITY ACCEPTABLE TO [INSERT BENEFICIARY'S NAME] AND THIS LETTER OF CREDIT HAS LESS THAN TWENTY DAYS UNTIL EXPIRY."

AND

3) A DRAFT STATING THE AMOUNT TO BE DRAWN.

SPECIAL CONDITIONS:

1. PARTIAL DRAWINGS ARE PERMITTED.

2. DOCUMENTS MUST BE PRESENTED AT OUR COUNTER NO LATER THAN , WHICH IS THE EXPIRY DATE OF THIS STANDBY LETTER OF CREDIT.

WE HEREBY ENGAGE WITH YOU THAT ALL DRAFTS DRAWN UNDER AND IN COMPLIANCE WITH THE TERMS OF THIS CREDIT WILL BE DULY HONORED IF DRAWN AND PRESENTED FOR PAYMENT AT OUR OFFICE LOCATED AT ON OR BEFORE THE EXPIRY DATE OF THIS CREDIT.

EXCEPT AS OTHERWISE EXPRESSLY STATED HEREIN, THIS CREDIT IS SUBJECT TO THE UNIFORM CUSTOMS AND PRACTICE FOR DOCUMENTARY CREDITS, 1993 REVISION, INTERNATIONAL CHAMBER OF COMMERCE PUBLICATION NO. 500.

COMMUNICATIONS WITH RESPECT TO THIS STANDBY LETTER OF CREDIT SHALL BE IN WRITING AND SHALL BE ADDRESSED TO US AT , SPECIFICALLY REFERRING TO THE NUMBER OF THIS STANDBY LETTER OF CREDIT.

VERY TRULY YOURS
[ISSUING BANK]