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John J. Finnigan, Jr.  
Senior Counsel

**VIA HAND DELIVERY**

June 14, 2006

Ms. Elizabeth O'Donnell  
Executive Director  
Kentucky Public Service Commission  
211 Sower Boulevard  
P.O. Box 615  
Frankfort, Kentucky 40602-0615

RECEIVED

JUN 14 2006

PUBLIC SERVICE  
COMMISSION

Re: In the Matter of an Adjustment of the Electric Rates of The Union Light, Heat and Power Company d/b/a Duke Energy Kentucky, Inc.  
Case No. 2006-00172

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Dear Ms. O'Donnell:

Enclosed is an original and six copies of Duke Energy Kentucky's responses to the Staff's first set of data requests in the above-referenced case.

Please date stamp and return the extra copies of this letter in the enclosed self-addressed envelope.

Thank you for your consideration in this matter.

Very truly yours,

John J. Finnigan, Jr.  
Senior Counsel

JJF/sew

cc: Hon. Dennis G. Howard (w/encl.)  
Hon Elizabeth E. Blackford (w/encl.)  
Hon. David G. Boehm (w/encl.)  
Hon. Michael L. Kurtz (w/encl.)

**KyPSC Staff First Set Data Requests**  
**Duke Energy Kentucky**  
**Case No. 2006-00172**  
**Date Received: May 17, 2006**  
**Response Due Date: June 14, 2006**

**KyPSC-DR-01-001**

**REQUEST:**

1. Provide a copy of the current bylaws. Indicate any changes made to the bylaws since the year utilized as the test year in Duke Kentucky's last rate case.

**RESPONSE:**

See Attachment KyPSC-DR-01-001. On April 3, 2006, the bylaw language in Article IV, Section 1 pertaining to Officers was amended to read (former language in strikethrough format, new language italicized):

Section 1. Officers. The officers of the Corporation shall consist of ~~a Chairman of the Board, a Chief Executive Officer,~~ a President, a Secretary, a Treasurer, *and may consist of a Chairman of the Board, a Chief Executive Officer,* a Controller, ~~and may consist of a Vice Chairman, a Chief Operating Officer,~~ one or more Vice Presidents, one or more Assistant Secretaries, one or more Assistant Treasurers, ~~or one or more Assistant Controllers,~~ *and such other officers as the board shall from time to time deem necessary,* all of whom shall be elected by the ~~Board of Directors board,~~ and shall hold office ~~for one year and until their successors are chosen and qualified~~ *duly elected and qualified.*

~~Any two of the offices may be held by the same person, except that the duties of the President and Secretary shall not be performed by the same person.~~ *of Vice President, Secretary and Treasurer may be combined in one person unless otherwise prohibited by statute, the Articles of Incorporation, or these By-Laws.* All vacancies occurring among any of the above offices shall be filled by the Board of Directors. Any officer may be removed with or without cause by the affirmative vote of a majority of the number of Directors at any meeting of the Board of Directors.

**WITNESS RESPONSIBLE:** Sandra P. Meyer

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**THE UNION LIGHT, HEAT AND POWER COMPANY**

—————  
**BY-LAWS**  
—————

**ADOPTED BY SHAREHOLDERS, APRIL 27, 1948**  
**AMENDED BY BOARD OF DIRECTORS, MAY 3, 1950**  
**AMENDED BY SHAREHOLDERS, MAY 2, 1984**  
**AMENDED BY SHAREHOLDERS, MAY 3, 1989**  
**AMENDED BY SHAREHOLDERS, JUNE 16, 1995**  
**AMENDED BY SHAREHOLDERS, MAY 8, 1996**  
**AMENDED EFFECTIVE JULY 24, 1997**  
**AMENDED BY SHAREHOLDERS, MAY 26, 1999**  
**AMENDED BY SHAREHOLDERS, JULY 23, 2003**  
**AMENDED EFFECTIVE APRIL 3, 2006**

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**BY-LAWS  
OF  
THE UNION LIGHT, HEAT AND POWER COMPANY**

ARTICLE I

Offices

*Section 1. Offices.* The registered office of the Corporation shall be located in the City of Louisville, Jefferson County, Commonwealth of Kentucky. The Corporation may establish branch offices and conduct and carry on business at such other places within or without the Commonwealth of Kentucky as the Board of Directors may from time to time fix or designate, and any business conducted or carried on at such other place or places shall be as binding and effectual as if transacted at the registered office of the Corporation.

ARTICLE II

Shareholders' Meetings

*Section 1. Annual Meeting.* The annual meeting of the shareholders may be held either within or without the Commonwealth of Kentucky, at such place, time, and date designated by the Board of Directors, for the election of directors, the consideration of the reports to be laid before the meeting and the transaction of such other business as may be brought before the meeting.

*Section 2. Notice of Annual Meeting.* Notice of the annual meeting shall be given in writing to each shareholder entitled to vote thereat, at such address as appears on the records of the Corporation at least ten (10) days, and not more than forty (40) days prior to the meeting.

*Section 3. Special Meetings.* Special meetings of the shareholders may be called at any time by the Chairman, Vice Chairman, Chief Executive Officer, Chief Operating Officer, or President, or by a majority of the members of the Board of Directors acting with or without a meeting, or by the persons who hold in the aggregate one-fifth of all the shares outstanding and entitled to vote thereat, upon notice in writing, stating the time, place and purpose of the meeting. Business transacted at all special meetings shall be confined to the objects stated in the call.

*Section 4. Notice of Special Meeting.* Notice of a special meeting, in writing, stating the time, place and purpose thereof, shall be given to each shareholder entitled to vote thereat, not less than ten (10) nor more than thirty-five (35) days after the receipt of said request.

*Section 5. Waiver of Notice.* Notice of any shareholders' meeting may be waived in writing by any shareholder at any time before or after the meeting.

*Section 6. Quorum.* At any meeting of the shareholders, the holders of a majority of the shares of stock of the Corporation, issued and outstanding, and entitled to vote, present in person or by proxy, shall constitute a quorum for all purposes, unless otherwise specified by law or the Articles of Incorporation.

If, however, such majority shall not be present or represented at any meeting of the shareholders, the shareholders entitled to vote, present in person or by proxy, shall have power to adjourn the meeting from time to time without further notice, other than by announcement at the

meeting, until the requisite amount of voting stock shall be present. At any such adjourned meeting, at which a quorum shall be present, any business may be transacted which might have been transacted at the meeting as originally called.

*Section 7. Voting.* At any meeting of the shareholders, every shareholder having the right to vote shall be entitled to vote in person, or by proxy appointed by an instrument in writing subscribed by such shareholder and bearing a date not more than eleven (11) months prior to said meeting, unless some other definite period of validity shall be expressly provided therein.

Each shareholder shall have one (1) vote for each share of stock having voting power, registered in his or her name on the books of the Corporation, at the date fixed for determination of persons entitled to vote at the meeting or, if no date has been fixed, then at the date of the meeting. Cumulative voting shall be permitted only as expressly required by statute.

A complete list of shareholders entitled to vote at the shareholders' meetings, arranged in alphabetical order, with the address and the number of voting shares held by each, shall be produced on the request of any shareholder, and such list shall be prima facie evidence of the ownership of shares and of the right of shareholders to vote, when certified by the Secretary or by the agent of the Corporation having charge of the transfer of shares.

*Section 8. Written Consent of Shareholders in Lieu of Meeting.* Any action required or permitted by statute, the Restated Articles of Incorporation of the Corporation, or these By-Laws, to be taken at any annual or special meeting of shareholders of the Corporation, may be taken without a meeting, without prior notice, and without a vote, if a written consent in lieu of a meeting, setting forth the actions so taken, shall be signed by all the shareholders entitled to vote thereon. Any such written consent may be given by one or any number of substantially concurrent written instruments of substantially similar tenor signed by such shareholders, in person or by attorney or proxy duly appointed in writing, and filed with the records of the Corporation. Any such written consent shall be effective as of the effective date thereof as specified therein.

### ARTICLE III

#### Board of Directors

*Section 1. Number of Directors, Tenure, Vacancies.* The business and affairs of the Corporation shall be managed and controlled by a Board of Directors (who need not be shareholders) consisting of not less than three (3) persons and not more than seven (7), the exact number of which may be fixed or changed either by the affirmative vote of the majority of the shares represented and entitled to vote at any meeting of the shareholders called for the purpose of electing directors, or by the affirmative vote of the majority of the directors then in office at any stated or special meeting of the Board of Directors; provided, however, that the board may be subject to certain limitations as expressly provided for under and pursuant to Kentucky Revised Statutes §271B.8-030(2), or such similar successor governing statute. Directors shall be elected annually by the shareholders at the annual meeting, and each director shall hold office until his successor shall have been elected and qualified. Any director may resign at any time. Vacancies occurring in the Board of Directors shall be filled by the remaining members of the board. A director thus elected to fill any vacancy shall hold office for the unexpired term of his predecessor and until his successor is elected and qualifies. Any director may be removed at any time by the affirmative vote of a majority of the stock then issued and entitled to vote at a special meeting of shareholders called for the purpose.



*Section 2. Annual Organization Meeting.* Immediately after each annual election, the newly elected directors may meet forthwith (either within or without the State of Kentucky) for the purpose of organization, the election of officers and the transaction of other business. If a majority of the directors be then present no prior notice of such meeting shall be required to be given. The place and time of such first meeting may, however, be fixed by written consent of all the directors, or by three (3) days written notice given by the Secretary of the Corporation.

*Section 3. Regular Meetings.* Regular meetings of the Board of Directors may be held at such time and place (either within or without the State of Kentucky), and upon such notice, as the Board of Directors may from time to time determine.

*Section 4. Special Meetings.* Special meetings of the Board of Directors may be called by the Chairman, Vice Chairman, Chief Executive Officer, Chief Operating Officer, or President, or may be called by the written request of two (2) members of the Board of Directors.

*Section 5. Notice of Meetings.* Notice of meetings shall be given to each director in accordance with Article X, Section 1, of these By-Laws.

*Section 6. Quorum.* A majority of the Board of Directors shall constitute a quorum for the transaction of business, but a majority of those present at the time and place of any meeting, although less than a quorum, may adjourn the same from time to time, without notice, until a quorum be had. The act of a majority of the directors present at any such meeting at which a quorum is present shall be the act of the Board of Directors.

*Section 7. Compensation of Directors.* Each director of the Corporation (other than directors who are salaried officers of the Corporation or of The Cincinnati Gas & Electric Company or any of its affiliates) shall be entitled to receive as compensation for services such amounts as may be determined from time to time by the Board of Directors in form either in fees for attendance at the meeting of the Board of Directors, or by payment at the rate of a fixed sum per month, or both. The same payment may also be made to anyone other than a director officially called to attend any such meeting.

*Section 8. Executive Committee.* The Board of Directors may, by resolution passed by a majority of the whole Board, designate annually three (3) of their number to constitute an Executive Committee, who to the extent provided in the resolution, shall exercise in the intervals between the meetings of the Board of Directors the powers of the Board in the management of the business and affairs of the Corporation.

The Executive Committee may act by a majority of its members at a meeting or by a writing signed by all of its members.

All action by the Executive Committee shall be reported to the Board of Directors at its meeting next succeeding such action.

Non-employee members of such Executive Committee shall be entitled to receive such fees and compensation as the Board of Directors may determine.

*Section 9. Other Committees.* The Board of Directors may also appoint such other standing or temporary committees from time to time as they may see fit, delegating to such committees all or any part of their own powers. The members of such committees shall be entitled to receive such fees as the Board may determine.

*Section 10. Actions of Board.* Unless otherwise provided by the Restated Articles of Incorporation of the Corporation or these By-Laws, any action required or permitted to be taken at any meeting of the Board of Directors of the Corporation, or of any committee(s) thereof, may be taken without a meeting, if all the members of the Board of Directors, or of such committee(s), as the case may be, consent thereto in writing, and such writing(s) is filed with the minutes of proceedings of the Board of Directors, or of such committee(s), of the Corporation. Any such written consent to action of the Board of Directors, or of such committee(s), shall be effectuated by the signature of the member lastly consenting thereto in writing, unless the consent otherwise specifies a prior or subsequent effective date.

## ARTICLE IV

### Officers

*Section 1. Officers.* The officers of the Corporation shall consist of a President, a Secretary, a Treasurer, and may consist of a Chairman of the Board, a Chief Executive Officer, a Controller, one or more Vice Presidents, one or more Assistant Secretaries, one or more Assistant Treasurers, and such other officers as the board shall from time to time deem necessary, all of whom shall be elected by the board, and shall hold office until their successors are duly elected and qualified.

Any two of the offices of Vice President, Secretary and Treasurer may be combined in one person unless otherwise prohibited by statute, the Articles of Incorporation, or these By-Laws. All vacancies occurring among any of the above offices shall be filled by the Board of Directors. Any officer may be removed with or without cause by the affirmative vote of a majority of the number of Directors at any meeting of the Board of Directors.

*Section 2. Subordinate Officers.* The Board of Directors may appoint such other officers and agents with such powers and duties as they shall deem necessary.

*Section 3. The Chairman of the Board.* The Chairman of the Board shall be a director and shall preside at all meetings of the Board of Directors and, in the absence or inability to act of the Chief Executive Officer, meetings of shareholders and shall, subject to the Board's direction and control, be the Board's representative and medium of communication, and shall perform such other duties as may from time to time be assigned to the Chairman of the Board by the Board of Directors. The Chairman of the Board shall direct the long-term strategic planning process of the Corporation and shall also lend his or her expertise to such other officers as may be requested from time to time by such officers. The Chairman shall be a member of the Executive Committee.

*Section 4. The Vice Chairman.* The Vice Chairman of the Board, if there be one, shall be a director and shall preside at meetings of the Board of Directors in the absence or inability to act of the Chairman of the Board or meetings of shareholders in the absence or inability to act of the Chief Executive Officer and the Chairman of the Board. The Vice Chairman shall perform such other duties as may from time to time be assigned to him or her by the Board of Directors. The Vice Chairman shall be a member of the Executive Committee.

*Section 5. The Chief Executive Officer.* The Chief Executive Officer shall be a director and shall preside at all meetings of the shareholders, and, in the absence or inability to act of the Chairman of the Board and the Vice Chairman, at all meetings of the Board of Directors. The Chief Executive Officer shall from time to time report to the Board of Directors all matters within his or her knowledge which the interests of the Corporation may require be brought to their notice.

The Chief Executive Officer shall be the chairman of the Executive Committee and ex officio a member of all standing committees.

*Section 6. The Chief Operating Officer.* The Chief Operating Officer of the Corporation, if there be one, shall have general and active management and direction of the affairs of the Corporation, shall have supervision of all departments and of all officers of the Corporation, shall see that the orders and resolutions of the Board of Directors and of the Executive Committee are carried into effect, and shall have the general powers and duties of supervision and management usually vested in the office of a Chief Operating Officer of a corporation. Unless otherwise provided, all corporate officers and functions shall report directly to the Chief Operating Officer, if there be one, or, if not, to the Chief Executive Officer.

*Section 7. The President.* The President shall have such duties as may be delegated by the Board of Directors, Chief Executive Officer or Chief Operating Officer.

*Section 8. The Vice Presidents.* The Vice Presidents shall perform such duties as the Board of Directors shall, from time to time, require. In the absence or incapacity of the President, the Vice President designated by the Board of Directors or Executive Committee, Chief Executive Officer, Chief Operating Officer, or President shall exercise the powers and duties of the President.

*Section 9(a). The Secretary.* The Secretary shall attend all meetings of the Board of Directors, of the Executive Committee and of the shareholders and act as clerk thereof and record all votes and the minutes of all proceedings in a book to be kept for that purpose, and shall perform like duties for the standing committees when required.

The Secretary shall keep in safe custody the seal of the Corporation, and, whenever authorized by the Board of Directors or the Executive Committee, affix the seal to any instrument requiring the same.

The Secretary shall see that proper notice is given of all meetings of the shareholders of the Corporation and of the Board of Directors and shall perform such other duties as may be prescribed from time to time by the Board of Directors, Chief Executive Officer, Chief Operating Officer or President.

*(b) Assistant Secretaries.* At the request of the Secretary, or in his or her absence or inability to act, the Assistant Secretary or, if there be more than one, the Assistant Secretary designated by the Secretary, shall perform the duties of the Secretary and when so acting shall have all the powers of and be subject to all the restrictions of the Secretary. The Assistant Secretaries shall perform such other duties as may from time to time be assigned to them by the Board of Directors, Chief Executive Officer, Chief Operating Officer, President, or Secretary.

*Section 10(a). The Treasurer.* The Treasurer shall be the financial officer of the Corporation, shall keep full and accurate accounts of all collections, receipts and disbursements in books belonging to the Corporation, shall deposit all moneys and other valuables in the name and to the credit of the Corporation, in such depositories as may be directed by the Board of Directors, shall disburse the funds of the Corporation as may be ordered by the Board of Directors, Chief Executive Officer, Chief Operating Officer, or President, taking proper vouchers therefor, and shall render to the Chief Executive Officer, Chief Operating Officer, or President, and directors at all regular meetings of the Board, or whenever they may require it, and to the annual meeting of the shareholders, an account of all his or her transactions as Treasurer and of the financial condition of the Corporation.

The Treasurer shall also perform such other duties as the Board of Directors may from time to time require.

If required by the Board of Directors, the Treasurer shall give the Corporation a bond in a form and in a sum with surety satisfactory to the Board of Directors for the faithful performance of the duties of his or her office and the restoration to the Corporation in the case of his or her death, resignation or removal from office of all books, papers, vouchers, money and other property of whatever kind in his or her possession belonging to the Corporation.

*(b) Assistant Treasurers.* At the request of the Treasurer, or in his or her absence or inability to act, the Assistant Treasurer or, if there be more than one, the Assistant Treasurer designated by the Treasurer, shall perform the duties of the Treasurer and when so acting shall have all the powers of and be subject to all the restrictions of the Treasurer. The Assistant Treasurers shall perform such other duties as may from time to time be assigned to them by the Board of Directors, Chief Executive Officer, Chief Operating Officer, President, or Treasurer.

*Section 11(a). The Controller.* The Controller shall have control over all accounts and records of the Corporation pertaining to moneys, properties, materials and supplies. He or she shall have executive direction over the bookkeeping and accounting departments and shall have general supervision over the records in all other departments pertaining to moneys, properties, materials and supplies. He or she shall have such other powers and duties as are incident to the office of Controller of a corporation and shall be subject at all times to the direction and control of the Board of Directors, Chief Executive Officer, Chief Operating Officer, President and a Vice President.

*(b) Assistant Controllers.* At the request of the Controller, or in his or her absence or inability to act, the Assistant Controller or, if there be more than one, the Assistant Controller designated by the Controller, shall perform the duties of the Controller and when so acting shall have all the powers of and be subject to all the restrictions of the Controller. The Assistant Controllers shall perform such other duties as may from time to time be assigned to them by the Board of Directors, Chief Executive Officer, Chief Operating Officer, President, or Controller.

## ARTICLE V

### Indemnification of Directors, Officers, Employees, and Agents

#### *Section 1. Definitions.* As used in this Article:

A. "Corporation" includes any domestic or foreign predecessor entity of the Corporation in a merger or other transaction in which the predecessor's existence ceased upon consummation of the transaction.

B. "Director" means an individual who is or was a Director of the Corporation or an individual who, while a Director of the Corporation, is or was serving at the Corporation's request as a director, officer, partner, trustee, employee, or agent of another foreign or domestic corporation, partnership, joint venture, trust, employee benefit plan, or other enterprise. A Director shall be considered to be serving an employee benefit plan at the Corporation's request if his or her duties to the Corporation also impose duties on, or otherwise involve services by, him or her to the plan or to participants in or beneficiaries of the plan. "Director" includes, unless the context requires otherwise, the estate or personal representative of a Director.

C. "Expenses" include counsel fees.

D. "Liability" means the obligation to pay a judgment, settlement, penalty, fine (including an excise tax assessed with respect to an employee benefit plan), or reasonable expenses incurred with respect to a proceeding.

E. "Official capacity" means:

(1) When used with respect to a Director, the office of Director in the Corporation, and

(2) When used with respect to an individual other than a Director, as contemplated in Section 6, the office in the Corporation held by the officer or the employment or agency relationship undertaken by the employee or agent on behalf of the Corporation. "Official capacity" shall not include service for any other foreign or domestic corporation or any partnership, joint venture, trust, employee benefit plan, or other enterprise.

F. "Party" includes an individual who was, is, or is threatened to be made a named defendant or respondent in a proceeding.

G. "Proceeding" means any threatened, pending, or completed action, suit, or proceeding, whether civil, criminal, administrative, or investigative and whether formal or informal.

#### *Section 2. Indemnification.*

A. Except as provided in subsection (D) of this Section, the Corporation shall indemnify an individual made a party to a proceeding because he or she is or was a Director against liability incurred in the proceeding if:

(1) He or she conducted himself or herself in good faith; and

(2) He or she reasonably believed:

(a) In the case of conduct in his or her official capacity with the Corporation, that his or her conduct was in its best interest; and

(b) In all other cases, that his or her conduct was at least not opposed to its best interests; and

(3) In the case of any criminal proceeding, he or she had no reasonable cause to believe his or her conduct was unlawful.

B. A Director's conduct with respect to an employee benefit plan for a purpose he or she reasonably believed to be in the interests of the participants in and beneficiaries of the plan shall be conduct that satisfies the requirement of subsection A(2)(b) of this Section.

C. The termination of a proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent shall not be, of itself, determinative that the Director did not meet the standard of conduct described in this Section.

D. The Corporation may not indemnify a Director under this Section:

(1) In connection with a proceeding by or in the right of the Corporation in which the Director was adjudged liable to the Corporation; or

(2) In connection with any other proceeding charging improper personal benefit to him or her, whether or not involving action in his or her official capacity, in which he or she was adjudged liable on the basis that personal benefit was improperly received by him or her.

E. Indemnification permitted under this Section in connection with a proceeding by or in the right of the Corporation shall be limited to reasonable expenses incurred in connection with the proceeding.

*Section 3. Mandatory Indemnification.* Unless limited by the Articles of Incorporation, the Corporation shall indemnify a Director who was wholly successful, on the merits or otherwise, in the defense of any proceeding to which he or she was a party because he or she is or was a Director of the Corporation against reasonable expenses incurred by him or her in connection with the proceeding.

*Section 4. Advance for Expenses.*

A. The Corporation may pay for or reimburse the reasonable expenses incurred by a Director who is a party to a proceeding in advance of final disposition of the proceeding if:

(1) The Director furnishes the Corporation a written affirmation of his or her good faith belief that he or she has met the standard of conduct described in Section 2;

(2) The Director furnishes the Corporation a written undertaking, executed personally or on his or her behalf, to repay the advance if it is ultimately determined that he or she did not meet the standard of conduct; and

(3) A determination is made that the facts then known to those making the determination would not preclude indemnification under this article.

B. The undertaking required by subsection A(2) of this Section shall be an unlimited general obligation of the Director but shall not be required to be secured and may be accepted without reference to financial ability to make repayment.

C. Determinations and authorizations of payments under this Section shall be made in the manner specified in Section 5.

*Section 5. Determination and Authorization of Indemnification.*

A. The Corporation shall not indemnify a Director under Section 2 of this Article unless authorized in the specific case after a determination has been made that indemnification of the Director is permissible in the circumstances because he or she has met the standard of conduct set forth in Section 2.

B. The determination shall be made:

(1) By the Board of Directors by majority vote of a quorum consisting of Directors not at the time parties to the proceeding;

(2) If a quorum cannot be obtained under subsection B(1) of this Section, by majority vote of a committee duly designated by the Board of Directors (in which designation Directors who are parties may participate), consisting solely of two or more Directors not at the time parties to the proceeding;

(3) By special legal counsel:

(a) Selected by the Board of Directors or its committee in the manner prescribed in subsection B(1) and (2) of this Section; or

(b) If a quorum of the Board of Directors cannot be obtained under subsection B(1) of this Section and a committee cannot be designated under subsection B(2) of this Section, selected by majority vote of the full Board of Directors (in which selection Directors who are parties may participate); or

(4) By the shareholders, but shares owned by or voted under the control of Directors who are at the time parties to the proceeding shall not be voted on the determination.

C. Authorization of indemnification and evaluation as to reasonableness of expenses shall be made in the same manner as the determination that indemnification is permissible, except that if the determination is made by special legal counsel, authorization of indemnification and evaluation as to reasonableness of expenses shall be made by those entitled under subsection B(3) of this Section to select counsel.

*Section 6. Indemnification of Officers, Employees, and Agents.* Unless the Corporation's Articles of Incorporation provide otherwise:

A. An officer of the Corporation who is not a Director shall be entitled to mandatory indemnification under Section 3, and is entitled to apply for court-ordered indemnification under the Kentucky Business Corporation Act, in each case to the same extent as a Director;

B. The Corporation may indemnify and advance expenses under this Article to an officer, employee, or agent of the Corporation who is not a Director to the same extent as to a Director; and

C. The Corporation may also indemnify and advance expenses to an officer, employee, or agent who is not a Director to the extent, consistent with public policy, that may be provided by the Articles of Incorporation, By-Laws, general or specific action of the Board of Directors, or contract.

*Section 7. Insurance.* The Corporation may purchase and maintain insurance on behalf of an individual who is or was a Director, officer, employee, or agent of the Corporation, or who, while a Director, officer, employee, or agent of the Corporation, is or was serving at the request of the Corporation as a director, officer, partner, trustee, employee, or agent of another foreign or domestic corporation, partnership, joint venture, trust, employee benefit plan, or other enterprise, against liability asserted against or incurred by him or her in that capacity or arising from his or her status as a Director, officer, employee, or agent, whether or not the Corporation would have power to indemnify him or her against the same liability under either Section 2 or 3.

*Section 8. Application of this Article.*

A. The indemnification and advancement of expenses provided by, or granted pursuant to, this Article shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under the By-Laws, any agreement, vote of shareholders or disinterested Directors, or otherwise, both as to action in his or her official capacity and as to action in another capacity while holding such office.

B. This Article shall not limit the Corporation's power to pay or reimburse expenses incurred by a Director in connection with his or her appearance as a witness at a proceeding at a time when he or she has not been made a named defendant or respondent to the proceeding.

## ARTICLE VI

### Capital Stock

*Section 1. Form and Execution of Certificates.* The certificates for shares of the capital stock of the Corporation shall be of such form and content, not inconsistent with the law and the Articles of Incorporation, as shall be approved by the Board of Directors. The certificates shall be signed by (1) either the Chairman, Chief Executive Officer, President or a Vice President, and (2) any one of the following officers: Secretary or Assistant Secretary, Treasurer or Assistant Treasurer. All certificates shall be consecutively numbered in each class of shares. The name and address of the person owning the shares represented thereby, with the number of shares and the date of issue, shall be entered on the Corporation's books.

*Section 2. Transfer of Shares.* Transfer of shares shall be made upon the books of the Corporation or respective Transfer Agents designated to transfer each class of stock, and before a new certificate is issued the old certificates shall be surrendered for cancellation.

*Section 3. Appointment of Transfer Agents and Registrars.* The Board of Directors may appoint one or more transfer agents or one or more registrars or both, and may require all stock certificates to bear the signature of either or both. When any such certificate is signed, by a transfer agent or registrar, the signatures of the corporate officers and the corporate seal, if any, upon such certificate may be facsimiles, engraved or printed.

In case any officer designated for the purpose, who has signed or whose facsimile signature has been used on any such certificate, shall, from any cause, cease to be such officer before the certificate has been delivered by the Corporation, the certificate may nevertheless be adopted by the Corporation and be issued and delivered as though the person had not ceased to be such officer.



*Section 4. Closing of Transfer Books or Taking Record of Shareholders.* The Board of Directors may fix a time not exceeding forty (40) days preceding the date of any meeting of shareholders or any dividend payment date or any date for the allotment of rights as a record date for the determination of the shareholders entitled to notice of such meeting or to vote thereat or to receive such dividends or rights as the case may be; or the Board of Directors may close the books of the Corporation against transfer of shares during the whole or any part of such period.

*Section 5. Lost Stock Certificates.* In the case of a lost stock certificate, a new stock certificate may be issued in its place upon proof of such loss, destruction or mutilation and upon the giving of a satisfactory bond of indemnity to the Corporation and/or to the transfer agent and registrar of such stock, if any, in such sum and under such terms as the Board of Directors may provide.

## ARTICLE VII

### Dividends

*Section 1. Dividends.* Dividends may be declared by the Board of Directors (or the Executive Committee, if there be one and the authority to declare dividends is delegated to the Executive Committee by the Board of Directors) and paid in cash, shares, or other property out of the annual net income to the Corporation or out of its net assets in excess of its capital, computed in accordance with the state statute and subject to the conditions and limitations imposed by the Articles of Incorporation.

No dividends shall be paid to the holders of any class of shares in violation of the rights of the holders of any other class of shares.

Before payment of any dividends or making distribution of any profits, there may be set apart out of the excess of assets available for dividends such sum or sums as the Board of Directors (or Executive Committee, if there be one and the authority to declare dividends or make distributions is delegated to the Executive Committee) from time to time in its absolute discretion thinks proper as a reserve fund for any purpose.

## ARTICLE VIII

### Fiscal Year

*Section 1. Fiscal Year.* The fiscal year of the Corporation shall begin on the first day of January and terminate on the thirty-first day of December in each year.

## ARTICLE IX

### Contracts, Checks, Notes, etc.

*Section 1. Contracts, Checks, Notes, etc.* All contracts and agreements authorized by the Board of Directors and all bonds and notes shall, unless otherwise directed by the Board of Directors or unless otherwise required by law, be signed by (1) either the Chairman, Vice Chairman, Chief Executive Officer, Chief Operating Officer, President, or a Vice President, and (2) any one of the following officers: Secretary or Assistant Secretary, Treasurer or Assistant

Treasurer. The Board of Directors may by resolution adopted at any meeting designate officers of the Corporation who may in the name of the Corporation execute checks, drafts and orders for the payment of money in its behalf and, in the discretion of the Board of Directors, such officers may be so authorized to sign such checks singly without necessity for counter-signature.

## ARTICLE X

### Notice and Waiver of Notice

*Section 1. Notice and Waiver of Notice.* Any notice required to be given by these By-Laws to a Director or officer may be given in writing, personally served or through the United States Mail, or by telephone, telegram, cablegram or radiogram, and such notice shall be deemed to be given at the time when the same shall be thus transmitted. Any notice required to be given by these By-Laws may be waived by the person entitled to such notice.

## ARTICLE XI

### Corporate Seal

*Section 1. Corporate Seal.* The corporate seal of the Corporation shall consist of a metallic stamp, circular in form, bearing in its center the word "Seal", and on the outer edge the name of the Corporation.

## ARTICLE XII

### Amendment

*Section 1. Amendment.* These By-Laws may be amended or repealed at any meeting of the shareholders of the Corporation by the affirmative vote of the holders of record of shares entitling them to exercise a majority of the voting power on such proposal, or, without a meeting, by the written consent of the holders of record of shares entitling them to exercise a two-thirds majority of the voting power on such proposal.

**KyPSC Staff First Set Data Requests**  
**Duke Energy Kentucky**  
**Case No. 2006-00172**  
**Date Received: May 17, 2006**  
**Response Due Date: June 14, 2006**

**KyPSC-DR-01-002**

**REQUEST:**

2. Provide the current organization chart, showing the relationship between Duke Kentucky and any affiliated companies. Include the relative positions of all entities and affiliates with which Duke Kentucky routinely has business transactions.

**RESPONSE:**

See Attachment KyPSC-DR-01-002, pages 1-5, for the organization chart as reported in the Cinergy Corp. 2005 10-K and pages 6-12 for the current organization chart as reported in the Duke Energy 2005 10-K.

**Duke Energy Kentucky, Inc. Parent Company**

**Duke Energy Ohio, Inc.-** Duke Energy Ohio is engaged in the production, transmission, distribution and sale of electricity and the sale and transportation of natural gas in the southwestern portion of Ohio. Duke Energy Ohio provides/receives operation, maintenance and construction services to/from Duke Energy Kentucky.

**Duke Energy Kentucky, Inc. Affiliates**

**KO Transmission Company** - KO Transmission Company owns an interest in a 90-mile natural gas pipeline. This interest includes a 45.29% interest in 70 miles of the pipeline and a 100% interest in the remaining 20 miles. KO Transmission Company also has a 100% interest in a 2¼ mile natural gas pipeline that transports gas from southeast Kentucky northward to the service territory of Duke Energy Kentucky. Duke Energy Kentucky provides operation and maintenance services to KO Transmission Company.

**Utility**

**Duke Energy Indiana, Inc.** – Duke Energy Indiana is engaged in the production, transmission, distribution and sale of electricity in north central, central and southern Indiana. Duke Energy Indiana provides/receives incidental operation, maintenance and construction services to/from Duke Energy Kentucky.

**Non-Utility**

**Miller Pipeline Corporation** - performs natural gas and water distribution and transmission construction, repair and rehabilitation services. Miller Pipeline Corporation provides maintenance and construction services to Duke Energy Kentucky.

**Cinergy Marketing & Trading, LP** - purchases, stores and sells natural gas at wholesale and also engages in the trading of derivative commodity instruments. Cinergy Marketing & Trading provides the management of Duke Energy Kentucky's interstate pipeline transportation, storage capacity, and gas supply contracts.

**Duke Energy One, Inc.** - was formed for the purpose of providing non-regulated products, services, and/or activities. Duke Energy Kentucky personnel provide installation and maintenance services to Duke Energy One, Inc.

**Duke Energy Shared Services, Inc.** - A wholly-owned subsidiary service company of Duke Energy, which provides a variety of administrative, management and support services to Duke Energy's utility and non-utility subsidiaries.

**Cinergy Solutions-Utility, Inc.** - provides engineering, construction, operation and maintenance services for utility systems and infrastructure. Duke Energy Kentucky personnel provide development, operation and maintenance services to Cinergy Solutions-Utility, Inc.

**WITNESS RESPONSIBLE:** Carol E. Shrum

Subsidiary Listing

As of December 31, 2005, the following is a listing of the subsidiaries of each registrant in which Cinergy Corp. has a greater than 10% ownership interest in and their state or country of incorporation or organization indented to show degree of remoteness from registrant.

Name of Company (Indentation indicates subsidiary relationship)	State or Country of Organization or Incorporation
Cinergy Corp. (1)	Delaware
Cinergy Services, Inc.	Delaware
CC Funding Trust I	Delaware
CC Funding Trust II	Delaware
Cinergy Receivables Company LLC	Delaware
Cinergy Risk Solutions Ltd.	Vermont
The Cincinnati Gas & Electric Company (1)	Ohio
Cinergy Power Investments, Inc.	Ohio
The Union Light, Heat and Power Company (1)	Kentucky
Tri-State Improvement Company	Ohio
Miami Power Corporation	Indiana
KO Transmission Company	Kentucky
PSI Energy, Inc. (1)	Indiana
South Construction Company, Inc.	Indiana
Cinergy Investments, Inc.	Delaware
Cinergy-Cadence, Inc.	Indiana
Cadence Network, Inc.	Delaware
Cinergy Capital & Trading, Inc.	Indiana
Brownsville Power I, LLC	Delaware
Caledonia Power I, LLC	Delaware
CinPower I, LLC	Delaware
Cinergy Canada, Inc.	Canada
Cinergy Climate Change Investments, LLC	Delaware
Cinergy Limited Holdings, LLC	Delaware
Cinergy Marketing & Trading, LP	Delaware
Ohio River Valley Propane, LLC	Delaware
Cinergy General Holdings, LLC	Delaware
Cinergy Mexico Limited, LLC	Delaware
Cinergy Mexico Holdings, L.P.	Delaware
Cinergy Mexico Marketing & Trading, LLC	Delaware
Cinergy Mexico General, LLC	Delaware
Cinergy Retail Power Limited, Inc.	Delaware
Cinergy Retail Power, L.P.	Delaware
Cinergy Retail Power General, Inc.	Texas
Cinergy Retail Sales, LLC	Delaware
CinFuel Resources, Inc.	Delaware
LH1, LLC	Delaware

(1) Companies indicated are registrants with the Securities and Exchange Commission.

Name of Company (Indentation indicates subsidiary relationship)	State or Country of Organization or Incorporation
Oak Mountain Products, LLC	Delaware
<b>Pine Mountain Investments, LLC</b>	Delaware
Pine Mountain Products, LLC	Delaware
SYNCAP II, LLC	Delaware
<b>Cinergy Telecommunications Holding Company, Inc.</b>	Delaware
<b>Q-Comm Corporation</b>	Nevada
QCC, Inc.	Nevada
Cinergy Communications Company	Kentucky
Cinergy MetroNet, Inc.	Indiana
<b>Kentucky Data Link, Inc.</b>	Kentucky
Chattanooga Data Link, Inc.	Tennessee
Cincinnati Data Link, Inc.	Ohio
Cinergy Telecommunication Networks – Indiana, Inc.	Indiana
Cinergy Telecommunication Networks – Ohio, Inc.	Ohio
Indianapolis Data Link, Inc.	Indiana
KDL Holdings, LLC	Delaware
Knoxville Data Link, Inc.	Tennessee
Lexington Data Link, Inc.	Kentucky
Louisville Data Link, Inc.	Kentucky
Memphis Data Link, Inc.	Tennessee
Nashville Data Link, Inc.	Tennessee
<b>Lattice Communications, LLC</b>	Delaware
LB Tower Company, LLC	Delaware
Cinergy Engineering, Inc.	Ohio
Cinergy-Centrus, Inc.	Delaware
Cinergy-Centrus Communications, Inc.	Delaware
<b>Cinergy Solutions Holding Company, Inc.</b>	Delaware
<b>3036243 Nova Scotia Company</b>	Canada
Cinergy Solutions Limited Partnership	Canada
1388368 Ontario Inc.	Canada
<b>Cinergy Solutions – Demand, Inc.</b>	Delaware
<b>Cinergy Solutions – Demand, Ltd.</b>	Canada
Keen Rose Technology Group Limited	Canada
Optimira Controls, Inc.	Canada
Cinergy EPCOM College Park, LLC	Delaware
<b>Cinergy Solutions, Inc.</b>	Delaware
<b>BSPE Holdings, LLC</b>	Delaware
<b>BSPE Limited, LLC</b>	Delaware
BSPE, L.P.	Delaware
BSPE General, LLC	Texas
Bullard Energy Center, LLC	Delaware
<b>Cinergy Energy Solutions, Inc.</b>	Delaware
<b>U.S. Energy Biogas Corp.</b>	Delaware
<b>Biogas Financial Corporation</b>	Connecticut
<b>ZFC Energy Inc.</b>	Delaware
<b>Power Generation (Suffolk), Inc.</b>	Delaware
Suffolk Energy Partners, L.P.	Virginia
Suffolk Biogas, Inc.	Delaware
Lafayette Energy Partners, L.P.	New Jersey
Taylor Energy Partners, L.P.	Pennsylvania
<b>Resources Generating Systems, Inc.</b>	New York
Hoffman Road Energy Partners, LLC	Delaware
<b>Illinois Electrical Generation Partners, L.P.</b>	Delaware
Zapco Illinois Energy, Inc.	Delaware
Avon Energy Partners, L.L.C.	Illinois
Devonshire Power Partners, L.L.C.	Illinois
Riverside Resource Recovery, L.L.C.	Illinois

Name of Company  
 (Indentation indicates subsidiary relationship)

State or Country of  
 Organization or  
 Incorporation

<b>Illinois Electrical Generation Partners II L.P.</b>	Delaware
<b>BMC Energy, LLC</b>	Delaware
Brookhaven Energy Partners, LLC	New York
Countryside Genco, L.L.C.	Delaware
Morris Genco, L.L.C.	Delaware
Brickyard Energy Partners, LLC	Delaware
Dixon/Lee Energy Partners, LLC	Delaware
Roxanna Resource Recovery, L.L.C.	Illinois
Streator Energy Partners, LLC	Delaware
Upper Rock Energy Partners, LLC	Delaware
Barre Energy Partners, L.P.	Delaware
Biomass New Jersey, L.L.C.	New Jersey
Brown County Energy Associates, LLC	Delaware
Burlington Energy, Inc.	Vermont
Cape May Energy Associates, L.P.	Delaware
Dunbarton Energy Partners, Limited Partnership	New Hampshire
Garland Energy Development, LLC	Delaware
Oceanside Energy Inc.	New York
Onondaga Energy Partners, L.P.	New York
Oyster Bay Energy Partners, L.P.	New York
Smithtown Energy Partners, L.P.	New York
Springfield Energy Associates, Limited Partnership	Vermont
Suffolk Transmission Partners, L.P.	Delaware
Tucson Energy Partners LP	Delaware
Zapco Broome Nanticoke Corp.	New York
Zapco Development Corporation	Delaware
Zapco Energy Tactics Corporation	Delaware
Zapco Readville Cogeneration, Inc.	Delaware
ZFC Royalty Partners, A Connecticut Limited Partnership	Connecticut
ZMG, Inc.	Delaware
<b>Cinergy GASCO Solutions, LLC</b>	Delaware
Countryside Landfill Gasco, L.L.C.	Delaware
Morris Gasco, L.L.C.	Delaware
Brown County Landfill Gas Associates, L.P.	Delaware
Cinergy Solutions of Monaca, LLC	Delaware
Cinergy Solutions of Narrows, LLC	Delaware
Cinergy Solutions of Rock Hill, LLC	Delaware
Cinergy Solutions of San Diego, Inc.	Delaware
Cinergy Solutions of South Charleston, LLC	Delaware
Cinergy Solutions of St. Bernard, LLC	Delaware
Cinergy Solutions O&M, LLC	Delaware
Cinergy Solutions Operating Services of Delta Township, LLC	Delaware
Cinergy Solutions Operating Services of Lansing, LLC	Delaware
Cinergy Solutions Operating Services of Shreveport, LLC	Delaware
Cinergy Solutions Operating Services of Oklahoma, LLC	Delaware
Cinergy Solutions of Philadelphia, LLC	Delaware
<b>Cinergy Solutions Partners, LLC</b>	Delaware
<b>CST Limited, LLC</b>	Delaware
<b>CST Green Power, L.P.</b>	Delaware
<b>Green Power Holdings, LLC</b>	Delaware
<b>Green Power Limited, LLC</b>	Delaware
South Houston Green Power, L.P.	Delaware
Green Power G.P., LLC	Texas
CST General, LLC	Texas
CSGP of Southeast Texas, LLC	Delaware
<b>CSGP Limited, LLC</b>	Delaware
CSGP Services, L.P.	Delaware

Name of Company (Indentation indicates subsidiary relationship)	State or Country of Organization or Incorporation
CSGP General, LLC	Texas
Lansing Grand River Utilities, LLC	Delaware
Oklahoma Arcadian Utilities, LLC	Delaware
Panoche Energy Center, LLC	Delaware
Shreveport Red River Utilities, LLC	Delaware
Cinergy Solutions of Tuscola, Inc.	Delaware
Delta Township Utilities, LLC	Delaware
Delta Township Utilities II, LLC	Delaware
Energy Equipment Leasing LLC	Delaware
Trigen-Cinergy Solutions LLC	Delaware
Trigen-Cinergy Solutions of Ashtabula LLC	Delaware
Cinergy Solutions of Boca Raton, LLC	Delaware
Cinergy Solutions of Cincinnati, LLC	Ohio
Cinergy Solutions - Utility, Inc.	Delaware
<b>Trigen-Cinergy Solutions of Lansing LLC</b>	Delaware
Trigen/Cinergy-USFOS of Lansing LLC	Delaware
Trigen-Cinergy Solutions of Orlando LLC	Delaware
Trigen-Cinergy Solutions of Owings Mills LLC	Delaware
Owings Mills Energy Equipment Leasing, LLC	Delaware
Trigen-Cinergy Solutions of Rochester LLC	Delaware
Trigen-Cinergy Solutions of Silver Grove LLC	Delaware
<b>Cinergy Solutions of St. Paul, LLC</b>	Delaware
Environmental Wood Supply, LLC	Minnesota
St. Paul Cogeneration LLC	Minnesota
Trigen-Cinergy Solutions of Tuscola, LLC	Delaware
<b>Cinergy Supply Network, Inc.</b>	Delaware
<b>Reliant Services, LLC</b>	Indiana
MP Acquisitions Corp., Inc.	Indiana
Miller Pipeline Corporation	Indiana
Fiber Link, LLC	Indiana
Cinergy Technology, Inc.	Indiana
<b>Cinergy Global Resources, Inc.</b>	Delaware
Cinergy UK, Inc.	Delaware
<b>Cinergy Global Power, Inc.</b>	Delaware
CGP Global Greece Holdings, SA	Greece
Attiki Denmark ApS	Denmark
Attiki Gas Supply Company SA	Greece
Cinergy Global Ely, Inc.	Delaware
Cinergy Global Power Services Limited	England
<b>Cinergy Global Power (UK) Limited</b>	England
<b>Cinergy Global Trading Limited</b>	England
Cinergy Global Hellas S.A.	Greece
Commercial Electricity Supplies Limited	England
UK Electric Power Limited	England
Cinergy Global Power Iberia, S.A.	Spain
<b>Cinergy Global Holdings, Inc.</b>	Delaware
<b>Cinergy Holdings B.V.</b>	The Netherlands
<b>Cinergy Zambia B.V.</b>	The Netherlands
<b>Copperbelt Energy Corporation PLC</b>	Republic of Zambia
Power Sports Limited	Republic of Zambia
<b>Cinergy Global (Cayman) Holdings, Inc.</b>	Cayman Islands
<b>Cinergy Global Tsavo Power</b>	Cayman Islands
<b>IPS-Cinergy Power Limited</b>	Kenya
Tsavo Power Company Limited	Kenya
eVent Resources Overseas I, LLC	Delaware
Midlands Hydrocarbons (Bangladesh) Limited	England



Name of Company (Indentation indicates subsidiary relationship)	State or Country of Organization or Incorporation
Cinergy Global Power Africa (Proprietary) Limited	South Africa
<b>CinTec LLC</b>	Delaware
CinTec I LLC	Delaware
eVent Resources I LLC	Delaware
eVent Resources Holdings LLC	Delaware
CinTec II LLC	Delaware
<b>Cinergy Technologies, Inc.</b>	Delaware
Cinergy Broadband, LLC	Delaware
CCB Communications, LLC	Delaware
CCB Indiana, LLC	Delaware
CCB Kentucky, LLC	Delaware
CCB Ohio, LLC	Delaware
ACcess Broadband, LLC	Delaware
<b>Cinergy Ventures, LLC</b>	Delaware
Configured Energy Systems, Inc.	Delaware
Maximum Performance Group, Inc.	Delaware
<b>Cinergy Ventures II, LLC</b>	Delaware
Catalytic Solutions, Inc.	California
Electric City Corp.	Delaware
Cinergy e-Supply Network, LLC	Delaware
Cinergy One, Inc.	Delaware
Cinergy Two, Inc.	Delaware
<b>Cinergy Wholesale Energy, Inc.</b>	Ohio
Cinergy Power Generation Services, LLC	Delaware
Cinergy Origination & Trade, LLC	Delaware
<b>Cinergy Foundation, Inc.</b>	Indiana

EXHIBIT 21

LIST OF SUBSIDIARIES

The following is a list of certain subsidiaries (greater than 50% owned) of the registrant and their respective states or countries of incorporation:

1780, LLC (Delaware)	Copiah Storage, LLC (Delaware)
280464 Ontario Limited (Canada (Ontario))	Cornerstone Plaza, LLC (Florida)
Advance SC LLC (South Carolina)	Cougar Acquisition Corp. (Delaware)
Aguaytia Energy del Peru S.R. Ltda (Peru)	Coyanosa Gas Plant, Gathering and Wolfcamp Unit JV
Algonquin Gas Transmission, LLC (Delaware)	Crescent/Arizona (North Carolina)
American Natural Gas Corporation (Colorado)	Crescent/Georgia (Georgia)
Associated Louisiana Intrastate Pipe Line, LLC (Delaware)	Crescent/RGI Capital, LLC (North Carolina)
Ballantyne Properties, LLC (North Carolina)	Crescent Bartram Park, LLC (Florida)
Bartram Lakes, LLC (Delaware)	Crescent Commonwealth Center, LLC (Delaware)
Beaver Gas Services LLC (Delaware)	Crescent Communities N.C., LLC (Delaware)
Belfort 36, LLC (Delaware)	Crescent Communities Realty, LLC (North Carolina)
Belfort Developers, LLC (Delaware)	Crescent Communities S.C., LLC (Delaware)
Bison Insurance Company Limited (Bermuda)	Crescent Land & Timber, LLC (Delaware)
Black Forest on Lake James, LLC (Delaware)	Crescent Potomac Greens, LLC (Delaware)
Bridgeport Energy LLC (Delaware)	Crescent Potomac Plaza, LLC (Delaware)
Bridgewater Lakeland Developers, LLC (Delaware)	Crescent Potomac Properties, LLC (Delaware)
Brookeland Plant and Gathering System JV	Crescent Potomac Yard, LLC (Delaware)
Brookeland Residue Redelivery Facility	Crescent Potomac Yard Development, LLC (Delaware)
Caldwell Power Company (North Carolina)	Crescent Realty, LLC (North Carolina)
Camp Lake James, LLC (Delaware)	Crescent Realty Advisors, LLC (Delaware)
Carolina Centers, LLC [a Delaware LLC] (Delaware)	Crescent Resources, LLC (Georgia)
Carolina Centers, LLC [a North Carolina LLC] (North Carolina)	Crescent Resources Marketing Services, LLC (Delaware)
Casco Bay Energy Company, LLC (Delaware)	Crescent Resources Registration Services, LLC (Delaware)
Catawba Manufacturing and Electric Power Company (North Carolina)	Crescent River, LLC (Georgia)
Cedar Lake, LLC (Delaware)	Crescent Seminole, LLC (Florida)
Centana Gathering, LLC (Delaware)	Crescent Southeast Club, LLC (Delaware)
Centana Intrastate Pipeline, LP (Delaware)	Crescent Twin Creeks, LLC (North Carolina)
Centana Oil Gathering, LLC (Delaware)	Crescent Yacht Club, LLC f/k/a Peninsula Yacht Club, LLC (Delaware)
Centra Gas Toluca S. De R L. De D V. (Mexico)	Crockett NGL Pipeline JV
Chambers County Land Company (Delaware)	CSCC Holdings Limited Partnership (Canada (British Columbia))
Chaparral Pines Management, LLC (Arizona)	D/FD Bridgeport Operations, LLC (Delaware)
Charlotte Cotton Mill, LLC (North Carolina)	D/FD Cokenergy Operations, LLC (Delaware)
Claiborne Energy Services, Inc. (Louisiana)	D/FD Enterprises, LLC (Delaware)
Clean Energy Genco, Inc (Delaware)	D/FD Equipment Company LLC (Delaware)
Clean Energy Partners Limited Partnership (Delaware)	D/FD Foreign Sales Corporation (Barbados)
Clean Water of NC, LLC (North Carolina)	D/FD Grays Harbor, LLC (Delaware)
CLT Development, LLC (Delaware)	D/FD International Services Brasil Ltda (Brazil)
Club Capital, LLC (North Carolina)	D/FD Kentucky (Delaware)
Club Enterprises LLC (Delaware)	D/FD Operating Services LLC (Delaware)
Colbert Lane Commercial, LLC (Delaware)	Dauphin Island Gathering Partners
Comercializadora Duke Energy de Centro America, Limitada (Guatemala)	Dauphin Island Gathering System, LLC (Delaware)

DCP Assets Holding, LP (Delaware)  
DCP Assets Holdings GP, LLC (Delaware)  
DCP Black Lake Holdings, LP (Delaware)  
DCP LP Holdings, LP (Delaware)  
DCP Midstream GP, LLC (Delaware)  
DCP Midstream GP, LP (Delaware)  
DCP Midstream Operating, LLC (Delaware)  
DCP Midstream Operating, LP (Delaware)  
Deer Acquisition Corp. (North Carolina)  
DE Fossil-Hydro Engineering, Inc. (North Carolina)  
DEFS Anadarko Gathering, LP (Delaware)  
DEFS Austin Gathering, LP (Delaware)  
DEFS Canada Investments L.P. (Canada (Alberta))  
DEFS Canada L.P. (Canada (Alberta))  
DEFS Holding, LLC (Delaware)  
DEFS Holding 1, LLC (Delaware)  
DEFS Industrial Gas, LLC (Delaware)  
DEFS Interstate Pipeline, LP (Delaware)  
DEFS Raptor Pipeline, LLC (Delaware)  
DEFS Wyoming, LLC (Delaware)  
DEGT Empress U.S. Corporation (Delaware)  
DEGT Midstream Holdings Corporation (Canada (Nova Scotia ULC))  
DEGT Midstream Holdings Partnership (Alberta, Canada)  
DEGT Midstream Management Corporation (Canada (Nova Scotia))  
DEGT Midstream Partner Corporation (Canada (Nova Scotia ULC))  
DEHLP Management Inc. (Canada)  
DE Marketing Canada Ltd. (Canadian Federal)  
DENA Asset Partners, L.P. (Delaware)  
DENA Partners Holding, LLC (Delaware)  
DENA Texas Management, LLC (Delaware)  
DENA Trading Partners, L.P. (Delaware)  
DE Nuclear Engineering, Inc. (North Carolina)  
DE Operating Services, LLC (Delaware)  
DE Power Generating, LLC (Delaware)  
DETM Management, Inc. (Colorado)  
DETM Marketing Northeast, LLC (Delaware)  
DFD Operating Plant Services, LLC (Delaware)  
DFD Plant Services, LLC (Delaware)  
Discovery Gas Transmission LLC (Delaware)  
Dixilyn-Field (Nigeria) Limited (Nigeria)  
Dixilyn-Field Drilling Company (Delaware)  
Dixilyn-Field International Drilling Company, S.A. (Panama)  
DTMSI Management Ltd. (Alberta, Canada)  
Duke/Fluor Daniel (North Carolina)  
Duke/Fluor Daniel Caribbean, S.E. (Puerto Rico)  
Duke/Fluor Daniel Development Services LLC (Nevada)  
Duke/Fluor Daniel International (Nevada)  
Duke/Fluor Daniel International Services (Nevada)  
Duke/Fluor Daniel International Services (Trinidad) Ltd. (Trinidad And Tobago)  
Duke/Fluor Daniel LLC (Nevada)  
Duke/Louis Dreyfus L.L.C. (Nevada)  
Duke Bridgeport Energy, LLC (Delaware)  
Duke Canada Ltd. (Alberta, Canada)  
Duke Capital LLC (Delaware)  
Duke Capital Partners, LLC (Delaware)  
Duke Communication Services, Inc. (North Carolina)  
Duke Communication Services Caribbean Ltd. (Bermuda)  
Duke Energy Administrative Services, Inc. (Delaware)  
Duke Energy Allowance Management, LLC (Delaware)  
Duke Energy Americas, LLC (Delaware)  
Duke Energy Arlington Valley, LLC (Delaware)  
Duke Energy Business Services LLC (Delaware)  
Duke Energy Canada Call Co. (Canada (Nova Scotia))  
Duke Energy Canada Exchangeco Inc. (Canada)  
Duke Energy Capital of Texas, Inc. (Delaware)  
Duke Energy County Line, LLC (Delaware)  
Duke Energy Design Supplier, Inc. (Delaware)  
Duke Energy Development Pty Ltd (Australia)  
Duke Energy Egenor S. en C. por A. (Peru)  
Duke Energy Electroquil Partners (Delaware)  
Duke Energy Empress L.P. (Alberta, Canada)  
Duke Energy Empress Management Inc. (Canada)  
Duke Energy Enterprises Corporation (Delaware)  
Duke Energy Equipment Partners, L.P. (Delaware)  
Duke Energy Facilities Holdings Partnership (Alberta, Canada)  
Duke Energy Facilities Inc. (Canada)  
Duke Energy Facilities LP (Alberta, Canada)  
Duke Energy Facilities Management Inc. (Canada)  
Duke Energy Fayette, LLC (Delaware)  
Duke Energy Field Services, LLC (Delaware)  
Duke Energy Field Services, LP (Delaware)  
Duke Energy Field Services Canada (Canada (Alberta))  
Duke Energy Field Services Canada Holdings, Inc. (Delaware)  
Duke Energy Field Services Marketing, LP (Delaware)  
Duke Energy Finance Canada Limited Partnership (Alberta, Canada)  
Duke Energy Financial Services, LP (Delaware)  
Duke Energy Fossil-Hydro, LLC (Delaware)  
Duke Energy Fossil-Hydro California (Delaware)  
Duke Energy Gas Services, LLC (Delaware)  
Duke Energy Gas Transmission, LLC (Delaware)  
Duke Energy Gas Transmission Resources, Inc. (Delaware)  
Duke Energy Gas Transmission Resources, LLC (Delaware)

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Duke Energy Gas Transmission Services, LLC (Delaware)	Duke Energy International El Salvador Investments No. 1 S.A. de C.V. (El Salvador)
Duke Energy Generating S.A. (Argentina)	Duke Energy International Espana Holdings, S.L. (Spain)
Duke Energy Generation Services, LLC (Delaware)	Duke Energy International Finance (UK) Limited (United Kingdom)
Duke Energy Global Markets, Inc. (Nevada)	Duke Energy International Guatemala Holdings No. 1, Ltd. (Bermuda)
Duke Energy Greenleaf, LLC (Delaware)	Duke Energy International Guatemala Holdings No. 2, Ltd. (Bermuda)
Duke Energy Group, LLC (Delaware)	Duke Energy International Guatemala Holdings No. 3 (Cayman Islands)
Duke Energy Group Holdings, LLC (Delaware)	Duke Energy International Guatemala Limitada (Guatemala)
Duke Energy GS Funding Company (Delaware)	Duke Energy International Guatemala y Compania Sociedad en Comandita por Acciones (Guatemala)
Duke Energy Guadalupe Pipeline, LLC (Delaware)	Duke Energy International Investments No. 2 Ltd. (Bermuda)
Duke Energy Guadalupe Pipeline Holdings, Inc. (Delaware)	Duke Energy International Latin America, Ltd. (Bermuda)
Duke Energy Hanging Rock, LLC (Delaware)	Duke Energy International Mexico, S.A. de C.V. (Mexico)
Duke Energy Hinshaw Pipeline, LLC (Delaware)	Duke Energy International Netherlands Financial Services B.V. (Netherlands)
Duke Energy Holding Corp. (Delaware)	Duke Energy International Operaciones Guatemala Limitada (Guatemala)
Duke Energy Hydrocarbons Canada Limited Partnership (Canada)	Duke Energy International Peru Inversiones No. 1, S.R.L. (Peru)
Duke Energy Hydrocarbons Investments Ltd. (Alberta, Canada)	Duke Energy International Peru Investments No. 1, Ltd. (Bermuda)
Duke Energy Interamerican Holding Company LDC (Cayman Islands)	Duke Energy International PJP (Ireland) Holdings (Ireland)
Duke Energy International, Brasil Ltda. (Brazil)	Duke Energy International PJP Holdings, Ltd. (Bermuda)
Duke Energy International, Geracao Paranapanema S.A. (Brazil)	Duke Energy International PJP Holdings (Mauritius) Ltd. (Republic of Mauritius)
Duke Energy International, Inc. (North Carolina)	Duke Energy International Pty Ltd (Australia)
Duke Energy International, LLC (Delaware)	Duke Energy International Services (UK) Limited (United Kingdom)
Duke Energy International (Europe) GmbH (Germany)	Duke Energy International Southern Cone SRL (Argentina)
Duke Energy International (Europe) Holdings ApS (Denmark)	Duke Energy International Trading and Marketing (UK) Limited (United Kingdom)
Duke Energy International (Europe) Limited (United Kingdom)	Duke Energy International Transmission Guatemala Limitada (Guatemala)
Duke Energy International Acquisition Vehicle No. 6 Ltd. (Bermuda)	Duke Energy International Uruguay Holdings, LLC (Delaware)
Duke Energy International Argentina Holdings (Cayman Islands)	Duke Energy International Uruguay Investments, S.R.L. (Uruguay)
Duke Energy International Argentina Marketing/Trading (Bermuda) Ltd. (Bermuda)	Duke Energy Intrastate Network, L.L.C. (Delaware)
Duke Energy International Asia Pacific Ltd. (Bermuda)	Duke Energy Intrastate Pipeline, LLC (Delaware)
Duke Energy International Bolivia Holdings No. 1, LLC (Delaware)	Duke Energy Islander East Pipeline Company, L.L.C. (Delaware)
Duke Energy International Bolivia Investments No. 1 Limited (Cayman Islands)	Duke Energy Lantana, LLC (Delaware)
Duke Energy International Bolivia Investments No. 2 Limited (Cayman Islands)	Duke Energy Lavaca, Inc. (Delaware)
Duke Energy International Brasil Commercial, Ltda. (Brazil)	Duke Energy Lee, LLC (Delaware)
Duke Energy International Brasil Holdings, LLC (Delaware)	Duke Energy Lee Holding, Inc. (Delaware)
Duke Energy International del Ecuador Cia. Ltda. (Ecuador)	Duke Energy LNG Sales, Inc. (Delaware)
Duke Energy International Electroquill Holdings, LLC (Delaware)	Duke Energy Marketing America, LLC (Delaware)
Duke Energy International El Salvador, S en C de CV (El Salvador)	Duke Energy Marketing Canada Corp. (Delaware)
Duke Energy International El Salvador Comercializadora de El Salvador, S.A. de C.V. (El Salvador)	Duke Energy Marketing Corp. (Nevada)
Duke Energy International El Salvador Investments No. 1 Ltd (Bermuda)	Duke Energy Marketing Limited Partnership (Alberta, Canada)

Duke Energy Merchant Finance, LLC (Delaware)  
Duke Energy Merchants, LLC (Delaware)  
Duke Energy Merchants Investments (UK) Limited (England and Wales)  
Duke Energy Merchants Trading and Marketing (UK) Limited (England)  
Duke Energy Merchants UK LLP (England and Wales)  
Duke Energy Midstream Services Canada Corporation (Canada (Nova Scotia ULC))  
Duke Energy MNEP Holdings Limited Partnership (Canada (British Columbia))  
Duke Energy Moapa, LLC (Delaware)  
Duke Energy Mohave, LLC (Delaware)  
Duke Energy Morro Bay LLC (Delaware)  
Duke Energy Moss Landing LLC (Delaware)  
Duke Energy Mulberry, LLC (Delaware)  
Duke Energy Murray Operating, LLC (Delaware)  
Duke Energy Natural Gas, LLC (Delaware)  
Duke Energy Natural Gas Corporation (Delaware)  
Duke Energy NGL Operating, LLC (Delaware)  
Duke Energy NGL Services, LP (Delaware)  
Duke Energy North America, LLC (Delaware)  
Duke Energy Northeast Transmission Company (Delaware)  
Duke Energy Northern Investments Corporation (Canada (Nova Scotia ULC))  
Duke Energy Nova Scotia Holdings Co (Canada (Nova Scotia))  
Duke Energy Oakland LLC (Delaware)  
Duke Energy Operating Company, LLC (Delaware)  
Duke Energy Peru Holdings S.R.L. (Peru)  
Duke Energy Power Assets Holding, Inc. (Colorado)  
Duke Energy Providence, LLC (Delaware)  
Duke Energy Receivables Finance Company, LLC (Delaware)  
Duke Energy Registration Services, Inc. (Delaware)  
Duke Energy Risk Services, L.L.C. (Delaware)  
Duke Energy Royal, LLC (Delaware)  
Duke Energy Services, Inc. (Delaware)  
Duke Energy Services Canada Ltd (Canada (Alberta))  
Duke Energy Services Ireland Limited (Republic of Ireland)  
Duke Energy South Bay, LLC (Delaware)  
Duke Energy Southeast Pipeline Corporation (Delaware)  
Duke Energy St. Francis, LLC (Delaware)  
Duke Energy Supply Chain Services, LLC (Delaware)  
Duke Energy Texas Intrastate Pipeline, LLC (Delaware)  
Duke Energy Trading and Marketing, L.L.C. (Delaware)  
Duke Energy Trading Exchange, LLC (Delaware)  
Duke Energy Transport and Trading Company, LLC (Colorado)  
Duke Energy Trenton, LLC (Delaware)  
Duke Energy Vermillion, LLC (Delaware)  
Duke Energy Washington, LLC (Delaware)  
Duke Energy Westheimer, LP (Delaware)  
Duke Engineering & Services (Europe) Inc. (Delaware)  
Duke Engineering & Services International, Inc. (Cayman Islands)  
Duke Java, Inc. (Nevada)  
DukeNet Communications, LLC (Delaware)  
Duke Project Services, Inc. (North Carolina)  
Duke Project Services Australia Pty Ltd (Australia)  
Duke Project Services Funding Corp. (Delaware)  
Duke Project Services Group, Inc. (Delaware)  
Duke Project Services Investments, LLC (Delaware)  
Duke Project Services Texas, LP (Delaware)  
DukeSolutions/Evendale, LLC (North Carolina)  
Duke Trading Do Brasil Ltda. (Brazil)  
Duke Ventures, LLC (Nevada)  
East Hampton GP, LLC (Delaware)  
East Hampton Limited Partnership (Florida)  
Eastman Whipstock, S.A. (Argentina)  
Eastman Whipstock do Brasil Ltda. (Brazil)  
Eastover Land Company (Kentucky)  
Eastover Mining Company (Kentucky)  
EasTrans Limited Partnership (Texas)  
East Tennessee Natural Gas, LLC (Tennessee)  
ED Services, LLC (Delaware)  
Egan Hub Storage, LLC (Delaware)  
Electroguayas, Inc. (Cayman Islands)  
Electroquill, S.A. (Guayaquil, Ecuador)  
Energy Pipelines International Company (Delaware)  
Engage Energy Canada, L.P. (Alberta, Canada)  
Engage Energy Canada Co (Canada (Nova Scotia))  
Entryway Developers, LLC (Delaware)  
Eteselva S. R. L. (Peru)  
Fort Drum Cogenco, Inc. (New York)  
Fort Frances Cogeneration L.P. (Ontario)  
Fort Frances Cogeneration Management Inc. (Canada—Federal Laws)  
Fort Walton Development, LLC (Delaware)  
FP Real Estate One, LLC (Arizona)  
Fuels Acquisition Company Operating LLC (Delaware)  
Fuels Cotton Valley Gathering, LP (Delaware)  
Gardens of Bridgehampton, LLC (Delaware)  
Gas Integral S.R.L. (Peru)  
Generadora La Laguna Duke Energy International Guatemala y Cia., S.C.A. (Guatemala)  
General Gas Company, LP (Texas)

GNE Holdings, L L C (Delaware)  
Gordondale West Plant  
Grand Haven Developers, LLC (Delaware)  
Grand Haven Golf Club, LLC (Delaware)  
Green Fields Investments, LLC (North Carolina)  
Greenville Gas and Electric Light and Power Company (South Carolina)  
Griffith Energy, LLC (Delaware)  
GSRI Transportation LLC (Texas)  
Gulf Coast NGL Pipeline, L L C. (Delaware)  
Hampton Ridge Developers LLC (Delaware)  
Hawk's Haven Developers, LLC (Delaware)  
Hawk's Haven Golf Course Community Developers, LLC (Delaware)  
Hawk's Haven Joint Development, LLC (Delaware)  
Hawk's Haven Sponsor, LLC (Delaware)  
Headwaters Development Limited Partnership (South Carolina)  
Hidroelectrica Cerros Colorado (Argentina)  
Houston Center Corporation (Delaware)  
IGC Aguaytia Partners, LLC (Cayman Islands)  
II Tryon Investment Trading Society (North Carolina)  
Inversiones Duke Bolivia S.A. (Bolivia)  
Iowa Plant JV  
iSpheres Corporation (Not a Duke company) (California)  
LandMar Group, LLC (Delaware)  
LandMar Management, LLC (Delaware)  
Lizacorp S.A. (Ecuador)  
M&N Management Company (Delaware)  
M&N Operating Company, LLC (Delaware)  
Maritimes & Northeast Pipeline, L L C. (Delaware)  
Maritimes & Northeast Pipeline Limited Partnership (Canada (New Brunswick))  
Maritimes & Northeast Pipeline Management Ltd. (Canada - Federal Laws)  
Market Hub Partners Canada L.P. (Canada (Ontario))  
Market Hub Partners Holding, LLC (Delaware)  
Market Hub Partners Management Inc. (Canada - Federal Laws)  
Masters Creek Louisiana Pipeline, LLC (Delaware)  
Masters Creek Plant and Gathering JV  
Masters Creek Residue Line JV  
May River Forest, LLC (South Carolina)  
May River Golf Club, LLC (South Carolina)  
McMahon Power Holdings Inc. (Canada (British Columbia))  
McMahon Power Holdings Limited Partnership (Canada (British Columbia))  
McNinch-Hill Investments, LLC (North Carolina)  
MCP, LLC (South Carolina)  
Midcontinent Pipeline Operating, LLC (Delaware)  
Milford Estates, LLC (North Carolina)  
Moss Bluff Hub Partners, L L C. (Delaware)  
Moss Bluff Hub Partners, L P. (Delaware)  
MP Supply, Inc. (North Carolina)  
National Helium, LLC (Delaware)  
NC Development & Design Company, LLC (Delaware)  
New Riverside, LLC (South Carolina)  
North Bank Developers, LLC (Delaware)  
North Hampton, LLC (Delaware)  
NorthSouth Insurance Company Limited (Bermuda)  
Oldfield, LLC (South Carolina)  
One Thirty-One Developers, LLC (Delaware)  
Osprey Cove Realty, LLC (Delaware)  
Osprey Development, LLC (Delaware)  
Overland Trail Transmission, LLC (Delaware)  
Ozona Gas Processing Plant (Texas)  
P.I.D.C. Aguaytia, L L C. (Delaware)  
Pablo Developers, LLC (Delaware)  
Palmetto Bluff Club, LLC (South Carolina)  
Palmetto Bluff Development, LLC (South Carolina)  
Palmetto Bluff Investments, LLC (South Carolina)  
Palmetto Bluff Lodge, LLC (South Carolina)  
Palmetto Bluff Real Estate Company, LLC (South Carolina)  
Palmetto Bluff Uplands, LLC (South Carolina)  
Panama City Development, LLC (Delaware)  
PanEnergy Colorado (Delaware)  
PanEnergy Corp (Delaware)  
PanEnergy Dauphin Island, LLC (Delaware)  
PanEnergy Development Company (Delaware)  
PanEnergy Exploration and Production (Peru) Ltd. (Bermuda)  
PanEnergy Louisiana Intrastate, LLC (Delaware)  
PanEnergy Mobile Bay Processing, LLC (Delaware)  
PanEnergy Services, Limited Partnership (Louisiana)  
Panhandle Acquisition Three, Inc. (Delaware)  
Panhandle Four, Inc. (Delaware)  
Pan Service Company (Delaware)  
Parkside Development, LLC (Florida)  
PCCD, LLC (Delaware)  
PEC Midwest, Inc. (Delaware)  
Pegasus Gas Plant & Gathering JV  
Pelmar Company (Delaware)  
Peru Energy Holdings, LLC (Delaware)  
Peru Energy Holdings Corporation (Cayman Islands)  
Petroleum Transmission Company (Canada)  
Piedmont Row Development, LLC (Delaware)

Ponce Developers, LLC (Delaware)  
Potomac Yard Holding Company, LLC (Delaware)  
Provident City Pipeline System P/S  
Rim Chaparral Pines Real Estate Services, LLC (Arizona)  
Rio Bravo Gas Systems, LLC (Delaware)  
River Paradise, LLC (Delaware)  
Roberts Road, LLC (Delaware)  
Sailview Properties, LLC (North Carolina)  
Saltville Gas Storage Company L.L.C. (Virginia)  
San Jacinto Gas Transmission Company (Texas)  
Seahorse do Brasil Servicos Maritimos Ltda (Brazil)  
Seddon Place Development, LLC (Delaware)  
Seven Corporate Centre Holding Company, LLC (Delaware)  
Six Mile Creek Ventures, LLC (Delaware)  
SLCD (Delaware)  
Southeastern Energy Services, Inc (Delaware)  
Southern Hills Plantation Golf Club, LLC (Delaware)  
Southern Hills Realty, LLC (Delaware)  
Southern Power Company (North Carolina)  
South Hampton GP, LLC (Delaware)  
South Village Developers, LLC (Delaware)  
Springfield Crescent, LLC (Delaware)  
St. Clair Pipelines (1996) Ltd. (Canada)  
St. Clair Pipelines L.P. (Canada)  
St. Clair Pipelines Management Inc (Canada)  
Stanton Gathering System  
StoneWater Bay Properties, LLC (North Carolina)  
Stratford on Howard Development, LLC (Delaware)  
Sugarloaf Country Club, LLC (Georgia)  
Sugarloaf Properties, LLC (Georgia)  
Sugarloaf Realty, LLC (Georgia)  
TEC Aguaytia, Ltd (Bermuda)  
TEPPCO Holdings, Inc. (Delaware)  
Termoselva S. R. L. (Peru)  
Texas Eastern (Bermuda) Ltd. (Bermuda)  
Texas Eastern Aircraft Holdings, LLC (Delaware)  
Texas Eastern Arabian Ltd. (Bermuda)  
Texas Eastern Communications, Inc (Delaware)  
Texas Eastern Cross Bay Company (Delaware)  
Texas Eastern Cryogenics, Inc (Delaware)  
Texas Eastern Oil Company (Delaware)  
Texas Eastern Slurry Transport Company (Delaware)  
Texas Eastern Terminal Company (Delaware)  
Texas Eastern Transmission, LP (Delaware)  
Texas-Louisiana Pipeline Company (Delaware)  
Texas-Louisiana Pipeline L.L.C. (Delaware)  
The Arlington Potomac Yard TMP Association (Virginia)  
The Club at Osprey Cove, LLC (Delaware)  
The Farms, LLC (North Carolina)  
The Golf Club at Chaparral Pines, LLC (Arizona)  
The Golf Club at North Hampton, LLC (Delaware)  
The Golf Club at South Hampton, LLC  
The Grand Club, LLC (Delaware)  
The Oldfield Realty Company, LLC (South Carolina)  
The Parks at Meadowview, LLC (Delaware)  
The Parks of Berkeley, LLC (Delaware)  
The Point on Norman, LLC (North Carolina)  
The Reserve, LLC (Delaware)  
The River Club Realty, LLC (Georgia)  
The Sanctuary at Lake Wylie, LLC (Delaware)  
Third & Fourth South Developers, LLC (Delaware)  
TPC Storage Holding Corp. (Delaware)  
Trout Creek Developers, LLC (Delaware)  
Trunkline Oil Pipeline Company (Delaware)  
Turbine Fleet Management, LLC (Delaware)  
Tussahaw Development, LLC (Georgia)  
Twin Creeks Holdings, Ltd (Texas)  
Twin Creeks Management LLC (Delaware)  
Twin Creeks Operating Company, LP (Texas)  
Twin Creeks Property, Ltd. (Texas)  
Two Lake Pony Farm, LLC (North Carolina)  
Tyvola Crossing Associates Limited Partnership (North Carolina)  
UEI Holdings (New Brunswick) Inc. (Canada)  
Union Gas Limited (Canada (Ontario))  
Union Services Inc. (Ontario)  
Union Utilities Inc. (Ontario)  
Union Water Inc. (Canada (Ontario))  
United LP Gas, LLC (Oklahoma)  
Upstate Land Co. LLC (South Carolina)  
Wateree Power Company (South Carolina)  
Webb Duval Gatherers Holding, LP (Delaware)  
WEI Financial Services LLC (Delaware)  
WEI Management Holdings LLC (Delaware)  
WEI Nova Scotia Holdings Inc (Canada (Nova Scotia))  
Weld County EP Properties, L.L.C. (Colorado)  
Westcoast Energy (U.S.) LLC (Delaware)  
Westcoast Energy Enterprises (U.S.) Inc. (Delaware)  
Westcoast Energy Inc. (Canada)  
Westcoast Energy International Inc (Canadian Federal)  
Westcoast Energy Ventures Inc. (Canada—Federal Laws)  
Westcoast Gas Services (U.S.A.) LLC (Delaware)  
Westcoast Gas Services Inc (Canadian Federal)

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Westcoast Indemnity Company Limited (Canada (British Columbia))  
Westcoast Transmission Company (Alberta) Ltd (Canada (Alberta))  
Westcoast Transmission Company Limited (Canada (British Columbia))  
Western Carolina Power Company (North Carolina)  
Winding River, LLC (Delaware)  
Wolfcamp Gathering & Comp





**KyPSC Staff First Set Data Requests  
Duke Energy Kentucky  
Case No. 2006-00172  
Date Received: May 17, 2006  
Response Due Date: June 14, 2006**

**KyPSC-DR-01-003**

**REQUEST:**

3. Provide a complete copy of the workpapers, calculations, and assumptions Duke Kentucky used to develop its electric operation's forecasted test-period financial information.

**RESPONSE:**

The workpapers are contained in Volume 13 of the Company's application. The calculations are reflected in the workpapers, and in the rate schedules contained with the application. The rate schedules are contained in Volumes 11 and 12 of the Company's application. The assumptions are described in the witnesses' testimony, particularly Mr. Davey's testimony, and at Volume 1, Tab 28 of the application.

**WITNESS RESPONSIBLE:** Brian P. Davey

**KyPSC Staff First Set Data Requests  
Duke Energy Kentucky  
Case No. 2006-00172  
Date Received: May 17, 2006  
Response Due Date: June 14, 2006**

**KyPSC-DR-01-004**

**REQUEST:**

4. Provide a complete copy of all of Duke Kentucky's internal accounting manuals, directives, and policies and procedures.

**RESPONSE:**

See Attachment KyPSC-DR-01-004.

<b>WITNESS RESPONSIBLE:</b> Dwight L. Jacobs:	Attachment KyPSC-DR-01-004 pages 1 - 720
Carol E. Shrum:	Attachment KyPSC-DR-01-004 pages 721 - 733
Carl J. Council, Jr.:	Attachment KyPSC-DR-01-004 pages 734 - 814
Lynn J. Good:	Attachment KyPSC-DR-01-004 pages 815 - 838
Keith G. Butler:	Attachment KyPSC-DR-01-004 pages 839 -1026D

## Chargeable Accounts - Corp 070

The Union Light, Heat and Power Company, d/b/a Duke Energy Kentucky ("Duke Kentucky")  
 CASE NO. 2006-00172

### LIST OF ACCOUNTS

Acctno	Acctdesc	Acctno	Acctdesc
101100	Common Plant in Service	142720	C/R-Temp Electric
101200	Gas Plant in Service	142800	A/R-Passport Interface
101300	Electric Plant in Service	142830	A/R-Merch/Jobb/Contract Work
101500	Plant In Service-Non-regulated	142880	Sale of Customer Receivables
101800	Reg Plant In Service ARO	142995	Native Deferred MTM Asset
101801	Gas Plant in Service ARO	143100	Other A/R-Miscellaneous
101850	NonReg Plant In Service ARO	143150	Other A/R-Misc Non-Utility
102000	Plant Purchased or Sold - Electric	143190	Other A/R-Employees / Officers
105300	Elec Plant Held Future Use	143200	Other A/R-Scrap Sales
105500	Non-reg Plant Held Future Use	143210	Other A/R-Emp Pay Safety Appl
106100	Completed Const Not Classified	143230	Other A/R-Payroll Adv
106200	Gas Comp Const Not Classified	143280	A/R-Group Insurance
106300	Elec Comp Const Not Classified	143350	Other A/R-Damages / Claims
106500	Nonreg Plt Com Const Not Class	143605	A/R-DPL CD/CCD Operations
107000	CWIP - Utility Plant	143650	A/R-DPL CD/CCDcapex
107500	Non-Reg CWIP - Electric	143730	Other A/R-EM Fuels
107530	Non-Reg CWIP - Other	143731	Other A/R-EA Penalties
108100	Common Accum Depreciation	143740	A/R - Tyrone Synfuel
108101	Common Accum Depreciation-COR	143755	A/R Wholesale Pwr - Actual
108200	Gas Accumulated Depreciation	143850	A/R-Trans - ED
108201	Gas Accum Depreciation COR	143852	A/R-Midwest ISO
108300	Electric Accum Prov Depreciation	143990	Other A/R-Fitness Center
108301	Elec Accum Depreciation COR	143995	A/R Wholesale Pwr - Estimate
108410	RWIP - Utility Plant	143997	A/R-SO2/NOx
108500	Accum Depreciation-Electric	143999	A/R-Brokering Activity
08540	Non-Reg RWIP Electric	144000	Acc Prov Uncoll A/R
108800	Accumulated Reserve ARO	144100	Acc Prov Uncoll Gov Asst
108801	Gas Accumulated Reserve ARO	144500	Uncoll-Misc Accts Receivable
108850	Nonutility Retirement WIP	145000	N/R-Affiliated Co
111100	Common Accum Depreciation	145890	N/R - Rp Cin Receivables
111200	Gas Accum Depreciation	146000	Intercompany A/R
111300	Electric Accum Depreciation	146005	Interco Accts Rec - Duke
111500	Non-Reg Accum Depreciation Elec	151196	Coal-MF 6 ULHP
121700	Non-Utility Property	151210	Oil-MF
122700	Non-Utility Accum Depreciation	151440	Gas - Woodsdale Station
124060	Invst-Pendleton County	151700	Coal-East Bend
124090	Invst-Campbell Co Bus Develop	151710	Oil-East Bend
124502	Deferred NOx Purchases - Timing	151720	Coal-EastBend DPL
124503	Deferred NOx Sales - Timing	151730	Oil-EastBend DPL
124504	Deferred NOx Purchases - Accounting	151750	Fuel Stk-Propane Inventory
124506	Deferred NOx Sales - Accounting	151780	Propane-Woods
124510	Deferred SO2 Purchases - Timing	154090	M&S Gas
124511	Deferred SO2 Sales - Timing	154100	M&S Common
124512	Deferred SO2 Purchases - Accounting	154110	M&S Electric
124513	Deferred SO2 Sales - Accounting	154140	Major Equipment
131001	Cash-PNC	154160	Consignment Material
131002	Cash-Fifth Third	154170	M&S East Bend Lime
131004	Cash-Huntington	154300	M&S Fuels and Misc
131006	Cash-Other	154400	M/E East Bend 100 CD
135000	Working Funds-Miscellaneous	154410	Minor Material
135210	Expense Advances	154510	Major Mat Being Rep or Convert
142020	Customer A/R-Utility Service	154550	Gas Turbines
142100	A/R-Govt Assistance	154620	Plant Material & Supply - Common CBU
142120	A/R-Reserve Capacity	154630	Plant Material & Supply - Electric CBU
42610	C/R-Payment Prot	154640	Material & Supplies Fuels and Misc - CBU
142710	C/R-Energy Diver	154770	M&S East Bend DPL

**Chargeable Accounts - Corp 070**

101300	Electric Plant in Service	142830	A/R-Merch/Jobb/Contract Work
154900	FOB Ship Point	189010	Unamort Loss On Reaquired Debt
154990	Reserve For Loss On Parts	190050	Accum Deferred FIT
158110	SO2 EA Inventory Current Native	190051	Accum Deferred FIT-OCI
158120	SO2 Allow Inv - NonCurr Native	190052	Accum Deferred SIT-OCI
158130	SO2 Allow Inv-Curr Non-Native	190053	Accum Deferred FIT-Plant
158140	SO2 Allow Inv-NonCurr NonNativ	190054	Accum Deferred SIT-Plant
158210	Curr Allow Invty - NOx Native	190150	Accum Deferred SIT
158220	Non-crmt Allow Invty - NOx Native	191400	Unrecovered Purch Gas Cost
163000	Stores Expense - Non Production	191800	Unrec Purch Gas - Unbilled Rev
163200	Stores Expense - East Bend	201000	Common Stock
163300	Stores Expense - Other Production	207000	Prem On Capital Stock Common
164110	Gas Stord Undrgrnd Crrnt Colum	208000	Donat Recvd From Stkhld
164120	Gas Stord Undrgrnd Crrnt-Tenn	208010	Donat Recvd From Stkhld Tax
165000	Prepayments	211110	PIC - Sharesaver
165010	Prepaid Insurance	216000	Unappropriated RE Bal
165055	Margin Dep FUTURES - Port Ops	216990	Unapp Ret Erngs-Curr Yr Net In
165210	Prepayments-Tax Pub Utly Comm	219100	OCI-Minimum Pension Liability
165370	Prepayments - Other	219101	OCI-Min Pension Liab -Fed Tax
165900	Prepayment - Coal	219102	OCI-Min Pension Liab-State Tx
165910	Prepayments - Fuel	219103	OCI-Min Pension Liab Qual Plan
173000	Accrued Utility Revenue	219104	OCI-Min Pen Liab-Fed Tax Qual
173950	Accounts Receivable-Sold	219105	OCI-Min Pen Liab-State Tx-Qual
175000	Energy Risk Mgmt Assets-Curr	221000	Current Portion of LTD
175004	ST - Coal MTM Reserve	224010	Long Term Debt
175304	LT - Coal MTM Reserve	226010	Unamortized Discount
181010	Unamort Debt Expense	227020	Noncurrent Capital Lease-Meter
181011	Unamort Debt Exp - Insurance	227021	Noncurrent Capital Lease - Other
182300	Regulatory Asset - Fas 109	228231	Injuries & Damages Res Provisi
182303	ARO Other Regulatory Asset	228300	Res-Fas 106 Life Postretmt Ben
182304	Gas ARO Other Regulatory Asset	228380	Res-Fas 106 Med/Den Postretmt B
182376	Deferred Project Costs	228390	Res-Fas 112 Postemployment Ben
182401	Deferred DSM Costs	228395	Res-Fas 112 Postemp Ben Wrkcmp
182500	Work Force Reduction - Gas	228440	Reserve - MGP Sites FERC 228
182510	Work Force Reduction	229300	Acc Prov - Retail Rate Refund
182692	ULHP Gas Rate Case	230850	Asset Retirement Obligation
182750	2005 Merger Transaction Costs	232003	Payable 401K Incentive Match
182910	LERP Delayed Cash Costs	232005	Profit Sharing Pay Balncd Pens
182940	ULHP 2006 Electric Rate Case	232006	Profit Sharing Pay Invstr Pens
182950	ULHP 2005 Gas Rate Case	232010	Electric EAP 10 customer charge
182975	AMRP Study Costs	232011	Gas EAP 10 customer charge
183112	Prelim Sur And Invest New Gen	232050	A/P Purchased Gas
184100	Fringe Benefits Expense	232110	Vouchers Payable
184410	Transportation Exp - Need Vehicle ID	232111	EIPP Vouchers Payable
184420	Transportation Expense	232121	Customer Refunds Payable
184600	Indirect Labor - Non-union	232140	Unvouchered Stock Materials Receipt
184610	Indirect Labor - Union	232145	FOB Ship Point Accrual
184700	Clearing Account - CMS Feeder	232151	Limestone & Freight Payable
185000	Temporary Facilities	232161	Coal & Freight Payable
186001	Misc Deferred Costs	232163	SO2 And NOx A/P
186007	EIPP Monthly Accrual Accounting Errors	232171	Oil/Propane & Freight Payable
186010	Misc Deferred Debit	232181	Natural Gas Payable
186030	Defer Debits-Customer Choice	232260	A/P Subsequent To Cutoff/Unvou
186300	LT Lease Receivable	232310	Wages Payable
186340	Lease Receivable - Pvt Outdoor Lighting	232311	Accrued Payroll & Compensation
186341	Unearned Income - Pvt Outdoor Lighting	232325	A/P Wintercare
186456	Deferred Cost - Merchant Pints	232354	FSA-Dependent Care 2001
186500	Misc Deferred Debits	232355	FSA-Medical 2001
186620	Intag Asset Assoc-Misc Re	232360	A/P Fuelfunds - Customer Donations
186625	Intang Asset Fas87-Qual Pensio	232371	Medical - Active Employee
186740	Debt Expense for FMB issued 2005	232372	Dental - Active Employee
186750	2004 Accum Exp Shelf Registr	232373	Suppl Life - Active Employee
186760	Accum Exp - 2005 Issuance	232374	Suppl LTD - Active Employee
186910	Journal Entry Rejects	232375	FSA - Dependent Care
186961	Mat & Stores-Matls Acctg	232376	FSA - Health Care

**Chargeable Accounts - Corp 070**

101300	Electric Plant in Service	142830	A/R-Merch/Jobb/Contract Work
232377	FSA-Dependent Care 2000	241470	Taylor Mill Franchise Fee W/H
232378	FSA-Medical 2000	241480	Southgate Franchise Fee W/H
32381	FSA - Vision	241490	Woodlaw Franchise Fee W/H
232390	HRA Reimbursement	241900	Tax Col Pay - Cincy/Columbus
232610	A/P Utility Bill Insurance	241920	Ohio Munis Tax Pay
232660	Personal Accident Insur Deduc	241930	KY Munis Tax Pay
232690	Deduct For Emp Contr-401K Plan	242180	FineArtsFund Contribution W/H
232710	Ded For Purch of US Savings	242220	MBA Dues Withheld
232720	Union Dues Deductions	242230	MB Credit Union Payments W/H
232740	Uniform Deductions	242300	Untied Way Cinti - Deductions
232755	A/P Wholesale Pwr - Actual	242310	Bureau of Support Payments W/H
232760	Union Deductions-Com of Polit	242330	Wage Garnisemnts
232795	A/P MISO Transmission Exp RB	242340	Payroll Deduct Cancer Ins Prem
232822	Executive Car Allowance	242350	Fed Pol Act Comm Contrib W/H
232880	Union Employee Incentive Plan	242380	Retirement Bank Accrual
232890	Accounts Payable to CRC	242391	Voluntary Benefits
232920	Annual Incentive Plan	242410	Union Chekcoff - IUU
232995	A/P Wholesale Pwr - Estimate	242425	Union Checkoff - USA 12049
233000	Intercompany Notes Payable	242435	Union Checkoff - IBEW 1347
233010	Intercompany Notes Payable-Long-Term	242440	Union Checkoff - USA 14214
234000	Intercompany Accounts Payable	242660	Payroll Ded - Helping Hand OH
234005	Interco Accts Pay - Duke	242670	Payroll Ded - Helping Hand KY
235000	Customer Deposits	242680	Payroll Ded - Helping Hand IN
236000	Accrued Payroll Taxes	242850	Vacation Entitlement Reserve
236030	Accrued Fed Hwy Use Tax	242950	Claims Reserve-Retiree Medical
236050	Accrued FIT - Current Year	242955	Claims Reserve-Active Medical
236060	Accrued FIT - Prior Year	242970	Claims Reserve-Active Dental
236099	Accrued FIT - Other	242975	Claims Reserve-Retiree Dental
236150	Accrued State/Local Inc Tax	242995	Native Deferred MTM Liability
236160	Accrued State/Local Inc Tax Py	243020	Current Capital Lease-Meters
236190	Accrued State Highway Use Tax	243021	Current Capital Lease - Other
236270	Accrued State Property Tax	244000	Energy Risk Mgmt Liab-Current
236399	Accrued Sales and Use-Other	252050	Gas Contributions Post 1992
236510	Accrued Sales and Use	252120	Reserve Capacity
236800	Accrued Franchise Tax	253050	Unclaimed Funds
236950	Accrued CAT	253130	Gas Refunds/Recl Adj Due Cust
237010	Accrued Interest	253270	Suplmtl Penison-Excess Plan
237500	Accrued Interest-Interco Note Payable	253320	Energy Gift Certificates
238010	Div Pay on Common Stock	253440	Add Min Liab-MRP Excess Plan
241010	Emp Fed Ins Contrib Act Taxes	253740	Tyrone Synfuel Rem Escrow
241020	Emp Fed Inc Taxes Withheld	253840	Post Ret Ben-Health DPL
241050	Campbell Cty School Tax W/H	253870	Pension Cost Adj-FAS87
241060	Kenton Cty School Tax W/H	253875	Pen Cost Adj-FAS87 Qualified
241070	Pendleton Cty School Tax W/H	253880	Pension Cost Adj-DPL Share
241090	Kentucky Sales Tax Withheld	253910	Misc Deferred Credit
241100	State Income Tax Withheld	254300	Other Reg Liab-FAS109
241120	Boone Co School Tax W/H	255010	Accum Deferred Invst Tax
241130	Williamstonw School Tax W/H	255200	Def ITC-Non-Regulated
241140	Ludlow School Tax W/H	282050	Accum Deferred FIT Other Property
241150	Grant Co School Tax W/H	282150	Accum Deferred SIT Other Property
241160	Gallatin School Tax W/H	283050	Accum Deferred FIT Other
241170	Beechwood School Tax W/H	283150	Accum Deferred SIT Other
241180	Ft Thomas KY School Tax W/H	401004	Non Utility Non Labor
241190	Erlanger Elsmere KY School Tax W/H	401025	Purchased Gas Expenses
241200	City of Wilder Franchise Tax W/H	401034	Customer Accounts Expense
241220	Emp City Adj Gross Inc Tax W/H	401035	Customer Accounts Joint Exp
241390	Bracken County Tax	401068	Sales and Marketing Expense
241400	Bellevue Franchise Fee W/H	401100	Operations Expense
241410	Covington Franchise Fee W/H	401110	OPCO Steam Prod Oper Exp Elim
241420	Dayton Franchise Fee W/H	401120	Gas Production Oper Exp
241430	Ft Thomas Franchise Fee W/H	401121	Gas Prod Oper Exp-Transmission
241440	Glencoe Franchise Fee W/H	401122	Gas Prod Oper Exp-Distribution
241450	Latonia Lakes Franchise Fee W/H	401123	Gas Prod Oper Exp-Dist Int
241460	Newport Franchise Fee W/H	401124	Gas Operating Exp A/G Elim

### Chargeable Accounts - Corp 070

101300	Electric Plant in Service-	142830	A/R-Merch/Jobb/Contract Work
401125	Gas Production Oper Exp Elim	415000	Rev - Jobbing & Contract Work
401126	Elec Operation Exp Elim	415100	Othr Inc-Misc Gas Jobbing Rev
401150	Transmission Oper Exp	415110	Othr Inc - Rev Cust Prop -Thir
401151	Transmission Oper Exp-InterCo	415120	Othr Inc-Rev Renew Gas Svc Les
401160	Distribution Oper Exp	415130	Othr Inc-Rev Inst Gas Serv Les
401170	Other Power Supply Exp	415140	Othr Inc-Rev Track Assoc CATV
401450	Customer Service & Info Exp	415160	Othr Inc-Rev Gas-Rnw CM 2 Mai
401470	Customer Svc & Info Joint Exp	415500	Nonutility Misc Svc Rev -Other
403000	Depreciation Expense	415520	Othr Inc Electric Jobbing
403005	Depreciation Expense - ARO	416000	Exp-Jobbing & Contract Work
404201	Amort Exp - Limited Term	416100	Gas-Job&Contracts-Misc Gen Exp
408020	Ohio Property Taxes - Prod	416140	GasJob-Cust Prop Third Pty Exp
408050	Kentucky Property Tax - Gas	416150	Gas Job-Lighting Pilot Cu Exp
408055	Kentucky Property Tax - Elec	416170	Gas Jobbing Renew Serv 2 Exp
408060	Ky Property Tax - Non-Utility	416180	Gas Job-Install Serv 2 Exp
408065	Ky Property Taxes - East Bend	416190	Gas Jobbing-Placement CATV Fa
408090	West Virginia Property Tax-Gas	416320	Elec Jobbing - Specific T&M
408220	Payroll Taxes - Non Utility	416330	Elec Job-Specific Flat Charge
408240	Payroll Taxes-Joint Ownership - DEA	416541	ED Nonutil Chge-Labor Nontax
408390	Ohio Franchise Tax	416542	ED N/U Chge-Non Labor Nontax
408410	Social Security Taxes	416562	ED Nonutil Chge-Non Labor Tax
408420	West Virginia License Tax	416563	ED N/U Chge - Outside Svc Tax
408490	Indiana Highway Use Tax	417000	Non-Utility Revenue
408500	Federal Highway Use Tax - Gas	417001	Non-Utility Service Revenue
408510	Federal Highway Use Tax - Elec	417003	Non-Utility Misc Svc Rev-Other
408530	Ohio Highway Use	417005	Non-Utility Rev - Natural Gas
408550	Kentucky Highway Use	417100	Non-Utility Operation Expenses
408590	Highway Taxes - Misc States	417102	Coal Orig Cost of Goods Sold
408660	City Cinti Earned Inc Tax-Gas	417501	Nonreg Misc Svc Rev -Other
408670	City Cinti Earned Inc Tax-Elec	418001	Non Oper Revenue-Lease Other
408740	Sales and Use Expense	418002	Nonop Rental Inc - Florence
408950	CAT Expense	418011	Non Oper Depr - Lease Other
408980	Taxes Alloc From Svc Co - Gas	418012	Non Oper Depr - Florence Fac
408990	Taxes Alloc From Svc Co-Elec	418525	NonOp RentInc-Florenc-Affil Co
409050	Federal Income Taxes Other Inc & Deduct	419000	Intercompany Interest Income
409060	Federal Income Taxes Utility Op Income	419040	Interest Income
409099	Federal Income Taxes - Other	419230	Interest Income - Earned Carry
409150	State/Local Inc Taxes Other Inc & Deduct	419575	Int Inc-VEBA
409160	State/Local Inc Tax Exp Utility Op Inc	419890	Int Inc-Cin Rec Co LLC
409199	State Income Taxes - Other	419920	AFUDC Equity
409980	Taxes Alloc From Serv Co - Gas Federal	421000	Misc Non Oper Inc-Other
409985	Taxes Alloc From Serv Co - Gas State	421003	Misc Non Oper Inc-Anthem Grntr
409990	Taxes Alloc From Serv Co-Elec Federal	421100	Gain On Disposal of Property
409995	Taxes Alloc From Serv Co-Elec State	421200	Loss On Disposal of Property
410050	Deferred FIT Other Inc & Deduct	421530	Power Trading Reserve-MTM Gain
410060	Deferred FIT Utility Operating Inc	421900	98-10 Recession Credits
410150	Deferred SIT Other Inc & Deduct	426105	Donations
410160	Deferred SIT Utility Operating Inc	426300	Penalties
410980	Taxes Alloc From Svc Co - Gas	426415	Misc Inc Deduct - Civic/Poli
410990	Taxes Alloc From Svc Co - Elec	426510	Income Deductions - Other
411050	Deferred FIT Credit Other Inc & Deduct	426520	Sale Of A/R Fees
411055	Deferred FIT Credit Other Inc & Ded TI 0	426522	Sale Of A/R Fees - Non-Oper
411060	Deferred FIT Credit - Utility Op Inc	426530	Power Trading Reserve-MTM Loss
411065	Deferred FIT Credit - Util Op Inc TI 0	426551	VEBA Trust - Expenses
411100	Accretion Expense ARO	427010	Interest Exp On Long Term Debt
411150	Deferred SIT Credit - Other Inc & Deduct	428010	LT Debt Discount / Exp Amort
411160	Deferred SIT Credit - Utility Op Inc	428011	LT Debt Discount / Exp Amort
411843	SO2 Cmp Sale Prcds-Gain Native	428012	LT Debt Discount / Exp Amort
411845	NOx Cmp Sale Prcds	430000	Intercompany Interest Expense
411846	NOx Cmp Sale Cost	430990	Interest Exp - Cost Assign
411847	SO2 Cmp Sale Prcds- Non-Native	431000	Interest Expense
411848	SO2 Cmp Sale Cost- Non-Native	431020	Interest Exp-Cust Service Dep
411980	Taxes Alloc From Serv Co - Gas	431030	Interest Exp-Rate Refunds Cu
411990	Taxes Alloc From Serv Co-Elec	431060	Interest Exp-Worker Comp Death

### Chargeable Accounts - Corp 070

101300	Electric Plant in Service	142830	A/R-Merch/Jobb/Contract Work
431070	Interest Exp-Refunds-Adjust	451040	Temporary Facilities
431080	Interest Exp-Commit Fees-Line	451050	Misc Rev Cust Diversn Exp
431110	Interest Exp-Compensation Agr	451060	Misc Rev Bad Check Charge
431130	Interest Exp - Capital Lease	453625	Intercompany Sales of Water
431140	Interest Exp - Sharesaver	454010	Rent Elec Land And Buildings
431550	Interest Exp-Assign From Svc	454020	Rent Elec Other Equipment
432000	AFUDC Debt	454050	Rent From Elec Prop CATV
432300	Capitalized Interest-Elec Prod	454100	Pole Contact Rentals
432500	Capitalized Interest	454155	Rent - Conduit Space
433000	Balance Transfer From Income	454160	Rent Land Elec Prop Net CCD
438000	Dividends Declared On Common S	454200	Other Rent-Electric Property
440500	Elec Rev Residential - General	454500	Rent Land & Building-Affil Co
440510	Elec Rev Residential-Unbilled	454710	Rent Common Facilities Units 7
440601	Res Base Fuel	454850	Cost of Capital Overhead - ED
440602	Res Fuel Clause	456015	Sale of Materials & Sales-Elec
440603	Res DSM	456020	Tab Meter Operations
440631	Res Merger Savings Cred Rider	456025	RSG Revenue - MISO Make Whole
440633	Res Profit Sharing Mechanism	456040	Sales Use Tax Coll Fee
442500	Elec Rev Commercial - General	456075	Data Processing Service
442510	Elec Rev Commercial - Unbilled	456110	Other Transmission Revenues
442550	Elec Rev Industrial - General	456350	Fuel Management Revenues
442560	Elec Rev Industrial - Unbilled	456800	Transmission Sales By CPMT
442601	Com Base Fuel	456850	Wheel Transmission Rev - ED
442602	Com Fuel Clause	456855	I/C Transmission Revenue
442603	Com DSM	456860	Wheel Transmission Rev - EC
442627	Com Dvlpmnt Incentve Rider-DIR	480400	Residential Sales Gas
442631	Com Merger Savings Cred Rider	480410	Residential Unbilled Gas
442633	Com Profit Sharing Mechanism	480603	Res DSM
442651	Ind Base Fuel	480620	Res Gas Cost Recovery
442652	Ind Fuel Clause	480623	Res Accelerated Main Replacement Program
442653	Ind DSM	480625	Res Merger Savings Credit Rider
442677	Ind Dvlpmnt Incentve Rider-DIR	481110	Commercial Sales Gas-Emergency
442681	Ind Merger Savings Cred Rider	481120	Industrial Sales Gas-Emergency
442683	Ind Profit Sharing Mechanism	481400	Commercial Sales Gas
444500	Public St And Highway Lighting	481410	Commercial Unbilled Gas
444601	SL Base Fuel	481450	Industrial Sales Gas
444602	SL Fuel Clause	481460	Industrial Unbilled Gas
444603	SL DSM	481603	Com DSM
444627	SL Dvlpmnt Incentve Rider-DIR	481620	Com Gas Cost Recovery
444631	SL Merger Savings Credit Rider	481623	Com Accelerated Main Replacement Program
444633	SL Profit Sharing Mechanism	481625	Com Merger Savings Credit Rider
445500	Sales Pub Authority Muni Pump	481653	Ind DSM
445510	Sales Public Authority Other	481660	Ind Gas Cost Recovery
445520	Sales Public Authority-Unbill	481663	Ind Accelerated Main Replacement Program
445601	OPA Base Fuel	481665	Ind Merger Savings Credit Rider
445602	OPA Fuel Clause	482400	Public Str/Hgwy Lighting Gas
445603	OPA DSM	482450	Other Sales To Pub Authority Gas
445627	OPA Dvlpmnt Incentve Rider-DIR	482460	Other Sales To Pub Auth Unbill
445631	OPA Merger Savings Credit Rider	482603	SL DSM
445633	OPA Profit Sharing Mechanism	482620	SL Gas Cost Recovery
447010	Elec Rev - I/C sales	482623	SL Accelerated Main Replacement Program
447251	Elec Rev - Native Load sales	482625	SL Merger Savings Credit Rider
447570	Sales Oth Elec Util- Interst N	482653	OPA DSM
447810	Elec Rev - Non-native sales	482660	OPA Gas Cost Recovery
447820	Sales for Resale - Internal	482663	OPA Accelerated Main Replacement Program
447850	Sales - Transmission - Ed	482665	OPA Merger Savings Credit Rider
447860	Sales - Transmission - Ec	483500	Other Gas Utilities-CGE-I/C
447921	Elec Rev - Swaps	484400	Inter Departmental Sales Gas
447931	Sales For Resale-Futures	487000	Late Payment Charge Gas
448500	Inter Dept Sales - Elec	488010	Misc Service Revenue - Gas
449000	Provision Retail Rate Reductio	488020	Misc Rev Reconn Charges Gas
450000	Late Payment Charge	488030	Misc Gas Rev Erlanger Gas Pit
451010	Misc Service Revenues	488040	Misc Rev Cust Diversn Exp Gas
451020	Misc Rev Reconnection Charge	488060	Misc Rev Bad Check Charge Gas



### Chargeable Accounts - Corp 070

101300	Electric Plant in Service	142830	A/R-Merch/Jobb/Contract Work
489000	Rev Transp Gas of Others	501125	Fuels realized derivative gain
489003	Transp DSM	501126	Fuels realized derivative loss
489010	Rev Transp of Gas - I/C	501134	Coal MTM Reserve - Loss
489011	Transp GRT/OET	501202	Fuel Oil-Miami Fort Units 5-7
489020	Transp Gas Cost Recovery	501215	Fuel Oil - East Bend Station
489021	Transp Percentage Income Payment	501300	Residual Disposal Costs
489022	Transp State Tax Rider	501302	Residual Disposal Expense - NE
489023	Transp Accelerated Main Replacement	501304	Reimb Assoc With Residual Disp
489024	Transp Gas Surcredit Rider	501996	Non Native Load Fuel Expense
489025	Trans Merger Savings Cr Rider	501997	Contra Non Native Load Fuel Exp
489060	Rev Agency Service - Woodsdale	502000	Steam Expenses
489103	Res Transp DSM	502010	Ammonia Expense
489110	Rev Firm Transp Agm-Commer Bld	502040	Cost of Lime
489113	Com Transp DSM	502050	Lime - Physical Inventory Adj
489115	Comm Rev Transp-Unbilled	505000	Electric Expenses
489120	Rev Firm Transp Agreements - I	506000	Miscellaneous Steam Power Exp
489121	Res Transp GRT/OET	506020	Emission Fees Assessment
489123	Ind Transp DSM	506600	Vehicles - Operation
489125	Indust Rev Transp-Unbilled	507000	Rent Expense - Steam Power
489130	Rev Firm Transp Agree - Other	509010	SO2 Emission Expense - Native
489131	Com Transp GRT/OET	509030	SO2 Emission Expense-NonNative
489133	Oth Transp DSM	509210	NOx Emission Expense - Native
489135	Other Rev Transp-Unbilled	509230	NOx Emission Expense - NonNative
489140	Rev Tnter Trans - Metered Pool	510000	Maint - Supervision/Engineer
489141	Ind Transp GRT/OET	511000	Maintenance of Structures
489150	Res Transp Gas Cost Recovery	511100	Removal - Structures
489151	Res Transp Percentage Income Payment	512000	Maintenance of Boiler Plant
489152	Res Transp State Tax Rider	512030	Maint of Boiler Plant - FGD
489153	Res Transp Accelerated Main Replacement	512100	Removal - Boiler Plant
489154	Res Transp Gas Surcredit Rider	512251	Maint of Boiler Plant-TM Over
489155	Res Transp Merger Savings Cr Rider	513000	Maintenance of Electric Plant
489160	Com Transp Gas Cost Recovery	513100	Removal - Electric Plant
489161	Com Transp Percentage Income Payment	514000	Maint Misc Steam Plant
489162	Com Transp State Tax Rider	514100	Removal - Misc Steam Plant
489163	Com Transp Accelerated Main Replacement	546000	Other Power - Supv/Engr Labor
489164	Com Transp Gas Surcredit Rider	547120	Gas unrealized MTM loss
489165	Com Transp Merger Savings Cr Rider	547121	Gas unrealized MTM gain
489170	Ind Transp Gas Cost Recovery	547125	Gas realized loss
489171	Ind Transp Percentage Income Payment	547126	Gas realized gain
489172	Ind Transp State Tax Rider	547303	Gas Purchases From CMT
489173	Ind Transp Accelerated Main Replacement	547501	Woodsdale Gas
489174	Ind Transp Gas Surcredit Rider	547701	Woodsdale Propane Gas
489175	Ind Transp Merger Savings Cr Rider	548000	Other Power-Ops Generation Exp
489180	Oth Transp Gas Cost Recovery	549000	Misc Other Power Gen Exp
489181	Oth Transp Percentage Income Payment	549115	Misc Other Power Gen Exp I/C
489182	Oth Transp State Tax Rider	551000	Other Pwr - Maint Supv/Engr
489183	Oth Transp Accelerated Main Replacement	552000	Other Pwr - Maint of Structure
489184	Oth Transp Gas Surcredit Rider	552100	Removal - Oth Pwr Structures
489185	OPA Transp Merger Savings Cr Rider	553000	Other Pwr-Maint Genrating/Elec
489191	Oth Transp GRT/OET	553100	Removal - Oth Pwr Gen/Elec
493040	Rent Land And Buildings-Affil	554000	Other Pwr - Maint Misc Equip
495020	Sales Use Tax Collect Fee	554100	Removal - Oth Pwr Misc Equip
495030	Gas Losses Damaged Lines	555000	Purchased Power
496100	Provision for rate refunds	555005	Purch Pwr - gross - Duke
499000	Dividends Declared Transfer	555010	Purch Pwr - I/C - gross
500000	Supervision And Engineering	555019	Purch Pwr - I/C - net
500225	Operations Expense I/C - Duke	555028	Purch Pwr - Non-native - net
501008	Fuel Handling Expense	555050	Elec Purchased Unbilled
501020	Fuel Procurement And Handling	555200	Purch Pwr - Native Load - gross
501109	Coal-Miami Fort Units 5-7	555915	Purch Power Net - Duke
501116	Coal-East Bend Station	556000	System Control / Load Dispatch
501120	Fuels unrealized MTM loss	557000	Other Power Supply Expenses
501121	Fuels unrealized MTM gain	557030	Other Power Purchases
501124	Coal MTM Reserve - Gain	557450	Commissions/Brokerage Expense

### Chargeable Accounts - Corp 070

101300	Electric Plant in Service	142830	A/R-Merch/Jobb/Contract Work
560000	Operation Supervision/Engineer	875000	Measuring And Reg Stations-Gen
561000	Load Dispatching	876000	Measuring & Reg Station-Indust
561100	Load Dispatch - Reliability	878000	Meter And House Regulator Exp
561200	Load Dispatch -Monitor & Oper Transm Sys	879000	Customer Installation Expenses
561300	Load Dispatch-Transmissn Svc&Scheduling	880000	Gas Distribution-Other Expense
561400	Billings-Scheduling & SysCon & Dispatch	881020	Rents Interco - Buildings
561500	Load Dispatch - System Planning	881040	Gas Dist -Rents Interco-Microw
561600	Transmission Interconnection Svc Studies	881050	Gas Dist Rents I/C - Stores
561700	Generation Interconnection Studies	885000	Maint Dist Sys Fac- Supv/Engr
561800	Billings for Reliability Planning & Stds	887000	Maintenance of Mains
562000	Station Expenses	889000	Maint-Meas/Reg Stn Equip-Gas
563000	Overhead Line Expenses	890000	Maint - Meas/Reg Stn Eq-Indust
565855	Tran Elec By Oth - ED- Interco	892000	Maintenance of Services
565860	Tran Elec By Oth - EC	893000	Maint - Meters And House Regul
565865	Tran Elec - Duke	894000	Maint-Other Distribution Equip
566000	Miscellaneous Transmission Exp	901000	Supv Cust Bill / Collect
567010	Rents - Interco - CGE	902000	Meter Reading
568000	Maintenance Superv/Engineeri	903000	Cust Rec/Coll - Mrkt Ops
569000	Maintenance of Structures	904000	Customer Accnting - Uncoll Accounts Exp
569100	Maint of Hardware Serving Transmission	904002	Cust Acctg-Loss On Sale-A/R
569200	Maint of Software Serving Transmission	904090	Customer Accnting - Uncoll Accounts Exp
569300	Maint of Comm Eqprmt Serving Transmission	905000	Cust Reltns Bill/Coll
570000	Maint Of Station Equipment	907000	Supervision Energy Marketing
570100	Removal-Station Equip-Step-Up	908000	Corporate Planning Cust Asst
570860	Maint Of Substation Equipment	909000	Info/Instr Advs-Cmty Affair
571000	Maintenance Of Overhead Lines	910000	Misc Cust Serv And Info
573000	Maint Of Misc Trans Plant	911000	Supv-Marketing Operations
580000	Ops Supv/Engr - Distr Sys	912000	Demo/Sell-Energy Marketing
581000	Load Dispatch-Dist of Elec	913000	Advs Exp-Mrktng/Cust Reltns
582000	Station Exp-Distribution Sys	916000	Miscellaneous Sales Exps
583000	Ovhd Line Exp-Distribution Sys	920000	A/G Labor
584000	UG Line Exp - Distribution Sys	920450	A/G Labor - Elec -Billed DPL
585000	Street Lighting/Signal System	921000	A/G Office Supplies and Exp
586000	Meter Expenses	921450	A/G Mat/Exp-Elec -Billed DPL
587000	Customer Installations Expense	922000	Duplicate Charges Credit
588000	Miscellaneous Distribution Exp	923000	Outside Services
589010	Rents - Interco - CGE	924000	Property Insurance
590000	Maint Supv/Engr-Dist Sys	925000	Injuries And Damages
591000	Maintenance of Structures	925990	Genl Frmg Benfts Frm PSI-Joint
592000	Maint Of Station Equipment	926000	Employee Pension / Benefits
593000	Maintenance Of Overhead Lines	926110	Employee Fringe Benefits Load
594000	Maint Of Underground Line	926140	Pension Cost Adj - Cr
595000	Maint Of Line Transformers	926590	Empl Benft Lbr Billed DPL CSP
596000	Maint Of Street Lights/Signals	928000	State Reg Comm Proceeding
597000	Maintenance Of Meters	928020	Fed Energy Reg Com Proceed
598000	Maint Misc Distribution Plant	929000	Service Used Own Dept Cr
711000	Gas Boiler Labor	929030	Jobbying Overheads
712000	Gas Production-Other Power Exp	930100	General Advertising Expenses
717000	Liq Petro Gas Exp-Vapor Proc	930202	A/G Misc General Expense
728000	Liquid Petroleum Gas	931000	Rents
728003	Liq Prop Gas Exp Erlang/Consta	931200	Rents - Interco
735000	Gas Misc Production Exp	931400	Rents - Electric - Billed DPL
742000	Maint Gas Production Equipment	931500	Rents - Affiliated Companies
801000	Natural Gas Field Line Purch	935000	Maint of General Plant
801010	Natural Gas Field Ln Purch-I/C	999990	Clearing Account
805000	Unrecovered Purchase Gas Adj		
805200	Purchase Gas Cost Unbilled Rev		
807000	Gas Purchased Expenses		
807010	Gas Purchased Expenses - I/C		
808000	Transmission Mains Exp - Gas		
809000	Other Exp-Trans Sys Equip/Exp		
870000	Distribution Sys Ops-Supv/Engr		
871000	Distribution Load Dispatching		
874000	Mains And Services		



## Cash - Reconciliation & Analysis

Functional Area: General Accounting  
Sarbanes-Oxley Category: Treasury  
Process Owner: Gwen Pate  
Effective Date: 01/01/99  
Revised Date: 08/01/05

All accounting policies and procedures can be found on the Accounting Policies and Procedures community within iPower as follows:

- Launch iPower
- Select "Accounting Policies and Procedures" under the "Communities" heading at the top of the page

### Policy Statement

All cash and temporary cash investments balance sheet accounts for all corporations shall be reconciled using Reconciliation and Analysis Standards as outlined in Reconciliation and Analysis of Accounts Policy. The reconciliation of these accounts shall be done on a monthly basis, as determined in accordance with the account standards defined in New Account Set-up and Definition (Account Standards) Policy.

### Reason for Policy

- To ensure that responsibility for accuracy of data within an account is held by those closest to the transaction
- To increase control of accounts
- To clearly define ownership of accounts providing a single source for information regarding the accounts

## Process Flows

## Process Description/Narrative

The Total Transaction Report is prepared each month, using the cash transactions that are captured by the Treasury Manager system (TMAN). TMAN is the depository for the cash movement at the banks.

These cash transactions are captured by the system, through direct links with the banks to Cinergy's individual bank accounts. The majority of the accounting associated with these transactions is either pre-defined within TMAN, or contained in the feeder files from other systems-i.e. Passport (AP) or the Customer Management System (CMS) for Billing Services. In addition, there are "general" cash receipts and disbursements that require the accounting to be recorded in the General Ledger.

This procedure addresses the processes involved with ensuring that all cash related transactions have been properly recorded in Cinergy's financial statements. This is achieved by preparing and reviewing the Total Transaction Report and verifying that the totals from this report agree with the totals from the various feeder systems (AP, CMS, TMAN), plus any manual journal entries.

## Frequently Asked Questions

### **Q1. Why is it important to reconcile cash activity in total, between TMAN and the various manual and system feeds to the General Ledger?**

A. TMAN is a direct reflection of all cash transactions that were processed through Cinergy's various bank accounts. Historically, the communication about the accounting for those cash transactions does not always occur at the same time as the money movement. Therefore, cash could be received or disbursed at the banks, but not necessarily recorded properly in Cinergy's financial statements. The cash reconciliation process is designed to identify any bank transactions that need to be recorded on our books.

### **Q2. What are some examples of bank transactions that are identified through this process and need to be recorded in the General Ledger?**

A. Typically, the types of incoming or outgoing payments that require additional research to determine if an area has recorded the cash activity, or if a manual

journal entry is needed, include bulk power, coal trading, emission allowances, customer payments or taxes, etc.

**Q3. What is the process for researching the status of these unidentified payments?**

A. Corporate Accounting (CA) downloads a daily file of cash transactions from TMAN each day, and uses this data to generate the Total Transaction Report at month-end. During this process, transactions are reviewed to identify any payments that have not been accounted for. CA's staff contact various areas throughout the company via phone calls and/or emails, to locate the "owner" of the transaction, and determine who will account for the item.

**Procedure**

Reconcile Accounts

DEPARTMENT	RESPONSIBILITY	ACTION
Corporate Accounting	Wesley Ryan	1. By the end of the 2 <sup>nd</sup> working day of each month, prepare the prior calendar month's Total Transaction Report, which is generated by Treasury Manager (TMAN), for all subsidiaries included in Cinergy's consolidated financial statements (Corps. 800 and below).
Corporate Accounting	Wesley Ryan	2. Review this report to determine that all cash transactions included in TMAN have been properly recorded. TMAN has links with the banks to import various cash transactions. Cash transactions include receipt and disbursement activity that is fed to the General Ledger (GL) either by Treasury Manager (TR001, TR002 & TR003), Accounts Payable (AP001), Payroll (PY161), CMS related journal entries recorded by Regulated Business (ED260; ED261) or by a manual journal entry for General Receipts, prepared by Corporate Accounting.  The purpose of this review is to ensure that all transactions that require a manual journal entry are

Cash - Reconciliation & Analysis

		properly identified, which includes verification of those items that are recorded by other feeder systems.
Corporate Accounting	Gwen Pate Tom Reis Wesley Ryan	3. If it is determined that a transaction should have been recorded but was not, or a transaction was recorded twice, discuss this with Corporate Accounting management, to see if there is a need to "reopen the books" to correct the entry.
Corporate Accounting Originating Department	Various	4. By the 6th working day of each month, investigate balance variances and any unusual transactions, as necessary. Contact the originating department and determine the nature and reason for variance. Determine if any General Ledger adjustments are necessary as a result of the variance.
Corporate Accounting Originating Department	Wesley Ryan	5. Prepare any required adjustments to the General Ledger Cash and Temporary Cash Investment Accounts. For material variances, the adjustments will be made on the 6th working day. For all other variances, the adjustments will be made by the 2nd working day of the following month, unless the decision has been made to reopen the books.
Corporate Accounting	Wesley Ryan	6. On the morning of the 7th working day, review the total balance in all cash accounts for each Corp. If the total cash balance is negative, determine if a reclassification entry (CA 115) is required. See "Procedures-Negative Cash Balance Adjustment (CA115 and CA116)" desk procedure for details.
Corporate Accounting	Bob Hoffmann Wesley Ryan Ken Truesdell	7. After all system generated and manual journal entries have been posted to the GL, this activity and the cash account balance is then reconciled to the bank statement.  See Bank Reconciliation Procedures - Corporate Center Process Policy, which details the procedures for bank account reconciliation.  <i>The large disbursement accounts also</i>

Cash - Reconciliation & Analysis

		<p><i>utilize a sweep account with PNC bank, to temporarily invest excess available cash, on a daily basis. The bank balances for the main disbursement and sweep accounts are combined for reconciliation purposes.</i></p>
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Perform analysis of financial statements: business unit review

DEPARTMENT	RESPONSIBILITY	ACTION
Business Units		<p>Business Unit specific Financial Statement analysis is at the discretion of the Business Unit with the exception of minimum analysis required to support Legal Entity analysis. The extent of Legal Entity analysis will be determined on a case by case basis, as required.</p>

**Training and Documents**

Training:

Additional Documents:

**Who Should Know**

- Treasurer
- Treasury
- Corporate Accounting
- Payroll/ Accounts Payable
- Regulated Business Financial Reporting
- Commercial Business Financial Reporting
- Billing Services

**Related Information**

## Reconciliation of Accounts Payable Disbursements Between Cash Ledger & General Ledger - Cash Accounts Policy

Positive Pay Process Policy

Bank Reconciliation Procedures- Corporate Center Process Policy

### Contacts

NAME	ROLE	DEPARTMENT
Kim Sipes	Manager, Corporate Cash Management	Treasury
Gwen Pate	Manager	Corporate Accounting
Erica Glenn	Coordinator	Accounting Research
Amy Sheppard	Manager	Accounting Research

### Revisions

The following revisions are effective 05/01/02:

- Update procedure with new process
- Update policy for personnel changes

The following revisions are effective 07/01/03:

- Update procedure with Treasury Manager TR002
- Update procedure for personnel changes
- Change Policy Number from 7.9.5.2 to 7.9.5.5

The following revisions are effective 01/01/05:

- Update policy for new manual ownership
- Update policy to reflect reorganization of manual

The following revision is effective 08/01/05:

- Update policy for narrative, questions and process changes





## Positive Pay Process

Functional Area: General Accounting  
Sarbanes-Oxley Category: Treasury  
Process Owner: Gwen Pate  
Effective Date: 01/01/99  
Revised Date: 08/01/05

All accounting policies and procedures can be found on the Accounting Policies and Procedures community within iPower as follows:

- Launch iPower
- Select "Accounting Policies and Procedures" under the "Communities" heading at the top of the page

### Policy Statement

On a daily basis, all checks with discrepancies identified through the Positive Pay process, will be investigated and resolved.

### Reason for Policy

To ensure only valid Cinergy checks are authorized for payment by the bank

### Process Flows

### Process Description/Narrative

The Positive Pay process is described in narrative form, within the content of the following frequently asked questions.

### Frequently Asked Questions

Positive Pay Process

**Q1. What is Positive Pay?**

A. Positive Pay is a process where the issuer of checks (i.e., Cinergy and its subsidiaries) transmits a daily file of issued checks to the drawee banks (i.e., PNC). The bank then matches the issued file against checks as they clear. Any discrepancies can then be immediately investigated, first by the bank and then by the issuer, if necessary. This allows for the timely detection of fraudulent (e.g., scanned or altered amount) checks as well as less ominous problems such as amount encoding errors.

**Q2. What information is matched by the bank between the check and the electronic file provided to the bank?**

A. The bank matches the following information between the check and the electronic file:

- Check Number
- Check Amount
- Account Number

**Q3. What Cinergy bank accounts have Positive Pay?**

A. Currently, the only feeder departments with positive pay are Accounts Payable, Payroll and Billing Services. One Payroll, eight Accounts Payable and three Customer Refund bank accounts have positive pay.

**Q4. What are some examples of check discrepancies identified by the Positive Pay process?**

A. Historically, the positive pay process has identified the following discrepancies:

- Manual checks (not included on the positive pay file)
- Bank encoding errors
- Fraudulent checks
- Voided/Cancelled checks

**Procedure**

Submit Positive Pay File to Bank

DEPARTMENT	RESPONSIBILITY	ACTION
Accounts Payable Payroll Billing Services	Rick Colvin Debby Stout Lisa Meyer	1. Generate Positive Pay file after check write process.

Positive Pay Process

Accounts Payable Payroll Billing Services	Rick Colvin Debby Stout Lisa Meyer	2. Contact the bank the morning after a check write and verify for each applicable Cinery system company the following: <ul style="list-style-type: none"> <li>• Beginning check number</li> <li>• Ending check number</li> <li>• Number of checks written</li> <li>• Total dollar amount of checks written.</li> </ul>
Accounts Payable Payroll Billing Services	Rick Colvin Debby Stout Lisa Meyer	3. Correct Positive Pay file as necessary.

Resolve Positive Pay Discrepancies

DEPARTMENT	RESPONSIBILITY	ACTION
Corporate Accounting	Gretchen Bowen Ken Truesdell Bob Hoffmann	1. Obtain listing of check(s) with discrepancies from PNC Bank Treasury Management system.
Corporate Accounting	Gretchen Bowen Ken Truesdell Bob Hoffmann	2. Investigate checks and determine if check should be rejected or approved. Contact Treasury for verification of manual checks.
Treasury	Linda Evans	3. Determine if check is a manual check and notify Corporate Accounting if check should be rejected or approved.
Corporate Accounting	Gretchen Bowen Ken Truesdell Bob Hoffmann	4. Notify bank via PNC Bank Treasury Management system if check should be rejected or approved for payment.

**Training and Documents**

Training:

Additional Documents:

- PNC Bank Treasury Management System On-Line Positive Pay Procedures (maintained in Corporate Accounting files)

**Who Should Know**

- Treasurer

Positive Pay Process

- Treasury
- Corporate Accounting
- Accounts Payable
- Payroll
- Billing Services

## Related Information

Reconciliation of Accounts Payable Disbursements Between Cash Ledger & General Ledger - Cash Accounts Policy

Bank Reconciliation Procedures - Corporate Center Process Policy

Cash Transactions Procedures Policy

Cash Reconciliation & Analysis Policy

## Contacts

NAME	ROLE	DEPARTMENT
Gwen Pate	Manager	Corporate Accounting
Tom Reis	Coordinator	Corporate Accounting
Gretchen Bowen	Senior Accounting Clerk	Corporate Accounting
Ken Truesdell	Accounting Clerk	Corporate Accounting
Bob Hoffmann	Senior Accounting Clerk	Corporate Accounting
Erica Glenn	Coordinator	Accounting Research
Amy Sheppard	Manager	Accounting Research

## Definitions

## Revisions

The following revisions are effective 05/01/02:

- Update procedure for personnel changes

Positive Pay Process

- Update procedure to include Payroll in Positive Pay Process

The following revisions are effective 07/01/03:

- Update procedure for personnel changes
- Change Policy Number from 7.9.5.5 to 7.9.5.2

The following revisions are effective 01/01/05:

- Update procedure for new manual ownership
- Update procedure to reflect reorganization of manual

The following revision is effective 04/15/05:

- Update procedure for narrative

The following revision is effective 08/01/05:

- Update procedure for personnel changes



## Bank Reconciliation Procedures – Corporate Center Process

Functional Area: General Accounting  
Sarbanes-Oxley Category: Treasury  
Process Owner: Gwen Pate  
Effective Date: 01/01/99  
Revised Date: 08/01/05

All accounting policies and procedures can be found on the Accounting Policies and Procedures community within iPower as follows:

- Launch iPower
- Select "Accounting Policies and Procedures" under the "Communities" heading at the top of the page

### Policy Statement

On a monthly basis, Corporate Accounting will reconcile all bank accounts to each general ledger cash account. All non-timing related reconciling items are to be researched, investigated and resolved on a monthly basis.

### Reason for Policy

To ensure all cash transactions are recorded in the Company's financial statements in adherence to GAAP and Regulatory Requirements

### Process Flows

### Process Description/Narrative

Cash transactions recorded in the various general ledger cash accounts (assigned to Corporate Accounting as the “owner”), are reconciled to the cash activity recorded on the monthly bank statements received from the banks. Process “inputs” include: the prior month’s bank reconciliation and supporting documentation; general ledger cash account details by feeder system or manual journal entry; and, bank statements and bank summary and detail reports of checks issued, cancelled, stopped, paid and outstanding for the current month.

These inputs are used to match cash transactions on both the books and bank, while identifying all current and prior reconciling items. NOTE: All amounts recorded on CA 115 journal entries, must be reversed since this entry reclassifies any negative cash balances on the books. However, the actual cash balance per books, even if negative, is the amount that is reconciled to the bank.

The end product of this process is a current bank reconciliation that includes a list of all identified reconciling items on either the books or the bank. All open items (unmatched items between the books and bank), are communicated to Management in a separate report each month. A copy of each bank reconciliation file is provided to those areas originating the cash transactions, to facilitate their research and resolution of the open items. The Management Report and supporting bank reconciliation files are also sent to both the internal and external auditors at month-end.

## Frequently Asked Questions

### Q1. Are all Cinergy system cash accounts and bank accounts owned/reconciled by Corporate Center functions (e.g., Treasury and Corporate Accounting)?

A. No. The Business Units own and are responsible for reconciling various cash accounts and bank accounts.

The following table lists, by company, only those cash accounts and bank accounts that are owned and reconciled by Corporate Accounting:

Company	General Ledger Account	Cash Account Owner	Bank Account Owner
The Cincinnati Gas & Electric Company (010)	131001, 131002, 131004 and 131009	Corporate Accounting	Corporate Accounting
Miami Power (060)	131001	Corporate Accounting	Corporate Accounting
Union Light, Heat & Power Co. (070)	131001, 131002, and 131004	Corporate Accounting	Corporate Accounting

Bank Reconciliation Procedures – Corporate Center Process

Tri-State Improvement Company (090)	131002	Corporate Accounting	Corporate Accounting
PSI Energy, Inc. (100)	131001, 131002, 131004 and 131005	Corporate Accounting	Corporate Accounting
Cinergy Power Generation Services (210)	131001	Corporate Accounting	Corporate Accounting
Cinergy Services (500)	131001 and 131002	Corporate Accounting	Corporate Accounting
Cinergy Investments (600)	131001	Corporate Accounting	Corporate Accounting
Cinergy Solutions (650)	131001	Corporate Accounting	Corporate Accounting
Cinergy Ventures (770)	131001	Corporate Accounting	Corporate Accounting
Cinergy Corp. (800)	131001, 131006 and 131009	Corporate Accounting	Corporate Accounting
Cinergy Foundation	N/A	Corporate Accounting	Corporate Accounting

This Policy addresses the procedures in place for the bank reconciliations performed by Corporate Accounting.

**Q2. Is a listing of all Cinergy bank accounts maintained?**

A. Yes, Treasury maintains a listing of all Cinergy bank accounts, including the accounts reconciled by the Business Units. For each bank account, this listing includes: 1) associated general ledger cash account number, 2) department responsible for reconciling the general ledger cash account with the corresponding bank account, and 3) department(s) responsible for resolving reconciling items. This listing is provided to Corporate Accounting and to the BU's upon request.

**Q3. How many bank accounts does Cinergy maintain that are reconciled by Corporate Accounting?**

A. As of April 2005, Corporate Accounting, on a monthly basis, reconciles the following number of depository and disbursement bank accounts:

Company	Number of Bank Accounts Reconciled
The Cincinnati Gas & Electric Company	4
Cinergy Corp.	3
Cinergy Investments, Inc.	1



Bank Reconciliation Procedures -- Corporate Center Process

Cinergy Services, Inc.	2
Cinergy Solutions, Inc.	1
Miami Power Corporation	1
PSI Energy, Inc.	4
Tri-State Improvement Company	1
The Union Light Heat and Power Company	3
Cinergy Ventures	1
Cinergy Power Generation Services	1
Cinergy Foundation	1
<b>Total</b>	<b>23</b>

**Q4. What are some examples of reconciling items identified by Corporate Accounting during the bank reconciliation process?**

A. Historically, Corporate Accounting has identified the following types of reconciling items:

- Deposits in transit
- Bank encoding errors
- Checks, ACH/Wires issued, canceled or paid - timing differences
- Inter company/ AP memo timing differences
- Timing differences for bank and book adjustments

**Q5. Who are the members of the Bank Reconciliation Team?**

A. The Bank Reconciliation Team consists of the following departments and individuals:

<b>Department</b>	<b>Individual</b>
Corporate Accounting	Tom Reis
Corporate Accounting	Wesley Ryan
Corporate Accounting	Ken Truesdell
Accounts Payable	Vickie Dean
Payroll	Debby Stout
Billing Services	Tiffany Moore
Field Customer Services	Charlene Fugate
Treasury	Bob Burwell
Treasury	Kim Sipes
Bulk Power	Monica Ware

The purpose of the Bank Reconciliation Team is to reconcile the company's bank accounts and to research, investigate and resolve all reconciling items on a monthly basis.

**Q6. What is each department's role in the Bank Reconciliation Process?**

A. Corporate Accounting is responsible for the overall coordination of the bank reconciliation process, including reconciling the various Cinergy bank accounts to the General Ledger on a monthly basis. As part of this process, Corporate Accounting will identify all reconciling items and prepare a summary report to management each month. In addition, a copy of each bank reconciliation file is forwarded to the designated "contact person" in each area (e.g., Treasury, Billing Services, Accounts Payable and Payroll). Each area is responsible for the resolution of their non-timing related reconciling items, as listed on the bank reconciliation document.

**Q7. What is the purpose of the Monthly Management Report of Outstanding Bank Reconciliation Items?**

A. This report is prepared to summarize all outstanding bank reconciliation items that need resolution, if they are not timing differences. It provides management of each responsible area with the number and amount of the current and prior month's outstanding items.

**Procedure**

Bank Account Changes:

DEPARTMENT	RESPONSIBILITY	ACTION
Treasury	Kim Sipes Sherry Augustine Bob Burwell	1. As changes occurs, notify Corporate Accounting of any bank accounts relating to Cinergy or its subsidiaries that have been opened or closed.
Corporate Accounting	Tom Reis	2. Update Corporate Accounting's Master List of Bank Accounts for any changes.

Electronic ARP/Positive Pay Files Provided to Bank:

DEPARTMENT	RESPONSIBILITY	ACTION
Accounts Payable Payroll Billing Services	Rick Colvin Lisa Carver Lisa Meyer	1. Generate ARP/Positive Pay file after pay write process or at the end of the month, as applicable.
Accounts Payable	Rick Colvin	2. Verify accuracy of ARP/Positive Pay

Bank Reconciliation Procedures – Corporate Center Process

Payroll Billing Services	Lisa Carver Lisa Meyer	file before submission to the bank.
Accounts Payable Payroll Billing Services	Rick Colvin Lisa Carver Lisa Meyer	3. Contact bank after submission of ARP/Positive Pay file and confirm / verify the following data with the bank for each applicable Cinergy system company: <ul style="list-style-type: none"> <li>• Beginning check number</li> <li>• Ending check number</li> <li>• Number of checks</li> <li>• Dollar total of check write</li> <li>• Number of voided/cancelled checks</li> <li>• Dollar total of voided/cancelled checks</li> </ul> <i>Note: the above data is obtained from the Check Register and not the ARP/Positive Pay file</i>
Accounts Payable Payroll Billing Services	Rick Colvin Lisa Carver Lisa Meyer	4. Correct and resubmit electronic ARP/Positive Pay file to bank, as necessary. Verify resubmitted file with bank.

Bank Notified of Adds/Deletes:

DEPARTMENT	RESPONSIBILITY	ACTION
Accounts Payable Payroll Billing Services	Rick Colvin Lisa Carver Lisa Meyer	1. Notify the Bank of all manual checks, cancelled check, or replaced checks either by including this information on the ARP/Positive Pay files or through the creation of an Add/Delete form. This information should be submitted to the bank at the same time as the electronic files.
Accounts Payable Payroll Billing Services	Rick Colvin Lisa Carver Lisa Meyer	2. Verify receipt of Add/Delete form by the Bank.
Accounts Payable Payroll Billing Services	Rick Colvin Lisa Carver Lisa Meyer	3. By the 2 <sup>nd</sup> working day of each month, provide Corporate Accounting with a copy of all Add/Delete forms submitted to the bank for the prior month's activity.

Bank Reconciliation Process:

DEPARTMENT	RESPONSIBILITY	ACTION
Corporate Accounting	Tom Reis Wesley Ryan	Background: <ul style="list-style-type: none"> <li>• The procedures for reconciling each</li> </ul>

## Bank Reconciliation Procedures – Corporate Center Process

	Ken Truesdell	<p>individual bank account may vary, depending on the type of account, nature of the activity flowing through the account, and the size and volume of transactions.</p> <ul style="list-style-type: none"> <li>• Generally, there are two types of accounts-depository and general disbursement. Each account type can have other sub accounts that are set up to transfer funds to or from the main account.</li> <li>• Depository accounts are used to collect incoming funds that are subsequently transferred to disbursement accounts. Disbursement accounts are used to control the outflow of funds in the form of checks, wire transfers and ACH's</li> <li>• There are currently 41 active bank accounts assigned to Corporate Accounting, and these bank accounts roll-up into the preparation of 23 individual bank reconciliation files. These files are located on the CA "R" drive as: GenAcct\Bank Rec\Cash Recon Team\Corp\BankAccount. The basic steps that are completed in the preparation of each individual bank reconciliation document may vary, but generally include the following:</li> </ul>
Corporate Accounting	Tom Reis Wesley Ryan KenTruesdell	<p>1. Obtain the following inputs-prior month's bank reconciliation document and supporting schedules; General Ledger Cash Account bank statements, settlement reports and ARP's; CMS report of deposits (Auditor's Deposit Detail); A/P extract of ACH's and wire transfers; cancelled check details; ACH's; Returned Checks, etc. See the Coordinator of Bank Reconciliations for the source and timing of receipt of the inputs.</p>
Corporate Accounting	Tom Reis Wesley Ryan Ken Truesdell	<p>2. Complete the following schedules for the current month's bank reconciliation-</p> <ul style="list-style-type: none"> <li>• Proof of bank statement</li> <li>• Proof of general ledger</li> <li>• Analysis of sweep account</li> <li>• Analysis of zero balance accounts</li> <li>• Analysis of receipts</li> </ul>

Bank Reconciliation Procedures – Corporate Center Process

		<ul style="list-style-type: none"> <li>• Analysis of disbursements</li> <li>• Analysis of processing services</li> <li>• Analysis of TR001, TR002 &amp; TR003 transactions</li> <li>• Analysis of A/P wires and ACH's (AP001)</li> <li>• Analysis of outstanding checks for sub accounts</li> </ul>
Corporate Accounting	Tom Reis Wesley Ryan Ken Truesdell	3. Using the above schedules, identify all current and prior month reconciling items.
Corporate Accounting	Tom Reis Wesley Ryan Ken Truesdell	4. Starting with the prior month's bank reconciliation document, make all necessary changes in order to complete the current month's reconciliation (i.e., new bank balance, new outstanding check totals, plus new reconciling items, less prior reconciling items clearing in the current month, etc.).
Corporate Accounting	Tom Reis Wesley Ryan Ken Truesdell	5. If the total difference between the book and bank balance (on the top of the rec) [A], does not equal the total of all detailed items listed on the bottom of the rec ("on bank not book" and "on book not bank") [B], investigate and resolve until the two differences [A=B] mentioned above, agree. These should agree to the penny, if done properly.
Corporate Accounting	Tom Reis Wesley Ryan Ken Truesdell	6. Complete and assemble all schedules and documents and submit the packet for review to the Coordinator of Bank Reconciliations by month end.
Corporate Accounting	Tom Reis Wesley Ryan Ken Truesdell	7. The new book balance (per the bank recs) should agree with the month-end cash balance in the corresponding General Ledger cash account. Be sure to adjust (reverse) the General Ledger balance for the CA115 journal entry, if any. Investigate, research, and resolve the remaining difference.

**Training and Documents**

Training:

Additional Documents:

- Listing of Bank Accounts Reconciled by Corporate Accounting
- Sample bank reconciliation files for one depository and one controlled disbursement account
- Monthly Management Report of Outstanding Bank Reconciliation Items

## Who Should Know

- Treasurer
- Treasury
- Corporate Accounting
- Accounts Payable
- Billing Services
- Field Customer Services
- Payroll

## Related Information

Reconciliation of Accounts Payable Disbursements Between Cash Ledger & General Ledger - Cash Accounts Policy

Cash Transaction Procedures Policy

Positive Pay Procedure Policy

## Contacts

NAME	ROLE	DEPARTMENT
Gwen Pate	Manager	Corporate Accounting
Tom Reis	Coordinator	Corporate Accounting
Wesley Ryan	Senior Analyst	Corporate Accounting
Ken Truesdell	Staff	Corporate Accounting
Erica Glenn	Coordinator	Accounting Research
Amy Sheppard	Manager	Accounting Research

## Definitions

## Revisions

The following revisions are effective 11/01/01:

- Update procedure for process changes
- Update procedure for personnel changes

The following revision is effective 12/09/02:

- Update PTIS to CBU

The following revisions are effective 07/01/03:

- Update procedure for process changes
- Update procedure for personnel changes

The following revisions are effective 01/01/05:

- Update policy for new manual ownership
- Update policy to reflect reorganization of manual

The following revisions are effective 08/01/05:

- Update policy for new accounts
- Update procedure for personnel changes



## Misc. Cash Receipts – Reconciliation & Analysis

Functional Area: General Accounting  
Sarbanes-Oxley Category: Revenue, Metering, Billing, Receipts,  
Collections  
Process Owner: Gwen Pate  
Effective Date: 09/01/98  
Revised Date: 01/01/05

All accounting policies and procedures can be found on the Accounting Policies and Procedures community within iPower as follows:

- Launch iPower
- Select "Accounting Policies and Procedures" under the "Communities" heading at the top of the page

### Policy Statement

All Balance Sheet accounts for all corporations shall be reconciled using Reconciliation and Analysis Standards as outlined in the Reconciliation & Analysis of Accounts Policy. The reconciliation shall be done on a timely basis, which is determined according to the account standards defined in the New Account Set-up & Definition (Account Standards) Policy.

### Reason for Policy

- To ensure that responsibility for accuracy of data within an account is held by those closest to the transaction
- To increase control of accounts
- To clearly define ownership of accounts providing a single source for information regarding the accounts



Misc. Cash Receipts Reconciliation & Analysis

**Process Flows**

**Process Description/Narrative**

**Frequently Asked Questions**

**Procedure**

Reconcile Accounts (CoA.9)

DEPARTMENT	RESPONSIBILITY	ACTION
		<i>Note: The following process is performed monthly to reconcile all Misc. A/R Pmt. accounts:</i>
Misc. Accounts Receivable	Frank Steward	1. Obtain supporting schedules for account 143.990
Misc. Accounts Receivable	Frank Steward	2. Obtain GL balance information.
Misc. Accounts Receivable	Frank Steward	3. Compare and validate the transactions in the GL to those in the supporting schedules.

Perform analysis of transactions (CoA.12)

DEPARTMENT	RESPONSIBILITY	ACTION
Misc. Accounts Receivable	Frank Steward	1. Perform variance analysis monthly on the GL account balances as necessary.

Perform analysis of financial statements: business unit review (CoA.13a)

DEPARTMENT	RESPONSIBILITY	ACTION
Misc. Accounts Receivable		1. Business Unit specific Financial Statement analysis is at the discretion of the Business Unit with the exception of minimum analysis

Misc. Cash Receipts Reconciliation & Analysis

		required to support Legal Entity analysis. The extent of Legal Entity analysis will be determined on a case by case basis, as required.
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Perform analysis of financial statements: legal review of regulatory entity (CoA.13b)

DEPARTMENT	RESPONSIBILITY	ACTION
Misc. Accounts Receivable		N/A

## Training and Documents

Training:

Additional Documents:

## Who Should Know

- Controller
- Assistant Controllers
- General Accounting
- Miscellaneous Accounts Receivable

## Related Information

## Contacts

NAME	ROLE	DEPARTMENT
Frank Steward		Misc. Accounts Receivable
Carolyn Engel		Misc. Accounts Receivable
Frank Steward		Misc. Accounts Receivable
Erica Glenn	Senior Analyst	Accounting Research

Misc. Cash Receipts Reconciliation & Analysis

Amy Sheppard	Manager	Accounting Research
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## Definitions

## Revisions

The following revisions are effective 01/01/05:

- Update policy for new manual ownership
- Update policy to reflect reorganization of manual



## CD/CCD Fuel Invoicing

Functional Area: Fuel & Joint Owner Accounting  
Sarbanes-Oxley Category: Jointly Owned Plants  
Process Owner: Diana Douglas  
Effective Date: 07/01/04  
Revised Date: 01/01/05

All accounting policies and procedures can be found on the Accounting Policies and Procedures community within iPower as follows:

- Launch iPower
- Select "Accounting Policies and Procedures" under the "Communities" heading at the top of the page

### Policy Statement

The Fuels & Joint Owner Accounting Department will invoice CD and CCD joint owners (Dayton Power & Light and Columbus Southern Power) for their share of the fuel and M&S inventory, fuel expense, common facility leases, and gypsum revenues for jointly owned operated generating stations.

### Reason for Policy

- To invoice the joint owners for fuel, M&S, lease and gypsum revenues in accordance with the appropriate CD and CCD joint owner agreements and Accounting Policies
- To adhere to other "administrative agreements" agreed to among the joint owners

### Process Flows

**Process Description/Narrative**

**Frequently Asked Questions**

Q1. What facilities does this Policy & Procedure apply to?

A. It applies to costs at all power generation facilities jointly owned with Dayton Power & Light (DPL) and/or Columbus Southern Power (CSP). Our jointly owned facilities currently include CG&F's Miami Fort Units 7 & 8, Beckjord Unit 6, Zimmer Station and East Bend Unit 2.

Q2. What are the respective ownership percentages for each facility? Why is CG&F responsible for the billings related to these jointly owned facilities?

A. The ownership percentages for these power production facilities are:

Jointly Owned Facility	CG&F Ownership	DP&L Ownership	CSP Ownership
Beckjord 6	37.5%	50%	12.5%
Miami Fort 7 and 8	64%	36%	N/A
East Bend 2	69%	31%	N/A
Zimmer	46.5%	28.1%	25.4%

Each operating company is responsible for billing its partners for their share of expenses and costs related to the jointly owned units it operates. CG&F operates each of these facilities.

Q3. Are the respective ownership percentages the basis for billing/allocating fuel and M&S inventory, fuel expense, common facility leases and gypsum revenues? Or do these items get billed/allocated on a basis other than ownership percentages?

A. Fuel inventory is allocated on the basis of an annual study, which determines what percentage generation each joint owner used during the year.

Fuel expense is allocated on the basis of each month's calculation of what percentage generation each joint owner used during the month ("composite ratio").

M&S inventory is allocated on the basis of other agreed upon ownership percentages for each type of inventory maintained at the station. The percentages vary by station and FERC account.

Common facility lease costs are determined on the basis of an annual study, which includes the net plant owned by each of the joint owners, with ownership share percentages varying by class of plant.

Gypsum revenues are allocated on the basis of ownership share as listed above.

**Q4. Why are only these items billed/allocated amongst the joint owners?**

A. Other costs are also billed to the joint owners. O&M and transmission expense billings (see CCD O&M Expense & Transmission Invoicing Policy) and capital billings (see CD/CCD Capital Billing Policy) are done monthly. In addition, insurance costs (see Insurance - Premium Amortization Policy) are billed to the joint owners annually.

**Q5. How are billing disputes resolved?**

A. There is a CD and a CCD Accounting Committee that is responsible for addressing billing disputes among their respective parties. If matters of interpretation of policy or procedural changes are needed, the resolution may require approval by the respective joint owner Executive and Operating Committee. If the issue cannot be resolved at this level, the companies may agree to an independent arbitration or mediation by request of one or more party.

**Q6. What are the "administrative agreements" that are referred to in the Policy Statement?**

A. The CD/CCD Executive and Operating Committee and Accounting Committee sometimes modify or expand on the actual terms in the joint owner agreements and Accounting Policies by declaration. These declarations (often referred to as "agreed upon procedures") may include things like agreeing to use a fixed rate for billing A&G costs, establishing/ changing due dates for bills, etc. All three companies are expected to adhere to these procedures.

**Q7. Who are the key accounting contacts at each of the joint owners?**

A. The key contacts are as follows:

CD/CCD Fuel Invoicing

Joint Owner	Name	Phone #	Email Address
DPL	Kelly Allen	(937) 259-7182	kelly.allen@dplinc.com
CSP	John Geels	(330) 438-7916	jkgeels@aep.com
CSP	Ron Herink	(330) 438-7825	reherink@aep.com

## Procedure

Capture information on business transactions (CoA.1) (See CCD Operating Expense Transactions Policy and 7.4.1.1 Fuel Coal Inventory CG&E - General Journal Entries Policy for details in addition to those listed below.)

DEPARTMENT	RESPONSIBILITY	ACTION
By-Products	Dave Beck Deborah Kramer	1. Invoice counterparties for gypsum sales (Zimmer Station), which will then be distributed to the joint owners based on their share of revenue.

Obtain or compute common facility lease amounts for units with both wholly and jointly owned units (CCD - Beckjord and CD - Miami Fort)  
 Classify transactions (CoA.2)  
 Identify error(s) and pushback for correction (CoA.3)  
 Correct error(s) (CoA.4)

DEPARTMENT	RESPONSIBILITY	ACTION
		<i>Note: This procedure is done on an annual basis and typically finished by the end of January.</i>
Fixed Assets	Jaime Reynolds	1. Provide net investment in plant by station for each joint owner as of December 31 to Fuels & Joint Owner Accounting.
Fuels & Joint Owner Accounting	Lashya Porter	2. Provide net investment information to Tax and update lease calculation spreadsheets for non-tax amounts.
Tax	Greg Scott John Lechko	3. Prepare revised property tax estimates and review/confirm/revise marginal tax rates. Forward information to Fuels & Joint Owner

CD/CCD Fuel Invoicing

		Accounting.
Fuels & Joint Owner Accounting	Lashyia Porter	4. Add tax information to lease calculation and finalize base lease amounts for the year.
Fuels & Joint Owner Accounting	Lashyia Porter	5. Compute retroactive billing amounts for month of January in event study is not complete by end of January.
Fuels & Joint Owner Accounting	Diana Douglas	6. Review annual study and retroactive billing amounts, communicating any errors or other revisions.
Fuels & Joint Owner Accounting	Lashyia Porter	7. Revise schedule for any errors or other comments.
Fuels & Joint Owner Accounting	Lashyia Porter	8. Monthly, obtain additions and retirements at jointly owned units from Power Plant. <i>Note: This is done monthly after Power Plant is closed and before the next fuel billing cycle.</i>
Fuels & Joint Owner Accounting	Lashyia Porter	9. Accumulate additions and retirements. If net cumulative additions and retirements are \$100,000 more or less for the year, adjust prior year year-end net investment amounts for the 100% net additions/retirements on lease calculation spreadsheet. Recalculate the joint owner share and monthly lease amounts. Use the new amount for next month's billing. Reset the accumulation calculation. Once another \$100,000 is reached, adjust the previously adjusted net investment to calculate the next update to the lease amount to be billed. <i>Note: Lease amounts are updated for month following the month of the additions/retirements.</i>
Fuels & Joint Owner Accounting	Diana Douglas	10. Review annual study and retroactive billing amounts, communicating any errors or other revisions.
Fuels & Joint Owner Accounting	Lashyia Porter	11. Revise schedule for any errors or other comments.

Create and prepare the Fuel Bill

- Capture information on business transactions (CoA.1)
- Classify transactions (CoA.2)



Identify error(s) and pushback for correction (CoA.3)  
 Correct error(s) (CoA.4)

DEPARTMENT	RESPONSIBILITY	ACTION
Fuels & Joint Owner Accounting	Lashyia Porter	1. Obtain Warehouse Report (Change in Inventory) showing inventory activity (by facility and account) at jointly owned facilities for the accounting month being closed from the Passport Inventory System by printing a BUNDL report from the Mainframe. This report is used to calculate each joint owner's portion of the change in inventory. The owners are then billed or credited for their share of the change. They, in effect, are paying Cinergy when we build up inventory and we pay them if we deplete it. <i>Note: This is due by Day 2, EOD.</i>
Fuels & Joint Owner Accounting	Lashyia Porter	2. Obtain the CCD Report from Comtrac for the accounting month being closed. Find the joint owners' share of Coal & Oil Inventory by business segment and enter into the Fuel bill Excel spreadsheet template.
Fuels & Joint Owner Accounting	Lashyia Porter	3. Calculate the joint owners' portion of the changes in M&S inventory. Multiply the joint owners' percentages (determined by account from agreed upon ownership percentages) for each account and facility by the net change in inventory from the Warehouse Reports. Then enter the totals into the Fuel bill Excel spreadsheet template. <i>Note: These allocation percentages differ from the ownership percentages, they were set initially when the plant was first constructed/jointly owned and differ by station and type of inventory.</i>
Fuels & Joint Owner Accounting	Lashyia Porter	4. Obtain the Common Facility lease amounts to be billed or credited and enter the joint owners' lease totals into the Fuel bill template.
Fuels & Joint Owner Accounting	Lashyia Porter	5. Obtain gypsum invoices for Zimmer Station (LaFarge, LTC, Cemtech) from By-Products group for the prior accounting period.

CD/CCD Fuel Invoicing

Fuels & Joint Owner Accounting	Lashyia Porter	6. Calculate the joint owners' portion of gypsum revenue by multiplying the joint ownership percentages by the invoiced totals. Enter the joint owners' share of the gypsum revenues into the Fuel bill template. <i>Note: These allocations are based on the respective ownership percentages.</i>
Fuels & Joint Owner Accounting	Lashyia Porter	7. Update the monthly information of the Fuel Bill (Invoice #, Payment Due Date, and Date Issued). Due Date is 15th of the month. Invoice # includes current month and year.
Fuels & Joint Owner Accounting	Monica Kilpatrick Diana Douglas	8. Review invoice and tie to source data. Approve invoice.
Fuels & Joint Owner Accounting	Monica Kilpatrick Diana Douglas	9. Send an electronic version of the bill to Kelly Allen at Dayton Power & Light, and to John Geels and Ron Herink at Columbus Southern Power. <i>Note: This is due by Day 4, MOD.</i>
Fuels & Joint Owner Accounting	Lashyia Porter Art Buescher Richard Gallagher	10. Respond to any questions about the bill and/or resolve any issues or issue corrected bills.
Fuels & Joint Owner Accounting	Diana Douglas	11. Approve corrected invoice.

Follow up for collections as needed

DEPARTMENT	RESPONSIBILITY	ACTION
Fuels & Joint Owner Accounting	Lashyia Porter	1. Contact joint owner billing contacts, Bob Burwell in Treasury or Bob Hoffmann in Corporate Accounting as needed to track or receive payments.
Fuels & Joint Owner Accounting	Diana Douglas	2. Contact CD/CCD joint owner accounting committee members with non-payment and dispute issues and Cinergy's E&O committee member, Barry Pulskamp, and Scott Wilkerson in Credit, if non-payment situation is not resolved.

## Training and Documents

Training:

**Documents:**

- Joint owner agreements and amendments
- Joint owner common facility lease agreements and amendments
- ComTrac system joint owner process documentation
- Desk procedures

**Who Should Know**

- Controller
- Assistant Controllers
- Corporate Accounting
- Fuel & Joint Owner Accounting
- Fixed Asset Accounting
- Tax Department

**Related Information**

CCD Operating Expense Transactions

CCD Operating Expense Reconciliation & Analysis

Fuel Coal Inventory - CG&E General Journal Entries

Fuel Coal Inventory CG&E - Reconciliation & Analysis

**Contacts**

<b>NAME</b>	<b>ROLE</b>	<b>DEPARTMENT</b>
Lashyia Porter	Analyst	Fuel & Joint Owner Accounting
Monica Kilpatrick	Senior Analyst	Fuel & Joint Owner Accounting
Diana Douglas	Manager	Fuel & Joint Owner Accounting
Erica Glenn	Senior Analyst	Accounting Research
Amy Sheppard	Manager	Accounting Research

**Definitions**

EOD - End of Day

MOD - Middle of Day

CD - Cincinnati - Dayton (agreements for joint ownership of facilities between CG&E and Dayton Power & Light)

CCD - Cincinnati - Columbus - Dayton (agreements for joint ownership of facilities between CG&E, Columbus Southern Power & Dayton Power and Light)

## Revisions

The following revisions are effective 01/01/05:

- Update policy for new manual ownership
- Update policy to reflect reorganization of manual



# CCD Operating Expense Transactions

Functional Area: Fuel & Joint Owner Accounting  
Sarbanes-Oxley Category: Jointly Owned Plants  
Process Owner: Diana Douglas  
Effective Date: 09/01/98  
Revised Date: 01/01/05

All accounting policies and procedures can be found on the Accounting Policies and Procedures community within iPower as follows:

- Launch iPower
- Select "Accounting Policies and Procedures" under the "Communities" heading at the top of the page

## Policy Statement

The Fuel & Joint Owner Accounting Department will record all transactions related to the operation and maintenance expense for operated stations.

## Reason for Policy

To record Joint Owner operating expense activity in the Company financial statements in adherence to GAAP and regulatory requirements

## Process Flows

## Process Description/Narrative

## Frequently Asked Questions

CCD Operating Expense Transactions

**Procedure**

Capture information on business transactions (CoA.1)  
 Classify transactions for journalizing (CoA.2)  
 Cutoff transactions (CoA.5)

DEPARTMENT	RESPONSIBILITY	ACTION
Accounts Payable	Bill Rothan	1. Capture accounts payable expense activity and classify into INDUS based upon work orders. Month end cutoff is based on the last day of the month. <i>Note: this process should be complete by Day 2, EOD.</i>
Payroll	Marion Felix	2. Capture payroll activity and classify into the LDCS system based upon time reports and personnel records. Month end cutoff occurs based upon pay date where all activity occurring within a month is booked in the same month. <i>Note: this process should be complete by Day 2, EOD.</i>
Transportation	Tom Rasp	3. Capture vehicle usage activity and classify into the Vehicle System (VHS) based upon accounting info on time reports and predefined tables. Cutoff occurs on Day 1, EOD. <i>Note: this process should be completed daily.</i>
Inventory Services	Melanie Jones	4. Capture the inventory balances by warehouse/class and classify balances into the Material Inventory System based upon work orders. Cutoff occurs on the last day of the month. <i>Note: this must be complete by Day 2, EOD.</i>
Management Reporting & Cost Accounting	Barry Blackwell	5. Perform annual payroll overhead studies and periodic A&G studies; provide percents to the Fuel & Joint Owner Accounting Department.
Fuel & Joint Owner Accounting	Lashyia Porter	6. Capture the A&G fixed charge rate and payroll overhead rates from the annual studies and enter in BDMS. <i>Note: this must be complete by Day 2, EOD.</i>

CCD Operating Expense Transactions

Fuel & Joint Owner Accounting	Art Buescher	7. Capture fuel costs and produce CCD report (see Fuel Coal Inventory - CG&E General Journal Entries Policy)
Fuel & Joint Owner Accounting	Lashyia Porter	8. Prepare Fuel and MS Invoice and provide to joint owners. <i>Note: this must be complete by noon, Day 4.</i>
Fuel & Joint Owner Accounting	Lashyia Porter	9. Prepare O&M and Transmission Invoice. <i>Note: this must be complete by Day 6, EOD.</i>

Identify error(s) in source documents and pushback for correction (CoA.3)  
 Correct error(s) in source documents (CoA.4)

DEPARTMENT	RESPONSIBILITY	ACTION
Originating Organization	Originating Organization	1. Review and correct source documents prior to distribution to Fixed Asset Accounting.

Prepare journal entries. (CoA.6)

DEPARTMENT	RESPONSIBILITY	ACTION
Corporate Accounting	John Linton	1. Run distribution program in the INDUS system to create auto feed to the Joint Owner Module. <i>Note: this process should be complete by Day 5, MOD.</i>
Corporate Accounting	John Linton	2. Run distribution program in the LDSCS system to create auto feed to the Joint Owner Module. <i>Note: this process should be complete by Day 5, MOD.</i>
Corporate Accounting	John Linton	3. Run distribution program in the VHS system to create auto feed to the Joint Owner Module. <i>Note: this process should be complete by Day 5, MOD.</i>
Fuel & Joint Owner Accounting	Lashyia Porter	4. Extract data from the Cinergy Material Information and Warehouse Inventory Balance Reports and enter into JE Tool. <i>Note: this process should be complete by Day 5, MOD.</i>

Identify errors in prepared journal entries. (CoA.7a)

DEPARTMENT	RESPONSIBILITY	ACTION
Fuel & Joint Owner	Lashyia Porter	1. Review the Joint Owner Module

CCD Operating Expense Transactions

Accounting		data for variances. If errors exist, place phone calls to the originating organization. <i>Note: this process should be complete by Day 5, EOD.</i>
Fuel & Joint Owner Accounting	Lashyia Porter	2. Verify a copy of all manual journal entries against the source document to ensure data entry accuracy. If an error is located, the preparer is contacted and provided a copy of source doc's & JE's. <i>Note: this process should be complete by Day 5, EOD.</i>

Correct errors in prepared journal entries. (CoA.7b)

DEPARTMENT	RESPONSIBILITY	ACTION
Originating Organization	Originating Organization	1. Correct the auto feed source documentation and rerun the distribution program if the error is found before journal entries have been created. <i>Note: this process should be complete by Day 5, EOD.</i>
Originating Organization	Originating Organization	2. Correct the auto feed error via correcting journal entries in a future closing period if the error is found after the journal entries have been created and posted. <i>Note: this process should be complete by Day 5, EOD.</i>
Fuel & Joint Owner Accounting	Lashyia Porter	3. Correct data entry errors in JE Tool for manual entries. <i>Note: this process should be complete by Day 5, EOD.</i>

Post journal entries to BDMS 2.0. (CoA.8)

DEPARTMENT	RESPONSIBILITY	ACTION
Fuel & Joint Owner Accounting	Monica Kilpatrick Diana Douglas	1. Approve the journal entries for posting.
Corporate Accounting	BDMS Coordinator	2. BDMS will post all journal entries approved for posting. <i>Note: this process should be complete by Day 5, EOD.</i>

Create and post accruals (CoA.10)

Create and post reserves (CoA.11)



CCD Operating Expense Transactions

DEPARTMENT	RESPONSIBILITY	ACTION
N/A	N/A	1. No accruals or reserves are booked related to Joint Owner CCD Operating Expense.

**Training and Documents**

Training:

Additional Documents:

**Who Should Know**

- Controller
- Assistant Controllers
- Corporate Accounting
- Fuel & Joint Owner Accounting

**Related Information**

CCD Operating Expense Reconciliation & Analysis

**Contacts**

NAME	ROLE	DEPARTMENT
Lashyia Porter	Analyst	Fuel & Joint Owner Accounting
Monica Kilpatrick	Sr. Analyst	Fuel & Joint Owner Accounting
Art Buescher	Supervisor	Fuel & Joint Owner Accounting
Diana Douglas	Manager	Fuel & Joint Owner Accounting
Erica Glenn	Senior Analyst	Accounting Research
Amy Sheppard	Manager	Accounting Research

**Definitions**

EOD - End of Day

MOD - Middle of Day

## **Revisions**

The following revision is effective 11/01/01:

- Update procedure for changes in personnel and department names

The following revision is effective 09/01/02:

- Update procedure for changes in personnel and department names

The following revisions are effective 02/01/04:

- Update procedure for changes in personnel and department names
- Update procedure for process changes

The following revisions are effective 01/01/05:

- Update policy for new manual ownership
- Update policy to reflect reorganization of manual



# CCD Operating Expense Reconciliation & Analysis

Functional Area: Fuel & Joint Owner Accounting  
Sarbanes-Oxley Category: Jointly Owned Plants  
Process Owner: Diana Douglas  
Effective Date: 09/01/98  
Revised Date: 01/01/05

All accounting policies and procedures can be found on the Accounting Policies and Procedures community within iPower as follows:

- Launch iPower
- Select "Accounting Policies and Procedures" under the "Communities" heading at the top of the page

## Policy Statement

All Balance Sheet accounts for all corporations shall be reconciled using Reconciliation and Analysis Standards as outlined in the Reconciliation & Analysis of Accounts policy. The reconciliation shall be done on a timely basis, which is determined according to the account standards defined in the New Account Set-up & Definition (Account Standards) policy.

## Reason for Policy

- To ensure that responsibility for accuracy of data within an account is held by those closest to the transactions
- To increase control of accounts
- To clearly define ownership of accounts providing a single source for information regarding the accounts

**Process Flows**

**Process Description/Narrative**

**Frequently Asked Questions**

**Procedure**

Reconcile Accounts (CoA.9)

DEPARTMENT	RESPONSIBILITY	ACTION
		<i>Note: Reconcile accounts 143600 - DPL and 143610 - CSP/AEP by completing the following steps on a monthly basis:</i>
Fuel & Joint Owner Accounting	Lashyia Porter	1. Generate GL account balance reports (FRT) and the Excel balance roll-forward spreadsheet.
Fuel & Joint Owner Accounting	Lashyia Porter	2. Review account transaction activity (dollars and source).
Fuel & Joint Owner Accounting	Lashyia Porter	3. Verify GL account balance to Excel roll-forward schedule.
Fuel & Joint Owner Accounting	Lashyia Porter	4. Investigate balance differences and misposted transactions as necessary.
Fuel & Joint Owner Accounting	Lashyia Porter	5. Update the AR reconciliation file and forward a copy to Mary Ann Nally.
Fuel & Joint Owner Accounting	Lashyia Porter	6. Update "Last Reconciled Date" field in BDMS (PBR - Accounting Data Set-up) to reflect the last period for which the account balance was verified/reconciled.

Perform analysis of transactions. (CoA.12)

DEPARTMENT	RESPONSIBILITY	ACTION
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CCD Operating Expense Reconciliation & Analysis

Fuel & Joint Owner Accounting	Lashyia Porter	1. Generate GL account reports (FRT) and the Excel variance analysis spreadsheet.
Fuel & Joint Owner Accounting	Lashyia Porter	2. Review account transaction activity (dollar and source)
Fuel & Joint Owner Accounting	Lashyia Porter	3. Review I/S accounts for reasonableness and perform variance analysis.
Fuel & Joint Owner Accounting	Lashyia Porter	4. Investigate any material differences.

Perform analysis of financial statements: business unit review (CoA.13a)

DEPARTMENT	RESPONSIBILITY	ACTION
CBU Financial Operations	Tonia Murphy	1. Business Unit specific Financial Statement analysis is at the discretion of the Business Unit with the exception of minimum analysis required to support Legal Entity analysis. The extent of Legal Entity analysis will be determined on a case by case basis, as required.

Perform analysis of financial statements: legal review of regulatory entity (CoA.13b)

DEPARTMENT	RESPONSIBILITY	ACTION
Fuel & Joint Owner Accounting	Lashyia Porter	1. Provide Corporate Accounting information, as required, for their variance analysis.

## Training and Documents

Training:

Additional Documents:

## Who Should Know

- Controller

CCD Operating Expense Reconciliation & Analysis

- Assistant Controllers
- Corporate Accounting
- Fuel & Joint Owner Accounting
- CBU Financial Operations

**Related Information**

New Account Set-up & Definition (Account Standards) Policy

Reconciliation & Analysis of Accounts Policy

CCD Operating Expense Transactions Policy

**Contacts**

NAME	ROLE	DEPARTMENT
Mary Ann Nally	Treasury	Treasury
Diana Douglas	Manager	Fuel & Joint Owner Accounting
Lashyia Porter	Analyst	Fuel & Joint Owner Accounting
Tonia Murphy	Analyst	CBU Financial Operations
Erica Glenn	Senior Analyst	Accounting Research
Amy Sheppard	Manager	Accounting Research

**Definitions**

**Revisions**

The following revision is effective 11/01/01:

- Update procedure for personnel changes

The following revision is effective 09/01/02:

- Update procedure for personnel and department name changes

The following revisions are effective 02/01/04:

- Update procedure for personnel and department name changes
- Change in policy title

The following revisions are effective 01/01/05:

- Update policy for new manual ownership
- Update policy to reflect reorganization of manual



## CD/CCD Operation & Maintenance Expense & Transmission Invoicing

Functional Area: Fuel & Joint Owner Accounting  
Sarbanes-Oxley Category: Jointly Owned Plants  
Process Owner: Diana Douglas  
Effective Date: 07/01/04  
Revised Date: 01/01/05

All accounting policies and procedures can be found on the Accounting Policies and Procedures community within iPower as follows:

- Launch iPower
- Select "Accounting Policies and Procedures" under the "Communities" heading at the top of the page

### Policy Statement

The Fuel & Joint Owner Accounting Department will invoice CD and CCD joint owners (Dayton Power & Light and Columbus Southern Power) for their share of the operation and maintenance (O&M) expense for jointly owned generating stations and transmission facilities, which are operated by CG&E.

### Reason for Policy

- To invoice the joint owners for operating expense activity in accordance with the appropriate CD and CCD joint owner agreements and Accounting Policies
- To adhere to other "administrative agreements" agreed to among the joint owners

### Process Flows



**Process Description/Narrative**

**Frequently Asked Questions**

**Q1. What facilities does this Policy & Procedure apply to?**

A. It applies to costs at all power generation facilities jointly owned with Dayton Power & Light (DP&L) and/or Columbus Southern Power (CSP). Our jointly owned facilities currently include CG&E's Miami Fort Units 7 & 8, Beckjord Unit 6, Zimmer Station and East Bend Unit 2. In addition, it applies to several transmission facilities interconnected with these generation facilities.

**Q2. What are the respective ownership percentages for each facility? Why is CG&E responsible for the billings related to these jointly owned facilities?**

A. The ownership percentages for these power production facilities are:

Jointly Owned Facility	CG&E Ownership	DP&L Ownership	CSP Ownership
Beckjord 6	37.5%	50%	12.5%
Miami Fort 7 and 8	64%	36%	N/A
East Bend 2	69%	31%	N/A
Zimmer	46.5%	28.1%	25.4%

Each operating company is responsible for billing its partners for their share of expenses and costs related to the jointly owned units it operates. CG&E operates each of these facilities.

The ownership percentages vary for each transmission facility and can be found in the joint owner business segment table of BDMS.

**Q3. Are the respective ownership percentages the basis for billing O&M expenses, or do O&M expenses get billed on a basis other than ownership percentage?**

A. All production and transmission O&M expenses are allocated on the basis of ownership share for each facility as listed above or in the BDMS joint owner tables, as are payroll overheads on the labor portion of O&M and supervision and engineering (S&E) overheads on transmission O&M.

Fixed Administrative and General (A&G) charges are developed every three years on the basis of a dollar/MW of owned capacity basis.

Ash revenues are allocated on the basis of each month's calculation of what percentage generation each company used during the month ("composite ratio").

**Q4. What expenses are considered O&M expenses for purposes of CG&E's billings to the joint owners?**

A. The base O&M expenses for which the joint owners are billed include all power production operation and maintenance accounts except for fuel (accounts include the 500s, 502 - 514s, plus fuel handling 501s) and all transmission operation and maintenance accounts in the 562, 563, 570 and 571 series. Each account to be billed must exist in the joint ownership business segment table. In addition, the source transactions must use business segment codes defined in that table with current ownership percentages. The accounts billed to the joint owners could potentially be revised based on a declaration made by the Accounting Committee and/or the Executive and Operating Committee. However, this typically does not happen.

**Q5. Why are only these items billed/allocated amongst the joint owners?**

A. Other costs, including costs for fuel, capital expenditures and insurance costs, are also billed to the joint owners. Refer to various Policy & Procedure documents in the Accounting Policy & Procedure Manual in the following series: 7.1.7 (Miscellaneous Claims & Insurance), 7.3 (Joint Ownership), 7.4 (Fuels), and 7.9.3 (Fixed Asset Accounting).

**Q6. How are billing disputes between the joint owners resolved?**

A. There is a CD and a CCD Accounting Committee that is responsible for addressing billing disputes among their respective parties. If matters of interpretation of policy or procedural changes are needed, the resolution may require approval by the respective joint owner Executive and Operating Committee. If the issue cannot be resolved at this level, the companies may agree to an independent arbitration or mediation by request of one or more party.

**Q7. What are the "administrative agreements" that are referred to in the Policy Statement?**

A. The CD/CCD Executive and Operating Committee and Accounting Committee sometimes modify or expand on the actual terms in the joint owner agreements and Accounting Policies by declaration. These declarations (often referred to as "agreed upon procedures") may include things like agreeing to use a fixed rate for billing A&G costs, establishing/ changing due dates for bills, etc. All three companies are expected to adhere to these procedures.

**Q8. Who are the key accounting contacts at each of the joint owners?**

A. The key contacts are as follows:

Joint Owner	Name	Phone #	Email Address
DPL	Kelly Allen	(937) 259-7182	kelly.allen@dplinc.com
CSP	John Geels	(330) 438-7916	jkgeels@aep.com

**Procedure**

Calculate fuel composite ratios for each generating station and input into BDMS and ComTrac tables

Capture information on business transactions (CoA.1)

Classify transactions (CoA.2)

Identify error(s) and pushback for correction (CoA.3)

Correct error(s) (CoA.4)

DEPARTMENT	RESPONSIBILITY	ACTION
Fuel & Joint Owner Accounting	Anita Webb	1. Calculate composite ratios, which is the calculation of what percentage of generation each joint owner took from each unit for the month. Obtain the information from ComTrac and station monthly reports and enter into an excel spreadsheet (Composite Ratio Reports - CG&E Stats Report).
Fuel & Joint Owner Accounting	Anita Webb	2. Input composite ratio for each unit (by business segment) into BDMS Joint Owner Business Segment maintenance screen and ComTrac.
Fuel & Joint Owner Accounting	Richard Gallagher	3. Review calculation and inputs, and communicate any errors or other needed revisions. <i>Note: this process should be complete by Day 2, EOD.</i>

Fuel & Joint Owner Accounting	Anita Webb	4. Update calculation for necessary corrections and/or other revisions.
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Create and prepare O&M bill

Capture information on business transactions (CoA.1)

Classify transactions (CoA.2)

Identify error(s) and pushback for correction (CoA.3)

Correct error(s) (CoA.4)

DEPARTMENT	RESPONSIBILITY	ACTION
Fuel & Joint Owner Accounting	Lashyia Porter	1. Extract data from PBR Closing Status and Control Report, Joint Owner Share Report and Joint Owner Production Report for the accounting period just closed. These reports are produced with the Joint Owner module processing and apply the joint ownership percentages to transactions eligible for billing.
Fuel & Joint Owner Accounting	Lashyia Porter	2. Obtain the Composite Ratio Reports for the accounting period just closed (Excel Spreadsheet Composite Ratio Reports - CG&E Stats Report).
Fuel & Joint Owner Accounting	Lashyia Porter	3. Extract data from PBR using FRT Report to obtain Fly Ash Revenue from the prior month as this is billed on a one-month lag.
Fuel & Joint Owner Accounting	Lashyia Porter	4. Enter the information obtained from the Joint Owner Share Reports and Joint Owner Production Reports into the Excel invoicing spreadsheet by Business Segment Code and grouping of expense (determined by account).
Fuel & Joint Owner Accounting	Lashyia Porter	5. Obtain the joint owner Lime Report from ComTrac and add the lime credits in with the O&M credits for Other Operating Expense from the Joint Owner Share Reports from PBR.
Fuel & Joint Owner Accounting	Lashyia Porter	6. Calculate Fly Ash Revenue by using the FRT Report and the Composite Ratio report. Multiply the total Ash Revenue for each Business Segment (MF7, MF8, EB2, and BJ6) by the corresponding composite ratio. Then enter each Joint Owner's share

		amount into the Fly Ash Revenue.
Fuel & Joint Owner Accounting	Lashyia Porter	7. Update the monthly information of the O&M Bill (Invoice #, Payment Due Date, and Date Issued). Due Date is end of the month. Invoice # includes current month and year.
Fuel & Joint Owner Accounting	Monica Kilpatrick Diana Douglas	8. Review invoice and tie to amounts booked by journal entry. Approve invoice.
Fuel & Joint Owner Accounting	Lashyia Porter	9. Send a hard copy of the bill to Kelly Allen at Dayton Power & Light, and a hard copy of the bill to John Geels at Columbus Southern Power. <i>Note: this process should be complete by Day 7, EOD.</i>
Fuel & Joint Owner Accounting	Lashyia Porter Art Buescher Richard Gallagher	10. Respond to any questions about the bill and/or resolve any issues or issue corrected invoice.
Fuel & Joint Owner Accounting	Diana Douglas	11. Approve corrected invoice.

Create and prepare Transmission bill

- Capture information on business transactions (CoA.1)
- Classify transactions (CoA.2)
- Identify error(s) and pushback for correction (CoA.3)
- Correct error(s) (CoA.4)

DEPARTMENT	RESPONSIBILITY	ACTION
Fuel & Joint Owner Accounting	Lashyia Porter	1. Extract data from PBR Closing Status and Control Report, Joint Owner Share Reports and Joint Owner Transmission Report for the accounting period just closed. These reports are produced with the Joint Owner module processing and apply the joint ownership percentages to transactions eligible for billing.
Fuel & Joint Owner Accounting	Lashyia Porter	2. Enter the information obtained from the Joint Owner Share Reports and Joint Owner Transmission Reports into the invoicing spreadsheet by Business Segment Code and grouping of expense (determined by account).
Fuel & Joint Owner Accounting	Lashyia Porter	3. Update the monthly information of the Transmission Bill (Invoice #,

CD/CCD Operation & Maintenance Expense & Transmission Invoicing

		Payment Due Date, and Date Issued). Due Date is end of the month. Invoice # includes current month and year.
Fuel & Joint Owner Accounting	Monica Kilpatrick Diana Douglas	4. Review invoice and tie to amounts booked by journal entry. Approve invoice.
Fuel & Joint Owner Accounting	Lashyia Porter	5. Send a hard copy of the bill to Kelly Allen at Dayton Power & Light, and a hard copy of the bill to John Geels at Columbus Southern Power. Note: this process should be complete by Day 7, EOD.
Fuel & Joint Owner Accounting	Lashyia Porter Art Buescher Richard Gallagher	6. Respond to any questions about the bill and/or resolve any issues or issue corrected invoice.
Fuel & Joint Owner Accounting	Diana Douglas	7. Approve corrected invoice.

Follow up for collections as needed

DEPARTMENT	RESPONSIBILITY	ACTION
Fuel & Joint Owner Accounting	Lashyia Porter	1. Contact joint owner billing contacts, Bob Burwell in Treasury or Bob Hoffmann in Corporate Accounting as needed to track or receive payments.
Fuel & Joint Owner Accounting	Diana Douglas	2. Contact CD/CCD joint owner accounting committee members with non-payment and dispute issues and Cinergy's E&O committee member, Barry Pulskamp, and Scott Wilkerson in Credit, if non-payment situation is not resolved.

## Training and Documents

Training:

Documents:

- Joint owner agreements and amendments
- BDMS 2.0 Joint Owner Module process documentation
- ComTrac system joint owner process documentation

- Desk procedures

## Who Should Know

- Controller
- Assistant Controllers
- Corporate Accounting
- Fuel & Joint Owner Accounting

## Related Information

CCD Operating Expense Transactions

CCD Operating Expense Transactions - Reconciliation & Analysis

Fuel Coal Inventory - CG&E General Journal Entries

## Contacts

NAME	ROLE	DEPARTMENT
Anita Webb	Accounting Assistant	Fuel & Joint Owner Accounting
Richard Gallagher	Analyst	Fuel & Joint Owner Accounting
Art Buescher	Supervisor	Fuel & Joint Owner Accounting
Lashyia Porter	Analyst	Fuel & Joint Owner Accounting
Monica Kilpatrick	Senior Analyst	Fuel & Joint Owner Accounting
Diana Douglas	Manager	Fuel & Joint Owner Accounting
Erica Glenn	Senior Analyst	Accounting Research
Amy Sheppard	Manager	Accounting Research

## Definitions

BDMS - Business Data Management System

PBR - Planning, Budgeting & Reporting

EOD - End of Day

CD - Cincinnati - Dayton (agreements for joint ownership of facilities between CG&E and Dayton Power & Light)

CCD - Cincinnati - Columbus - Dayton (agreements for joint ownership of facilities between CG&E, Columbus Southern Power & Dayton Power and Light)

## Revisions

The following revisions are effective 01/01/05:

- Update policy for new manual ownership
- Update policy to reflect reorganization of manual





## Fuel Coal Inventory CG&E - Joint Owner

Functional Area: Fuel & Joint Owner Accounting  
Sarbanes-Oxley Category: Jointly Owned Plants  
Process Owner: Diana Douglas  
Effective Date: 09/01/98  
Revised Date: 01/01/05

All accounting policies and procedures can be found on the Accounting Policies and Procedures community within iPower as follows:

- Launch iPower
- Select "Accounting Policies and Procedures" under the "Communities" heading at the top of the page

### Policy Statement

The Fuel & Joint Owner Accounting Department will record all transactions relating to CG&E joint owner fuel inventories.

### Reason for Policy

To record joint owner fuel inventory activity in the Company financial statements in adherence to GAAP and regulatory requirements

### Process Flows

### Process Description/Narrative

## Frequently Asked Questions

## Procedure

- Capture information on business transactions (CoA.1)
- Classify transactions for journalizing (CoA.2)
- Cutoff transactions (CoA.5)

DEPARTMENT	RESPONSIBILITY	ACTION
DPL CSP	Faye Paul (DPL) Ron Herink (CSP)	1. Gather fuel inventory information from joint owners. Complete JE's for activity. If joint owner actuals are not available, estimate activity for closing (2 below). <i>Note: this process should be complete by Day 5, MOD.</i>
Fuel & Joint Owner Accounting	Richard Gallagher	2. If estimates are required, complete Excel spreadsheet estimating inventory activity using current month generation as input. Complete JE's for estimated activity. <i>Note: this process should be complete by Day 5, MOD.</i>
Fuel & Joint Owner Accounting	Richard Gallagher	3. If estimates were journalized for prior month, reverse and journalize actual activity. <i>Note: this process should be complete by Day 5, MOD.</i>

- Identify error(s) in Source Documents and pushback for correction (CoA.3)
- Correct error(s) in source documents (CoA.4)

DEPARTMENT	RESPONSIBILITY	ACTION
Fuel & Joint Owner Accounting	Richard Gallagher	1. Look at data for reasonableness. If there are questions, address with joint owners (close will not be held up with this step). Any needed corrections will be made in the following month's business. <i>Note: this process should be complete by Day 5, MOD.</i>

- Prepare journal entries (CoA.6)
- Identify errors in prepared journal entries (CoA.7a)
- Correct errors in prepared journal entries (CoA.7b)

DEPARTMENT	RESPONSIBILITY	ACTION
Fuel & Joint Owner Accounting	Richard Gallagher	1. Verify and correct data entry errors in JE Tool. <i>Note: this process should be complete by Day 5, MOD.</i>

Post journal entries to BDMS 2.0 (CoA.8)

DEPARTMENT	RESPONSIBILITY	ACTION
Fuel & Joint Owner Accounting	Art Buescher	1. Approve the journal entries for posting. <i>Note: this process should be complete by Day 5, MOD.</i>
Corporate Accounting	John Linton	2. BDMS will post all journal entries approved for posting. <i>Note: this process should be complete by Day 5, EOD.</i>

Create and post accruals (CoA.10)

Create and post reserves (CoA.11)

DEPARTMENT	RESPONSIBILITY	ACTION
N/A	N/A	All accruals and reserves are included in the above processes.

## Training and Documents

Training:

Additional Documents:

## Who Should Know

- Controller
- Assistant Controllers
- Corporate Accounting
- Fuel & Joint Owner Accounting
- Generating Stations

## Related Information

## Fuel Coal Inventory CG&E General Journal Entries Policy

### Fuel Coal Inventory CG&E - Reconciliation & Analysis

## Contacts

NAME	ROLE	DEPARTMENT
Faye Paul	Fuel Bill	DPL
Ron Herink	Fuel Bill	CSP
Richard Gallagher	Analyst	Fuel & Joint Owner Accounting.
Art Buescher	Supervisor	Fuel & Joint Owner Accounting.
Diana Douglas	Manager	Fuel & Joint Owner Accounting.
Erica Glenn	Senior Analyst	Accounting Research
Amy Sheppard	Manager	Accounting Research

## Definitions

MOD - Middle of Day

EOD - End of Day

## Revisions

The following revision is effective 09/01/02:

- Update procedure for personnel and department name changes

The following revisions are effective 02/01/04:

- Update procedure for personnel changes
- Change name of policy

The following revisions are effective 01/01/05:

- Update policy for new manual ownership
- Update policy to reflect reorganization of manual



## New Corporation Set-up Legal

Functional Area: Legal  
Sarbanes-Oxley Category: High Level Controls  
Process Owner: Candace Sheridan  
Effective Date: 08/01/98  
Revised Date: 07/01/05

All accounting policies and procedures can be found on the Accounting Policies and Procedures community within iPower as follows:

- Launch iPower
- Select "Accounting Policies and Procedures" under the "Communities" heading at the top of the page

### Policy Statement

All proposed and accepted new Cinergy corporations shall follow the following prescribed procedure to ensure a successful foundation to record business transactions and comply with all regulatory bodies.

### Reason for Policy

To provide guidance in the creation and set-up of new Cinergy corporations thus ensuring a thorough and successful foundation for the corporation to start from

### Process Flows

### Process Description/Narrative

## Frequently Asked Questions

**Q1. What should be included in the business case, which is to be sent to the legal department?**

A. All terms necessary are detailed in the procedure section below.

## Procedure

DEPARTMENT	RESPONSIBILITY	ACTION
Sponsor	Sponsor	1. Perceives there is a need for a new corporation.
Sponsor	Sponsor	2. Send a business case to the legal department in which the following questions (at minimum) have been addressed: <ul style="list-style-type: none"> <li>a. Will a Cinergy business entity perform the activity alone or with another entity?</li> <li>b. Is there an existing corporation or business entity that can perform the business activity?               <ul style="list-style-type: none"> <li>• If yes, are there compelling tax, accounting, legal or corporate liability issues and business accountability reasons for conducting an already authorized business through one or more separate entities?</li> <li>• If no, are there regulatory approvals needed and is there adequate time for receipt of approval and is approval likely to be obtained?</li> </ul> </li> <li>c. Are there tax or accounting considerations or advantages sufficient to warrant formation of new entity?</li> <li>d. Are there state statutory requirements for corporate status for specific activity (e.g.,</li> </ul>

New Corporation Set-up - Legal

		<p>some states require engineering services to be provided by an entity formed in that state)?</p> <p>e. Should a corporation be formed or is another type of business entity, like a limited liability company or partnership, preferable?</p>
Legal Department	Attorney	3. Determine if the case is valid and if a new corporation should be created.
Legal Department	Attorney	4. Notify sponsor with decision.
Legal Department	Attorney	<p>5. Notify the following individuals that a new company is being created:</p> <ul style="list-style-type: none"> <li>• Teri O'Neill - Corporate Secretarial</li> <li>• External Reporting Manager</li> <li>• Tony Redden - Insurance</li> </ul>
Sponsor	Sponsor	6. Create an implementation team to be involved in the set-up process.
Sponsor	Sponsor	7. Divide the team into sub-teams (at a minimum for the areas identified in the Team Planning Schedule) and assign an executive sponsor and lead coordinator for each team.
Sponsor	Sponsor	8. Create a work-plan and due dates for each task.
Sponsor	Sponsor	9. Insert the data into the Team Planning Schedule.
Sponsor	Sponsor	<p>10. Notify General Accounting Manager of the following:</p> <ul style="list-style-type: none"> <li>a. New Corporation Set-up form.</li> <li>b. What accounts are needed, selecting from the non-reg chart of accounts.</li> <li>c. The initial capitalization costs and the corporation number and workcodes where these costs will be charged</li> </ul>

Research of the new corporation relating to tax

DEPARTMENT	RESPONSIBILITY	ACTION
Tax	John Lechko	1. Contact John Lechko with any questions regarding the tax

		implications of the new corporation.
Tax	John Lechko	2. Forward questions as appropriate.

Legal Department Action steps

DEPARTMENT	RESPONSIBILITY	ACTION
Legal	Candace Erisen	1. If necessary, reserve name: Is the name of the new company appropriate and can it be used in the state(s) in which business will be conducted?
Legal	Candace Erisen	2. Obtain written consent from Board of Directors (of parent company) authorizing the formation of the new corporation and initial investment.
Legal	Candace Erisen	3. Obtain Certificate of Incorporation or other document that gives the corporation existence.
Legal	Candace Erisen	4. Perform the following: <ul style="list-style-type: none"> <li>a. Obtain Instrument of Organization (usually Delaware).</li> <li>b. Certify that Certificate of Incorporation or other similar document was filed with Secretary of State.</li> <li>c. Approve By-laws or Regulations and authorize execution.</li> <li>d. Elect directors.</li> </ul>
Legal	Candace Erisen	5. Obtain Action/ Resolution by Board of Directors, which includes: <ul style="list-style-type: none"> <li>a. Approve, ratify, confirm and adopt actions of Sole Incorporator.</li> <li>b. Adopt specimen stock certificate, as required.</li> <li>c. Elect/ appoint officers.</li> <li>d. Authorize issuance of shares of capital stock (to parent company if new corporation to be wholly owned subsidiary), as required.</li> <li>e. Authorize corporation to do</li> </ul>



New Corporation Set-up - Legal

		<p>business in any state.</p> <p>f. Make banking resolutions.</p> <p>g. Establish fiscal year.</p> <p>h. Authorize Treasurer and/or other officers to pay expenses arising out of organization of new corporation.</p> <p>i. Authorize Secretary and/or other officers to procure books and stockholders records as needed.</p> <p>j. Authorize officers to take actions necessary to carry out intent of foregoing.</p>
Legal	Candace Erisen	6. Prepare Stock Certificate for execution by the President and Secretary, pursuant to the bylaws, as required. When executed, transmit to Corporate Secretarial for filing with original minutes.
Legal	Cecilia Temple	7. Send new company announcement to the Tax Department.
Legal	Candace Erisen/Project Attorney	8. Notify General Accounting Manager and John Linton with the following information: <ul style="list-style-type: none"> <li>a. Official corporation name, including:           <ul style="list-style-type: none"> <li>• Type of business</li> <li>• Parent company</li> <li>• Will corporation have fully dedicated employees paid by Cinergy</li> </ul> </li> <li>b. The initial capitalization for the new corporation.</li> <li>c. When the new corporation is set-up (BU and name of person) notification to Newco Distribution List.</li> </ul>
Legal	Teri O'Neill Joan Meadows George Dwight Cecilia Temple	9. Notify Bonnie Kittle (ER) with the following information: <ul style="list-style-type: none"> <li>a. 35 Act status determination (e.g., FUCO, rule 58, classification within rule 58, etc.).</li> <li>b. Listing of officers and directors.</li> <li>c. Initial capital structure including: contributions, number of shares authorized, outstanding, and commitments for additional capital</li> </ul>

contributions, ownership percentages, etc. d. The articles of incorporation /bylaws.		
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## Training and Documents

Training:

Additional Documents:

- Team Planning Schedule
- Example of a work-plan for setting up a new corporation.

## Who Should Know

- Corporate Accounting
- External Reporting
- Tax
- Fixed Asset Accounting
- Payroll
- Accounts Payable
- Misc. Accounts Receivable
- Treasury
- Legal Department

## Related Information

- New Corporation Set-up - Tax Department Policy
- New Corporation Set-up - Treasury Department Policy
- New Corporation Set-up - Corporate Accounting Policy
- New Corporation Set-up - Service Company Policy
- New Corporation Set-up - Misc. Accounts Receivable Policy
- New Corporation Set-up - Payroll Policy
- New Limited Liability Company Set-up Policy

New Corporation Set-up - Legal

## Contacts

Name	Role	Dept
Candace Sheridan	Sr. Counsel	Legal
Lisa Carver	Manager	Payroll
Brenda Melendez	Manager	Fixed Asset Accounting
Gwen Pate	Manager	Corporate Accounting
Kim Sipes	Manager	Treasury
Erica Glenn	Coordinator	Accounting Research
Amy Sheppard	Manager	Accounting Research

## Definitions

## Revisions

The following revision is effective 12/1/00:

- Update procedure for personnel changes

The following revisions are effective 05/01/02:

- Update procedure for personnel changes
- Limit this procedure to "Corporation" set-up since a new policy has been created for "Limited Liability Companies."

The following revision is effective 05/01/03:

- Update procedure for personnel changes

The following revision is effective 12/31/04:

- Update procedure for personnel changes

The following revisions are effective 01/01/05:

- Update policy for new manual ownership
- Update policy to reflect reorganization of manual

The following revision is effective 07/01/05:

- Update procedure for personnel changes

401k Employer Expense



## 401k Employer Expense

Functional Area: General Accounting  
Sarbanes-Oxley Category: Payroll/Human Resources  
Process Owner: Gwen Pate  
Effective Date: 09/01/98  
Revised Date: 01/01/05

All accounting policies and procedures can be found on the Accounting Policies and Procedures community within iPower as follows:

- Launch iPower
- Select "Accounting Policies and Procedures" under the "Communities" heading at the top of the page

### Policy Statement

Cinergy will record all transactions relating to 401(k) Plan in the Company financial statements.

### Reason for Policy

To record employee benefit activity in the Company financial statements in adherence with GAAP and regulatory requirements

### Process Flows

### Process Description/Narrative

### Frequently Asked Questions

**Q1. What is the 401(k) Plan?**

A. The 401(k) Plan is a type of defined contribution retirement plan that allows employees to save and invest for their own retirement. Through the 401(k) Plan, an employee authorizes Cinergy to deduct a certain amount of money from his/her paycheck (either before or after taxes are calculated). The deductions are invested in the investment options chosen by the employee from those offered by the 401(k) Plan. The IRS establishes the maximum amounts that an employee can contribute to the 401(k) Plan.

**Q2. Who manages the Company's 401(k) Plan?**

A. Cinergy's 401(k) Plan is managed by Fidelity Investments, which offers a variety of investment opportunities.

**Q3. What cost does Cinergy incur associated with the 401(k) Plan?**

A. Cinergy incurs cost associated with "matching" employee contributions. Cinergy matches 100% of the first 3% of employee base pay pretax contributions, plus 50% of the next 2% of employee base pay pretax contributions. Cinergy may also contribute an additional 1% of base pay, depending upon Cinergy's meeting corporate goals. The additional employer contribution is announced the first quarter of each plan year.

Employees are immediately vested in any Company matching contributions that have been made to the employees' accounts.

**Procedure**

- Capture information on business transactions (CoA.1)
- Classify transactions for journalizing (CoA.2)
- Cutoff transactions (CoA.5)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll and Benefits Accounting	Payroll Processor	1. Capture 401(k) employee deduction and employer match (including incentive match) activity and classify into the LDCS system based upon accounting information in personnel records. Month end cutoff occurs based upon pay date where all

401k Employer Expense

DEPARTMENT	RESPONSIBILITY	ACTION
		activity occurring within a month is booked in the same month. <i>Note: this process should be complete by Day 1, EOD for the final pay of each month.</i>
Payroll & Benefits Accounting	Georgia Pool	2. Enters the information into a spreadsheet that details 401(k) deductions by plan and Corp.
Payroll & Benefits Accounting	Georgia Pool	3. Sends spreadsheet to Fidelity one to two days prior to pay date so that Fidelity can review the data for errors and discrepancies.
	Fidelity Representative	4. Any issues identified by Fidelity are communicated to Georgia so that she can correct them prior to the posting of the contributions to participant accounts.
Payroll & Benefits Accounting	Georgia Pool	5. Initiates RFPs for each plan the day before the end of the pay period to ensure that the funds will be wired to Fidelity on payday and allocated to the employees' individual accounts.
Payroll & Benefits Accounting	Lisa Carver	6. Approves the RFPs for payment.
Payroll & Benefits Accounting	Georgia Pool	7. Forwards RFPs to A/P for processing to ensure that the funds are wired to Fidelity on payday and allocated to the employees' respective accounts.

Identify error(s) in source documents and pushback for correction (CoA.3)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll	Marion Felix	1. Review the LDCS pay runs and verify that debits & credits are equal. If an error is located, notify Jeff Ferguson of IT via phone and provide all notes and source reports. <i>Note: this process should be complete by Day 1, EOD for the final pay of each month.</i>

Correct error(s) in source documents (CoA.4)

DEPARTMENT	RESPONSIBILITY	ACTION
IT	Jeff Ferguson	1. Receive correction requests from

		Payroll and make necessary corrections to LDCS. <i>Note: this process should be complete by Day 1, EOD for the final pay of each month.</i>
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Prepare journal entries (CoA.6)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll & Benefits Accounting	Georgia Pool	1. Generate the Payroll Register Summary and distribute to Human Resources. <i>Note: this process should be completed one day before each pay run.</i>
Payroll & Benefits Accounting	Georgia Pool	2. Extract the company totals (for both regular and incentive match) from the Payroll Register Summary and summarize into an Excel spreadsheet. <i>Note: this process should be complete by Day 2, EOD.</i>
Payroll & Benefits Accounting	Georgia Pool	3. Extract the total from the Excel spreadsheet for each Corp. and enter into a predefined journal entry (PB217) in the JE Tool. <i>Note: this process should be complete by Day 2, EOD.</i>

Identify errors in prepared journal entries (CoA.7a)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll & Benefits Accounting	Georgia Pool	1. Verify a copy of the journal entry against the source document to ensure data entry accuracy. If an error is located, notify the preparer and provide a copy of source doc's & JE's. <i>Note: this process should be complete by Day 2, EOD.</i>

Correct errors in prepared journal entries (CoA.7b)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll & Benefits Accounting	Georgia Pool	1. Correct data entry errors in JE Tool. <i>Note: this process should be complete by Day 2, EOD.</i>

Post journal entries to BDMS 2.0 (CoA.8)



401k Employer Expense

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll & Benefits Accounting	Cathy Hargrave	1. Approve journal entries for posting.
Corporate Accounting	BDMS Coordinator/John Linton	2. BDMS will post all journal entries approved for posting. <i>Note: this process should be complete by Day 2, EOD.</i>

Create and post accruals (CoA.10)  
 Create and post reserves (CoA.11)

DEPARTMENT	RESPONSIBILITY	ACTION
N/A	N/A	All accruals and reserves are included in the above processes.

## Training and Documents

Training:

Documents:

## Who Should Know

- Corporate Accounting
- Human Resources
- Payroll

## Related Information

Employee Benefit accounts - Reconciliation & Analysis Policy

Fringe Benefits Cost Pool - Annual & Periodic Studies Policy

## Contacts

NAME	ROLE	DEPARTMENT
Paula Freeman	Payroll	Payroll & Benefits Accounting

Georgia Pool	Benefits	Benefits
Lisa Carver	Manager	Payroll & Benefits Accounting
Erica Glenn	Coordinator	Accounting Research
Amy Sheppard	Manager	Accounting Research

## Definitions

EOD - End of Day

## Revisions

The following revision is effective 08/01/00:

- Update procedure for personnel changes

The following revision is effective 12/01/02:

- Update procedure for personnel changes

The following revision is effective 10/01/03:

- Update procedure for Frequently Asked Questions

The following revisions are effective 01/01/05:

- Update policy for new manual ownership
- Update policy to reflect reorganization of manual



## Accounts Payable

Functional Area: Office Services: Accounts Payable,  
Mail  
Sarbanes-Oxley Category: Expenditures  
Process Owner: Dale Butler  
Effective Date: 09/01/98  
Revised Date: 01/01/05

All accounting policies and procedures can be found on the Accounting Policies and Procedures community within iPower as follows:

- Launch iPower
- Select "Accounting Policies and Procedures" under the "Communities" heading at the top of the page

### Policy Statement

Cinergy will record all transactions related to accounts payable invoices and employee expenses.

### Reason for Policy

To record accounts payable activity in the Company financial statements in adherence to GAAP and regulatory requirements

### Process Flows

### Process Description/Narrative

## Frequently Asked Questions

### Procedure

Capture information on business transactions (CoA.1)

Classify transactions for journalizing. (CoA.2)

Cutoff transactions (CoA.5)

DEPARTMENT	RESPONSIBILITY	ACTION
Originating Organization	Originating Organization	1. Capture employee expense information and classify into the Passport System based upon accounting information. Monthly cutoff occurs on the last day of the month. <i>Note: this process should be completed daily.</i>
Accounts Payable	Clerk	2. Capture accounts payable invoice and voucher information and classify into the Passport System based upon accounting information. Monthly cutoff occurs on the last day of the month. <i>Note: this process should be completed daily.</i>

Identify error(s) in Source Documents and pushback for correction (CoA.3)

DEPARTMENT	RESPONSIBILITY	ACTION
Originating Organization/ Accounts Payable	Originating Organization/ Clerk	1. Identify errors in account data via the Passport validation logic during data entry. If there are errors, the operator is notified with an on-screen message. <i>Note: this process should be completed daily.</i>

Correct error(s) in source documents (CoA.4)

DEPARTMENT	RESPONSIBILITY	ACTION
Originating Organization/ Accounts Payable	Originating Organization/ Clerk	1. Correct errors through manual re-entry of the data into the Passport System. <i>Note: this process should be completed daily.</i>

Prepare journal entries. (CoA.6)  
 Identify errors in prepared journal entries. (CoA.7a)  
 Correct errors in prepared journal entries. (CoA.7b)

DEPARTMENT	RESPONSIBILITY	ACTION
Accounts Payable	Rick Colvin	1. Run the Weekly Extract program in Passport (for account 23211) creating an Extract File and Control Report. Distribute Control Report to Corporate Accounting. <i>Note: this process should be completed every Monday, MOD and Day 1, EOD for month end.</i>
Corporate Accounting	BDMS Coordinator	2. Load auto feed from the Accounts Payable System. If validation errors occur contact feeder owner and return file for correction. <i>Note: this process should be completed by Day 2, MOD.</i>
Accounts Payable	Rick Colvin	3. Correct validation errors and reprocess the auto feed. <i>Note: this process should be completed by Day 2, MOD.</i>
Accounts Payable	Rick Colvin	4. Run distribution program in the Passport System to create auto feed to BDMS 2.0. <i>Note: this process should be complete upon receipt of Control Report and Day 2, EOD for month end.</i>

Post journal entries to BDMS 2.0. (CoA.8)

DEPARTMENT	RESPONSIBILITY	ACTION
Corporate Accounting	BDMS Coordinator	1. Approve the journal entries for posting.
Corporate Accounting	BDMS Coordinator	2. BDMS will post all journal entries approved for posting. <i>Note: this process should be complete by Day 2, EOD.</i>

Create and post accruals (CoA.10)  
 Create and post reserves (CoA.11)

DEPARTMENT	RESPONSIBILITY	ACTION
N/A	N/A	1. All accruals and reserves are booked related to Accounts Payable

## Training and Documents

Training:

Additional Documents:

## Who Should Know

- Controller
- Assistant Controllers
- Corporate Accounting
- Accounts Payable

## Related Information

Accounts Payable - Reconciliation & Analysis Policy

## Contacts

Name	Role	Dept
Rick Colvin	Senior Analyst	Accounts Payable
Dale Butler	Manager	Accounts Payable
Erica Glenn	Senior Analyst	Accounting Research
Amy Sheppard	Manager	Accounting Research

## Definitions

MOD - Middle of Day

EOD - End of Day

## Revisions

The following revisions are effective 08/01/99:

- Update "Responsibility" column for personnel changes
- Update process for elimination of forecasting step

The following revision is effective 11/01/00:

- Update procedure for personnel changes

The policy was reviewed with no revisions made 11/01/01.

The following revision is effective 02/01/03:

- Update procedure for some minor wording changes

The following revisions are effective 01/01/05:

- Update policy for new manual ownership
- Update policy to reflect reorganization of manual



# Accounts Payable Reconciliation & Analysis

Functional Area: Office Services: Accounts Payable,  
Sarbanes-Oxley Category: ~~Expenditures~~ Mail  
Process Owner: Dale Butler  
Effective Date: 09/01/98  
Revised Date: 01/01/05

All accounting policies and procedures can be found on the Accounting Policies and Procedures community within iPower as follows:

- Launch iPower
- Select "Accounting Policies and Procedures" under the "Communities" heading at the top of the page

## Policy Statement

All Balance Sheet accounts for all corporations shall be reconciled using Reconciliation and Analysis Standards as outlined in the Reconciliation & Analysis of Accounts Policy. The reconciliation shall be done on a timely basis, which is determined according to the account standards defined in the New Account Set-up & Definition (Account Standards) Policy.

## Reason for Policy

- To ensure that responsibility for accuracy of data within an account is held by those closest to the transaction
- To increase control of accounts
- To clearly define ownership of accounts providing a single source for information regarding the accounts



**Process Flows**

**Process Description/Narrative**

**Frequently Asked Questions**

**Procedure**

Reconcile Accounts (CoA.9)

DEPARTMENT	RESPONSIBILITY	ACTION
Accounts Payable	Rick Colvin	1. Obtain supporting schedules for accounts 186940, and 232110.
Accounts Payable	Rick Colvin	2. Verify GL balance to supporting schedule balance.
Accounts Payable	Rick Colvin	3. Compare and validate the transactions in the GL to those in the supporting schedules.
Accounts Payable	Rick Colvin	4. Update "Last Reconciled Date" field in BDMS (PBR - Accounting Data Set-up) to reflect the last period for which the account balance was verified/reconciled.

Perform analysis of transactions. (CoA.12)

DEPARTMENT	RESPONSIBILITY	ACTION
Accounts Payable	Rick Colvin	1. Provide source documentation for any transaction specific inquiry from other departments on an as needed basis.

Perform analysis of financial statements: business unit review (CoA.13a)

DEPARTMENT	RESPONSIBILITY	ACTION
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Accounts Payable	Rick Colvin	1. Business Unit specific Financial Statement analysis is at the discretion of the Business Unit with the exception of minimum analysis required to support Legal Entity analysis. The extent of Legal Entity analysis will be determined on a case by case basis, as required.
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Perform analysis of financial statements: legal review of regulatory entity (CoA.13b)

DEPARTMENT	RESPONSIBILITY	ACTION
Accounts Payable	Rick Colvin	1. Perform a monthly reasonableness check of the balances by corp.

## Training and Documents

Training:

Additional Documents:

## Who Should Know

- Controller
- Assistant Controller
- Corporate Accounting
- Accounts Payable

## Related Information

Accounts Payable Policy

New Account Set-up & Definition (Account Standards) Policy

Reconciliation & Analysis of Accounts Policy

## Contacts

Name	Role	Dept
Rick Colvin	Senior Analyst	Accounts Payable
Bill Rothan	Supervisor	Accounts Payable
Dale Butler	Manager	Accounts Payable
Erica Glenn	Senior Analyst	Accounting Research
Amy Sheppard	Manager	Accounting Research

## Definitions

## Revisions

The following revision is effective 8/01/99:

- Update "Responsibility" column for personnel changes

The following revision is effective 9/01/99:

- Update process for Account Reconciliation Database in PBR

The following revision is effective 11/01/00:

- Update procedure for personnel changes

The policy was reviewed with no revisions made on 02/01/03:

- Update procedure for process change

The following revisions are effective 01/01/05:

- Update policy for new manual ownership
- Update policy to reflect reorganization of manual



# Workers' Compensation Supplemental Benefits

Functional Area: General Accounting  
Sarbanes-Oxley Category: Payroll/Human Resources  
Process Owner: Gwen Pate  
Effective Date: 07/01/03  
Revised Date: 01/01/05

All accounting policies and procedures can be found on the Accounting Policies and Procedures community within iPower as follows:

- Launch iPower
- Select "Accounting Policies and Procedures" under the "Communities" heading at the top of the page

## Policy Statement

Cinergy will record all transactions relating to supplemental workers' compensation benefits.

## Reason for Policy

To record transactions associated with supplemental workers' compensation benefits in the Company financial statements in adherence with GAAP and regulatory requirements

## Process Flows

## Process Description/Narrative

## Frequently Asked Questions

### **Q1. What supplemental workers' compensation benefits does Cinergy provide its employees?**

A. Cinergy employees eligible for workers' compensation income benefits are eligible for Cinergy's workers' compensation supplemental benefits. During the first 26 weeks of disability, the supplemental benefit pays the difference between the full amount (100%) of the employee's average weekly or full weekly wage and the workers' compensation benefit mandated by the states. This supplemental benefit is paid until the employee recovers, returns to light duty, or has been disabled for 26 weeks.

### **Q2. What are the accounting requirements associated with workers' compensation liabilities?**

A. FAS 112 establishes the financial accounting and reporting for the estimated costs of benefits provided by an employer to former or inactive employees after employment but before retirement. Postemployment benefits are all types of benefits provided to former or inactive employees, their beneficiaries, and covered dependents, including disability-related benefits such as workers' compensation.

Postemployment benefits that meet the conditions of paragraph 6 of FAS 43 are accounted for in accordance with FAS 43. Paragraph 6 of FAS 43 states:

"An employer shall accrue a liability for employees' compensation for future absences if *all* of the following conditions are met:

- a. The employer's obligation relating to employees' rights to receive compensation for future absences is attributable to employees' services already rendered,
- b. The obligation relates to rights that vest or accumulate,
- c. Payment of the compensation is probable, and
- d. The amount can be reasonably estimated."

Postemployment benefits that are within the scope of FAS 112 that do not meet the requirements of FAS 43 are accounted for in accordance with FAS 5.

Paragraph 5 of FAS 5 states:

"An estimated loss from a loss contingency ... shall be accrued by a charge to income if *both* of the following conditions are met:

- a. Information available prior to the issuance of the financial statements indicates that it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements. It is implicit in this condition that it must be probable that one or more future events will occur confirming the fact of the loss.
- b. The amount of loss can be reasonably estimated."

Since Cinergy's workers' compensation benefits do not vest and accumulate, the provisions of FAS 43 are not met. Accordingly, Cinergy accounts for its workers' compensation liabilities in accordance with FAS 5.

**Q3. How is Cinergy's workers' compensation liability/reserve determined?**

A. Cinergy employs an actuary, Hewitt Associates LLC (Hewitt), to determine its workers' compensation liability/reserve as of September 30 of each year. Hewitt retains Regnier Consulting who performs the actuarial calculations.

**Q4. Why are Cinergy's workers' compensation benefit payments (including supplemental benefits) charged to expense and not to the workers' compensation reserve account?**

A. Workers' compensation benefit payments (including supplemental benefits) are used as a surrogate for the current year expense amount. On a monthly basis, Human Resources reviews the estimated reserves as calculated by the TPAs to determine if additional liabilities/reserves and expense should be recorded. On an annual basis, Hewitt estimates Cinergy's workers' compensation liabilities/reserves as of September 30. Upon receipt of the actuarial report from Hewitt, Human Resources records an entry to "true-up" Cinergy's workers' compensation liability/reserve accounts.

**Procedure**

- Capture information on business transactions (CoA.1)
- Classify transactions (CoA.2)
- Identify error(s) in Source Documents and pushback for correction (CoA.3)
- Correct error in source documents (CoA.4)
- Feeder Posts (CoA.6)

DEPARTMENT	RESPONSIBILITY	ACTION
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Workers' Compensation Supplemental Benefits

All Departments	Injured Employee or Supervisor	1. Complete an Accident Report and submit to Michele Pickens.
Human Resources	Michele Pickens	2. Identify any missing or incomplete data on source document, and contact injured employee or employee's supervisor. Send Accident Report to respective Third Party Administrators (TPA) and to Payroll department for supplemental payments.
Payroll & Benefits Accounting	Payroll staff	3. Process supplemental payments through Payroll.

Identify errors in prepared journal entries (CoA.7a)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll & Benefits Accounting	Lisa Carver	1. Verify a copy of the journal entry against the source document to ensure data entry accuracy. If an error is identified, notify the preparer and provide a copy of source documents and JEs. <i>Note: this process should be complete by Day 3, EOD.</i>

Correct error in prepared journal entries (CoA.7b)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll & Benefits Accounting	Rose Marie Starkey	1. Correct data entry in JE Tool. <i>Note: this process should be complete by Day 3, EOD.</i>

Post journal entries to BDMS 2.0 (CoA.8)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll & Benefits Accounting	Lisa Carver	1. Approve journal entries for posting. <i>Note: this process should be complete by Day 3, EOD.</i>
Corporate Accounting	John Linton	2. BDMS will post all journal entries approved for posting. <i>Note: this process should be complete by Day 3, EOD.</i>

## Training and Documents

Training:

Workers' Compensation Supplemental Benefits

Lisa Carver	Manager	Human Resources
Rose Marie Starkey	Lead Human Resources Accountant	Human Resources
Michele Pickens	Human Resources	Human Resources
Bill Schick	Human Resources	Human Resources
Erica Glenn	Senior Analyst	Accounting Research
Amy Sheppard	Manager	Accounting Research

## Definitions

GAAP - Generally Accepted Accounting Principles

FAS 112 - Statement of Financial Accounting Standards No. 112, *Employers' Accounting for Postemployment Benefits*

FAS 43 - Statement of Financial Accounting Standards No. 43, *Accounting for Compensated Absences*

FAS 5 - Statement of Financial Accounting Standards No. 5, *Accounting for Contingencies*

## Revisions

The following revisions are effective 01/01/05:

- Update policy for new manual ownership
- Update policy to reflect reorganization of manual





# Stock-Based Compensation - Employee Plans - Reconciliation & Analysis

Functional Area: HR, Payroll & Benefits Accounting  
Sarbanes-Oxley Category: Stock Purchase and Compensation Plans  
Process Owner: Lisa Carver  
Effective Date: 11/01/03  
Revised Date: 01/01/05

All accounting policies and procedures can be found on the Accounting Policies and Procedures community within iPower as follows:

- Launch iPower
- Select "Accounting Policies and Procedures" under the "Communities" heading at the top of the page

## Policy Statement

On at least an annual basis, or more frequently, as determined by the accounting manager, all stock-based compensation accounts associated with employee plans will be reconciled between subsidiary ledgers and General Ledger. All Balance Sheet accounts for all corporations shall be reconciled using Reconciliation and Analysis Standards as outlined in the Reconciliation & Analysis of Accounts Policy. The reconciliation shall be done on a timely basis, which is determined according to the account standards defined in the New Account Set-up & Definition (Account Standards) Policy.

## Reason for Policy

- To ensure that all stock-based compensation transactions are recorded in the Company's financial statements in adherence to GAAP and Regulatory Requirements

- To ensure that responsibility for accuracy of data within an account is held by those closest to the transaction
- To increase control of accounts
- To clearly define ownership of accounts providing a single source for information regarding the accounts

## Process Flows

## Process Description/Narrative

## Frequently Asked Questions

### **Q1. What documentation should be included in the Account Reconciliation workpapers?**

A. Account reconciliation workpapers will vary from account to account. However, at a minimum, each account's workpapers should include the following:

1. Account Background
  - a. Business purpose of account
  - b. Nature of charges to the account
  - c. Amortization period, if applicable
  - d. Related accounts
  - e. Key contact person/department
2. Key Account Documents, as applicable
  - a. Compensation Committee Resolutions
  - b. Award Agreements
  - c. Equity Edge reports
  - d. Bloomberg Professional reports
  - e. Board of Directors Resolutions
  - f. Stock-Based Compensation Plan Documents
  - g. Company Policy or Accounting Research Documents
  - h. Employment Contracts

Stock-Based Compensation - Employee Plans - Reconciliation & Analysis

3. Reconciliation Data

- a. Date reconciliation performed
- b. Individual performing reconciliation
- c. Support for ending account balance
- d. Reconciling items identified
- e. Date, method, individual clearing reconciling items

The workpapers should also include any other documentation deemed necessary to support the appropriateness of the ending account balance.

**Procedure**

Reconcile all stock based compensation accounts (CoA.9)

DEPARTMENT	RESPONSIBILITY	ACTION
		<i>Note: The following process is performed at least annually, or more frequently, as determined by the accounting manager, to reconcile all stock-based compensation accounts.</i>
Payroll & Benefits Accounting	Caryl West	1. Run General Ledger reports from FRT for all applicable accounts.
Payroll & Benefits Accounting	Caryl West	2. Obtain supporting Excel schedules / Equity Edge reports.
Payroll & Benefits Accounting	Caryl West	3. Verify the General Ledger balance (FRT) to the supporting Excel schedules / Equity Edge reports balances.
Payroll & Benefits Accounting	Caryl West	4. Investigate balance differences and misposted transactions as necessary.
Payroll & Benefits Accounting	Caryl West	5. Create correcting adjustments, as necessary.
Payroll & Benefits Accounting	Caryl West	6. Update "Last Reconciled Date" field in BDMS (PBR - Accounting Data Set-up) to reflect the last period for which the account balance was verified/reconciled.
Payroll & Benefits Accounting	Lisa Carver	7. Review and approve any correcting adjustments and the account reconciliation.

Perform analysis of transactions (CoA.12)

Stock-Based Compensation - Employee Plans - Reconciliation & Analysis

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll & Benefits Accounting	Caryl West	1. Perform variance analysis on General Ledger account balances as necessary.

Perform analysis of financial statements: business unit review (CoA.13a)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll & Benefits Accounting	Caryl West	1. Business Unit specific Financial Statement analysis is at the discretion of the Business Unit with the exception of minimum analysis required to support Legal Entity analysis. The extent of Legal Entity analysis will be determined on a case-by-case basis, as required.

Perform analysis of financial statements: legal review of regulatory entity (CoA.13b)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll & Benefits Accounting	Caryl West	1. Provide Corporate Accounting information as required, for their variance analysis.

## Training and Documents

Training:

Additional Documents:

## Who Should Know

- Controller
- Assistant Controllers
- Corporate Accounting
- External Reporting
- Accounting Research
- Payroll & Benefits Accounting

**Related Information**

- New Account Set-up & Definition (Account Standards) Policy
- Reconciliation & Analysis of Accounts Policy
- Stock-Based Employee Compensation Plans Policy
- Long-term Incentive Compensation Plan – Stock Options Policy
- Long-term Incentive Compensation Plan – Performance-Based Awards Policy
- Long-term Incentive Compensation Plan – Phantom Stock Policy
- Long-term Incentive Compensation Plan – Deferred Shares Policy
- Long-term Incentive Compensation Plan – Restricted Stock Policy
- Employee Stock Purchase and Savings Plan Policy
- Stock Option Plan Policy
- Exercise of Stock Options Policy

**Contacts**

NAME	ROLE	DEPARTMENT
Lisa Carver	Manager	Payroll
Erica Glenn	Senior Analyst	Accounting Research
Amy Sheppard	Manager	Accounting Research

**Definitions**

- GAAP - Generally Accepted Accounting Principles
- EOD - End of Day

**Revisions**

The following revisions are effective 01/01/05:

- Update policy for new manual ownership
- Update policy to reflect reorganization of manual



## Workers' Compensation Benefits

Functional Area: General Accounting  
Sarbanes-Oxley Category: Payroll/Human Resources  
Process Owner: Gwen Pate  
Effective Date: 07/01/03  
Revised Date: 01/01/05

All accounting policies and procedures can be found on the Accounting Policies and Procedures community within iPower as follows:

- Launch iPower
- Select "Accounting Policies and Procedures" under the "Communities" heading at the top of the page

### Policy Statement

Cinergy will record all transactions associated with workers' compensation benefits.

Cinergy will record all transactions associated with the federal Longshore & Harbor Workers' Compensation Act.

### Reason for Policy

- To record transactions associated with workers' compensation in the Company financial statements in adherence with GAAP and regulatory requirements (including Indiana, Kentucky, and Ohio state statutes)
- To record transactions associated with the federal Longshore & Harbor Workers' Compensation Act in the Company financial statements in adherence with GAAP and regulatory requirements

### Process Flows

## Process Description/Narrative

## Frequently Asked Questions

### Q1. What are workers' compensation benefits?

A. Workers' compensation benefits, which are mandated by state or federal statutes, relate to employees who are injured, disabled, incur occupational disease, or die on the job as a result of a work related accident. Workers' compensation provides benefits to injured workers in the form of medical treatment, compensation for lost wages, and compensation for the loss or loss of use of parts of the body. In the case where an employee dies in a workplace accident, the employee's dependents may become eligible to collect death benefits. In the case where an employee is injured, disabled or dies on the job while working on navigable waters in the U.S., the workers' compensation benefits are mandated by the federal Longshore & Harbor Workers' Compensation Act.

### Q2. What are the categories of workers' compensation benefits, who pays these benefits, and what are the payment mandates of the states and the federal government?

A. Indiana, Ohio, and Kentucky workers' compensation benefits are as follows:

- **Medical Benefits** are payments made for medical, surgical, dental, hospital, burial and other related services. Medical benefits are not subject to an employee paid deductible or co-insurance. The medical benefit is unlimited in dollar amount, but there is a time limit regarding an employee's right to request the payment of medical expenses after a permanent partial impairment has been adjudicated. Where a permanent partial impairment has been adjudicated, the claim for additional medical treatment must be filed within one year of the last date for which compensation was paid. Medical examinations and treatment are paid for over the duration of the time the salary/wage continuation is paid. These payments are made for all the different types of disability categories listed below.
- **Income Benefits** are salary/wage continuation payments made to the disabled employee or, in the case of death, to his/her dependents. These



payments are made for all the different types of disability categories listed below.

- **Temporary Total Disability** compensation is paid to compensate an injured employee who is temporarily unable to engage in regular employment activity. The condition of an employee has not reached maximum medical improvement from an injury and has not reached a level of improvement that would permit a return to work. The maximum period for the payment of temporary total disability is 500 weeks, but an injury usually becomes permanent before the 500-week maximum has been reached. Indiana and Ohio require the employer to pay 66 2/3% of the employee's average weekly wage, with a maximum of \$588/week and \$550.66/week, respectively. Kentucky employers pay 72% of the full weekly wage, with a maximum of \$628/week. The full weekly wage is calculated with the previous 6 weeks of wages for up to 12 weeks in the state of Ohio. Indiana uses the average weekly wage, by calculating an average of the 52 weeks of wages paid prior to the accident date. Where the employment has been for less than 52 weeks, the weekly average method should be used based on the number of weeks worked. Indiana employers do not initially pay for the first 14 days off work, while Ohio and Kentucky employers do not initially pay for the first 7 days off work. In Indiana, if an employee is off work 21 days, the employer pays for the first 14 days. In Ohio and Kentucky, if the employee is off work 14 days, the employer pays for the first 7 days.
- **Temporary Partial Disability/Wage Loss** is payable where an employee returns to work with a temporary restriction, which results in a reduction in pay below the usual average weekly wage due to a lower rate of pay for the restricted work or fewer hours worked. In Indiana temporary partial disability is paid at the rate of 66 2/3% of the difference between the employee's pre- and post-injury average weekly wages, subject to a maximum of 300 weeks. In Ohio wage loss is paid at 66 2/3% of the employee's weekly wage loss, not to exceed the statewide average weekly wage, for a period not to exceed 200 weeks.
- **Permanent Total Disability** is the benefit payable to an injured employee whose injury has become permanent and quiescent, but renders him/her permanently unable to engage in any type of employment. The employee's inability to return to the same or similar work is not determinative of the right to receive permanent total disability compensation. Compensation for permanent total disability is payable for 500 weeks beginning as of the accident date. Ohio mandates this benefit to be paid until the employee's death in the amount of 66 2/3% of his average weekly wage up to the state maximum amount.

Workers' Compensation Benefits

- **Death Benefit** is the benefit payable to an employee's dependent when an employee dies as a result of injuries sustained in an accident arising out of and in the course of employment. The dependent's compensation per week is the same as the employee's temporary total disability compensation per week and is payable for a maximum of 500 weeks. Ohio mandates this benefit to be paid to the employee's dependents at a rate of 66 2/3% of the average weekly wage up to the state maximum amount. Dependents, other than a spouse, are paid until age 18 in the state of Ohio and age 21 in the state of Indiana.
- A **Permanent Partial Impairment/Loss of Use** benefit is paid to compensate an injured employee for a permanent loss of physical function. Permanent partial impairment is assigned at the point in time when an employee's medical condition is neither getting better nor worse and has become permanent and quiescent. The employee, due to the injury, has been assigned a permanent disability rating but retains the ability to work. Permanent partial impairment compensation is to be paid on a weekly basis, beginning as of the date of the accident.

Benefits under the Longshore & Harbor Workers' Compensation Act are as follows:

- The **Longshore & Harbor Workers' Compensation Act** is a federal law that provides for payment of compensation and other benefits to employees engaged in loading, unloading, repairing, or building a vessel. The law is applicable to employees while working on navigable waters of the U.S. This federal statute replaces or supersedes state workers' compensation statutes. The benefits under this law cover all types of disabilities (permanent total, temporary total, permanent partial, temporary partial, total loss-of-use, partial loss-of-use, and disfigurement) and death. This federal statute calculates salary continuation on the national average weekly wage, which is 260 times the average daily wage for a five-day worker. Compensation is paid if disability or death results from an injury or occupational disease occurring upon the navigable waters of the U.S. Compensation is not paid the first three days of the disability, except when the disability lasts more than fourteen days; in this case, the compensation is allowed from the date of the disability. Compensation is not less than 50% and not more than 200% of the national average weekly wage. Medical and income benefits are paid for any disability under this act, while only income benefits are paid for death. The federal requirements for death benefits are the following: (a) reasonable funeral expenses not exceeding \$3,000, (b) income benefits of not less than 50% of the average wages of the deceased to the

widow/widower, (c) an additional amount of 16 2/3% of such wages for each child, (d) in the case of the death or remarriage of the widow/widower, a surviving child is paid 50% of such wages. Cinergy currently pays only income benefits to the beneficiary of a deceased employee.

Cinergy pays all these benefits, except the State of Ohio pays for Permanent Total Disability benefits.

**Q3. Does Cinergy provide workers' compensation supplemental benefits?**

A. Yes. Cinergy employees eligible for workers' compensation income benefits are eligible for Cinergy's workers' compensation supplemental benefits. During the first 26 weeks of disability, the supplemental benefit pays the difference between the full amount (100%) of the employee's average weekly or full weekly wage and the workers' compensation benefit mandated by the states. This supplemental benefit is paid until the employee recovers, returns to light duty, or has been disabled for 26 weeks.

See Workers' Compensation Supplemental Benefits Policy for additional information.

**Q4. How are Cinergy's workers' compensation benefits insured?**

A. Cinergy's workers' compensation benefits are "self-insured" - meaning Cinergy pays workers' compensation benefit claims out of its own funds (including payments to the TPAs for claims they administer) - in Ohio, Indiana, and Kentucky. On an annual basis, Cinergy requests renewal of its self-insurance status from Indiana, Ohio, and Kentucky. The states require proof that Cinergy's financial status is in good standing prior to granting permission for self-insurance.

Cinergy is also self-insured for the Longshore's benefits. On an annual basis, Cinergy is required to furnish satisfactory proof of its financial ability to pay such compensation in order to receive authorization from the Secretary of the Longshore & Harbor Workers' Compensation Act to be self-insured.

In all other states, Cinergy has insurance contracts, which are administered by Global Risk Management.

**Q5. Who administers Cinergy's self-insured workers' compensation claims?**

A. Two TPAs, Hunter Consulting Company (Hunter) and Acordia Employers Service (Acordia) administer Cinergy's self-insured workers' compensation

benefits. The TPAs communicate with providers, determine what is reasonable and customary, and administer the claims in accordance with state statutes. The TPAs pay both workers' compensation income benefits to the employees/eligible dependents and medical benefits to the employees' providers.

Human Resources oversees the workers' compensation process. Additionally, HR pays supplemental worker's compensation benefits.

**Q6. Does anyone, besides Cinergy employees, receive workers' compensation benefits from Cinergy?**

A. Yes, the contractors of Henry J. Kaiser Company, who were injured during construction of the W. H. Zimmer Station, receive benefits from CG&E, Columbus Southern Power Company (CSP), and Dayton Power and Light Company (DPL) (the joint owners of W. H. Zimmer Station). CG&E, DPL, and CSP signed an indemnification clause for compensating the contractors for injuries incurred from the construction of the Zimmer station.

**Q7. What are the accounting requirements associated with workers' compensation liabilities?**

A. FAS 112 establishes the financial accounting and reporting for the estimated costs of benefits provided by an employer to former or inactive employees after employment but before retirement. Post employment benefits are all types of benefits provided to former or inactive employees, their beneficiaries, and covered dependents, including disability-related benefits such as workers' compensation.

Post employment benefits that meet the conditions of paragraph 6 of FAS 43 are accounted for in accordance with FAS 43. Paragraph 6 of FAS 43 states:

"An employer shall accrue a liability for employees' compensation for future absences if *all* of the following conditions are met:

- a. The employer's obligation relating to employees' rights to receive compensation for future absences is attributable to employees' services already rendered,
- b. The obligation relates to rights that vest or accumulate,
- c. Payment of the compensation is probable, and
- d. The amount can be reasonably estimated."

Post employment benefits that are within the scope of FAS 112 that do not meet the requirements of FAS 43 are accounted for in accordance with FAS 5.

Paragraph 5 of FAS 5 states:

"An estimated loss from a loss contingency ... shall be accrued by a charge to income if *both* of the following conditions are met:

- a. Information available prior to the issuance of the financial statements indicates that it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements. It is implicit in this condition that it must be probable that one or more future events will occur confirming the fact of the loss.
- b. The amount of loss can be reasonably estimated."

Since Cinergy's workers' compensation benefits do not vest and accumulate, the provisions of FAS 43 are not met. Accordingly, Cinergy accounts for its workers' compensation liabilities in accordance with FAS 5.

See Workers' Compensation Reserve Policy for additional information.

**Q8. Why are Cinergy's workers' compensation benefit payments charged to expense and not to the workers' compensation reserve account?**

A. Benefit payments are used as a surrogate for the current year expense amount. On a monthly basis, Human Resources reviews the estimated reserves as calculated by the TPAs to determine if additional reserves/expense should be recorded. On an annual basis, Cinergy retains an actuary to determine an estimate of Cinergy's workers' compensation liabilities/reserves as of September 30. Upon receipt of this actuarial report Human Resources records an entry to "true-up" Cinergy's workers' compensation liability/reserve accounts.

See Workers' Compensation Reserve Policy for additional information.

**Q9. How is Cinergy's workers' compensation liability determined?**

A. Cinergy employs an actuary, Hewitt Associates LLC (Hewitt), to determine its workers' compensation liability/reserve. Hewitt retains Regnier Consulting to perform the actuarial calculations.

See Workers' Compensation Reserve Policy for additional information.

**Q10. What are the disclosure requirements under FAS 112 for post employment benefits?**

A. FAS 112 requires disclosure if an obligation for post employment benefits is not accrued due to the fact that the amount cannot be reasonably estimated. If post employment benefits can be reasonably estimated and are accrued, no disclosures are required under FAS 112.

## Procedure

Capture information on business transactions (CoA.1)

Classify transactions (CoA.2)

Identify error(s) in Source Documents and pushback for correction (CoA.3)

Correct error in source documents (CoA.4)

Feeder Posts (CoA.6)

TPA Process

DEPARTMENT	RESPONSIBILITY	ACTION
All Departments	Injured Employee or Supervisor	1. Complete an Accident Report and submit to Michelle Pickens.
Human Resources	Michele Pickens	2. Identify any missing or incomplete data on source document and contact injured employee or employee's supervisor for missing or incomplete data. Contact employee's supervisor, as applicable, and provide appropriate work codes for labor documents. Send Accident Report to applicable TPA. Send Accident Report involving potential substantial claims to Payroll & Benefits Accounting (Lisa Carver).
Acordia & Hunter - Outside Vendors	Claims Administrators/TPAs	3. Determine the medical benefits and compensation benefits to be paid, after communicating with providers, administering claims and abiding by state and federal statutes. Determine what is reasonable and customary for provider fees. Verify through discussion with Human Resources (Michelle Pickens) what income benefits have already been paid by Cinergy.
Acordia & Hunter - Outside Vendors	Claims Administrators/TPAs	4. On a weekly basis, send Human Resources (Michelle Pickens) a copy of check registers, including checks that will be printed for medical providers, employee income benefits, including the federal Longshore's benefit, as well as TPA administration fees.
Human Resources	Michele Pickens	5. Determine appropriate pay/responsibility corporation associated with each employee claim.

Workers' Compensation Benefits

		Allocate TPA administrator fees to appropriate corporations. Complete Request for ACH/Wire Transfer Payment forms.
Human Resources	Michele Pickens	6. Submit Request for ACH/Wire Transfer Payment forms to Accounts Payable department.
A/P	A/P Staff	7. Enter the data from ACH/Wire Transfer Payment forms into Passport system. Passport will automatically pay Hunter in two business days (ACH). Fax wire transfer data to the Treasury department (Acordia payments).
Treasury	Kim Sipes	8. Process wire transfers to Acordia.

Capture information on business transactions (CoA.1)  
 Self-Insurance Renewal

DEPARTMENT	RESPONSIBILITY	ACTION
Various states (Ohio, Kentucky, Indiana)	State authority for self-insurance renewal	1. Send Cinergy renewal form for self-insurance for workers' compensation benefits, requesting data for proof of financial responsibility and good financial status.
Human Resources	Bill Schick	2a. Complete forms for Ohio and Kentucky and obtain requested financial data for each state, including surety requirement. Mail to applicable state agency.
Global Risk Management	Tony Redden	2b. Complete form for Indiana and obtain requested financial data. Mail to applicable state agency.
Global Risk Management	Tony Redden	2c. Complete form for Longshore & Harbor Workers' Compensation Act and obtain requested financial data. Mail to Secretary of the Longshore & Harbor Workers' Compensation Act.
Various states (Ohio, Kentucky, Indiana) and federal agency	State authority for self-insurance renewal / Secretary of the Longshore & Harbor Workers' Compensation Act	3. Issue letters to Cinergy stating approval of Cinergy's self-insurance status.

Capture Information on business transactions (CoA.1)

## Insurance Renewal

DEPARTMENT	RESPONSIBILITY	ACTION
Global Risk Management	Tony Redden	1. Renew commercial insurance policy for all states/subsidiaries where Cinergy has employees but is not self-insured.

## Review Workers' Compensation Status

DEPARTMENT	RESPONSIBILITY	ACTION
Acordia & Hunter - Outside Vendors	Claims Administrators/TPAs	1. Send Cinergy Claim Detailed Report.
Human Resources	Bill Schick	2. Review Claim Detail Report.
Human Resources Acordia & Hunter	Bill Schick TPA Managers	3. On a quarterly basis, meet and discuss status of active claims.

## Training and Documents

## Training:

## Additional Documents:

- Statement of Financial Accounting Standards No. 112, *Employers' Accounting for Post employment Benefits*
- Statement of Financial Accounting Standards No. 43, *Accounting for Compensated Absences*
- Statement of Financial Accounting Standards No. 5, *Accounting for Contingencies*
- Longshore & Harbor Workers' Compensation Act
- Worker's Compensation Handbook: A Comprehensive Guide to Worker's Compensation in Indiana
- Kentucky Workers Compensation Law - Annotated 2002
- Ohio Industrial Commission and Bureau of Workers' Compensation: 2000 Rules
- Ohio Industrial Commission and Bureau of Workers' Compensation: 2000 Laws
- Actuarial Reports

## Who Should Know



- Controller
- Assistant Controllers
- Corporate Accounting
- Accounting Research
- Payroll & Benefits Accounting
- Global Risk Management

## Related Information

Workers' Compensation Reserve Policy

Workers' Compensation Supplemental Benefits Policy

Workers' Compensation Related Accounts - Reconciliation & Analysis Policy

## Contacts

NAME	ROLE	DEPARTMENT
Lisa Carver	Manager	Human Resources
Rose Marie Starkey	Lead HR Accountant	Human Resources
Michele Pickens	Human Resources	Human Resources
Bill Schick	Human Resources	Human Resources
Tony Redden	Manager	Insurance & Claims
Erica Glenn	Senior Analyst	Accounting Research
Amy Sheppard	Manager	Accounting Research

## Definitions

GAAP - Generally Accepted Accounting Principles

FAS 112 - Statement of Financial Accounting Standards No. 112, *Employers' Accounting for Post employment Benefits*

FAS 43 - Statement of Financial Accounting Standards No. 43, *Accounting for Compensated Absences*

FAS 5 - Statement of Financial Accounting Standards No. 5, *Accounting for Contingencies*

TPA - Third Party Administrator

CG&E - The Cincinnati Gas & Electric Company

## Revisions

The following revisions are effective 01/01/05:

- Update policy for new manual ownership
- Update policy to reflect reorganization of manual



## Stock Option Plan

Functional Area: HR, Payroll & Benefits Accounting  
Sarbanes-Oxley Category: Stock Purchase and Compensation Plans

Process Owner: Lisa Carver

Effective Date: 11/01/03

Revised Date: 01/01/05

All accounting policies and procedures can be found on the Accounting Policies and Procedures community within iPower as follows:

- Launch iPower
- Select "Accounting Policies and Procedures" under the "Communities" heading at the top of the page

### Policy Statement

Cinergy will record all transactions associated with the Cinergy Corp. Stock Option Plan.

### Reason for Policy

To record transactions associated with the Cinergy Corp. Stock Option Plan in the Company financial statements in adherence with GAAP and regulatory requirements

### Process Flows

### Process Description/Narrative

## **Frequently Asked Questions**

### **Q1. What is the Cinergy Corp. Stock Option Plan?**

A. Cinergy adopted the Cinergy Corp. Stock Option Plan (Plan) on October 18, 1994, to align executive compensation with shareholder interest. Under the Plan incentive and non-qualified stock options, stock appreciation rights, and stock appreciation rights in tandem with stock options may be granted to eligible participants. Each award is evidenced by an Award Agreement approved by the Compensation Committee of the Board of Directors (for Section 16 employees) or the CEO (for non-Section 16 employees) setting forth the terms and conditions of the award.

No stock options have been granted under this plan since 1999 and none may be granted after October 24, 2004.

### **Q2. Who is an eligible employee under the plan?**

A. Eligible employees are (1) officers of Cinergy or its subsidiaries, (2) employees who are employed in a significant capacity by Cinergy or its subsidiaries, or (3) employees who have the potential to contribute to the future success of Cinergy or its subsidiaries. Member of the Board who are not employees of Cinergy or any of its subsidiaries are also eligible to receive awards under the Plan.

### **Q3. What types of awards has Cinergy historically granted under the Cinergy Corp. Stock Option Plan?**

A. Historically, Cinergy has granted incentive and non-qualified stock options under this Plan.

### **Q4. How is the fair value of a stock option measured?**

A. SFAS 123 indicates that the fair value of a stock option granted is estimated using an option-pricing model (e.g., Black Scholes) that takes into account as of the grant date the following assumptions:

- Exercise price of the option;
- Expected life of the option;
- Current price of the underlying stock;
- Expected volatility of the underlying stock;
- Expected dividends on the underlying stock; and
- The risk-free interest rate.

SFAS 123 indicates that in selecting the above assumptions, expectations about the future are generally based on past experience, modified to reflect ways in which current available information indicates that the future is reasonably expected to differ from the past.

Additionally, SFAS 123 states that the fair value of an option estimated at the grant date is not subsequently adjusted for changes in the above assumptions.

Cinergy uses Equity Edge, a Black Scholes model, to value its stock options.

**Q5. How is expected life determined?**

A. SFAS 123 indicates that the objective in estimating the expected lives of employee stock options is to approximate the expectations that an outside party with access to detailed information about employees' exercise behavior likely would develop based on information available at the grant date. If there is a range of reasonable expectations about option life, with no amount within the range as a better estimate than any other amount, an estimate at the low end of the range should be used.

SFAS 123 states that the value of an award of a stock option may be based either on an appropriately weighted average expected life for the entire award or on appropriately weighted lives for subgroups of the award based on more detailed data about employees' exercise behavior. The expected life must at least include the vesting period.

Factors to consider in estimating the expected life of a stock option include:

- The vesting period of the grant
- The average lengths of time similar grants have remained outstanding in the past.
- Expected volatility of the underlying stock.

Cinergy determines expected life using historical stock option exercise data from Equity Edge.

**Q6. What is expected volatility and how is it determined?**

A. Volatility is a measure of the amount by which a price has fluctuated or is expected to fluctuate during a period. In estimating the expected volatility of Cinergy stock, the objective is to approximate the expectations that likely would be reflected in a current market or negotiated exchange price for the option. If there is a range of reasonable expectations about future volatility, with no

amount within the range as a better estimate than any other amount, an estimate at the low end of the range should be used.

Factors to consider in estimating expected volatility include:

- The historical volatility of the stock over the most recent period that is generally commensurate with the expected option life.
- The length of time the stock has been publicly traded
- Appropriate and regular intervals for price observations

Cinergy determines expected volatility using Cinergy's historical price volatility from Bloomberg Professional.

**Q7. How are expected dividends determined?**

A. In estimating expected dividends on Cinergy's stock, the objective is to approximate the expectations that likely would be reflected in a current market or negotiated exchange price for the option. Generally, the assumption should be based on publicly available information. If there is a range of reasonable expectations about future dividends, with no amount within the range as a better estimate than any other amount, an estimate at the high end of the range should be used.

Cinergy determines expected dividends using Cinergy's historical dividend yield (annualized dividends/closing price of Cinergy's stock on date of grant). Cinergy's closing price is obtained from Bloomberg Professional.

**Q8. How is the risk-free interest rate determined?**

A. SFAS 123 indicates that the risk-free interest rate is the implied yield currently available on zero-coupon U.S. government issues with a remaining term equal to the expected life of the option that is being valued.

Cinergy obtains the risk-free interest rate (historical yield curve for government issues) from Bloomberg Professional.

**Q9. What compensation cost is recognized for a stock option?**

A. The total amount of compensation cost recognized for a stock option award is based on the number of instruments that eventually vests. No compensation cost is recognized for awards that employees forfeit because they fail to satisfy a service requirement for vesting. Previously recognized compensation cost is not reversed if a vested employee stock option expires unexercised.

**Q10. What is the period over which compensation cost associated with a stock option is recognized?**

Stock Option Plan

A. The compensation cost for a stock option is recognized over the period(s) in which the related employee services are rendered by a charge to compensation cost and a corresponding credit to equity (paid in capital) if the award is for future service. If the service period is not defined as an earlier or shorter period, the service period is presumed to be the period from the grant date to the date that the award is vested and its exercisability does not depend on continued employee service.

**Q11. How should Cinergy account for stock options?**

A. Cinergy should record the following entries associated with stock options awarded after the adoption of SFAS 123 on January 1, 2003:

Assumptions: On January 1, 20XX, Cinergy awards 2 employees each 750 stock options. The options vests after 3 years and the employees have 7 years after the stock vests to exercise the options. Employees A & B are employees of Cinergy Services.

- Options Granted: 750 per employee
- Fair Value per Option Pricing Model - \$4.48 per option
- Vesting Period - 3 years
- Employee A resigns after 1 year
- Exercise Price - \$35 per share
- Market Price at time of exercise - \$50 per share
- Employee B stock vests and employee exercises 500 options in year 5.
- Employee B does not exercise 250 options, which expire in year 10.

Income tax effects, if any, are not reflected (see "Tax Procedures - Stock Based Compensation Plans").

**Entry 1 - Monthly Compensation Expense Recorded - Year 1**

Corp	Account	Description	Debit	Credit
<b>Cinergy Corp. Entry (Manual Journal Entry)</b>				
800	146500	Accounts Receivable from Cinergy Services	\$186.67	
800	211113	Miscellaneous Paid in Capital - LTIP Stock Options		\$186.67
<b>Cinergy Services Entry (Manual Journal Entry)</b>				
500	920010	Compensation Expense	\$186.67	
500	234800	Payable to Cinergy Corp		\$186.67
<b>Cinergy Services Entry (Cost Assignment Process Entry)</b>				
500	146XXX	Accounts Receivable from Client	\$186.67	

Stock Option Plan

		Company		
500	457XXX	Service Company Revenue		\$186.67
<b>Client Companies (Cost Assignment Process Entry)</b>				
XXX	920000 or 920090 or 401696	Compensation Expense	\$186.67	
XXX	234500	Accounts Payable to Cinergy Services		\$186.67

This entry is to record the monthly compensation cost associated with stock options. Compensation cost is calculated using the fair value per the option-pricing model calculated at the date of grant and is attributed to the three-year vesting period. (Compensation cost calculated as follows: 1,500 stock options \* \$4.48 fair value per option / 36 month vest period = \$186.67 expense per month)

**Entry 2 - Reversal of Compensation Cost Due to Forfeitures**

Corp	Account	Description	Debit	Credit
<b>Cinergy Corp. Entry (Manual Journal Entry)</b>				
800	211113	Miscellaneous Paid in Capital - LTIP Stock Options	\$1,120.00	
800	146500	Accounts Receivable from Cinergy Services		\$1,120.00
<b>Cinergy Services Entry (Manual Journal Entry)</b>				
500	234800	Payable to Cinergy Corp	\$1,120.00	
500	920010	Compensation Expense		\$1,120.00
<b>Cinergy Services Entry (Cost Assignment Process Entry)</b>				
500	457XXX	Service Company Revenue	\$1,120.00	
500	146XXX	Accounts Receivable from Client Company		\$1,120.00
<b>Client Companies (Cost Assignment Process Entry)</b>				
XXX	234500	Accounts Payable to Cinergy Services	\$1,120.00	
XXX	920000 or 920090 or 401696	Compensation Expense		\$1,120.00

This entry is to reverse the compensation cost previously recognized for stock options forfeited (i.e., Employee A leaves 12 months after award granted but



prior to vesting). (Reversal calculated as follows: \$93.33 \* 12 months = \$1,120 expense previously recognized)

**Entry 3 - Monthly Compensation Expense Recorded - Years 2 and 3**

Corp	Account	Description	Debit	Credit
<b>Cinergy Corp. Entry (Manual Journal Entry)</b>				
800	146500	Accounts Receivable from Cinergy Services	\$93.33	
800	211113	Miscellaneous Paid in Capital - LTIP Stock Options		\$93.33
<b>Cinergy Services Entry (Manual Journal Entry)</b>				
500	920010	Compensation Expense	93.33	
500	234800	Payable to Cinergy Corp		93.33
<b>Cinergy Services Entry (Cost Assignment Process Entry)</b>				
500	146XXX	Accounts Receivable from Client Company	\$93.33	
500	457XXX	Service Company Revenue		\$93.33
<b>Client Companies (Cost Assignment Process Entry)</b>				
XXX	920000 or 920090 or 401696	Compensation Expense	\$93.33	
XXX	234500	Accounts Payable to Cinergy Services		\$93.33

This entry is to record the monthly compensation cost associated with stock options. Compensation cost is calculated using the fair value determine at the date of grant using an option pricing model. (Compensation cost calculated as follows: 750 stock options \* \$4.48 fair value / 36 month vest period = \$93.33 expense per month)

**Entry 4 - Employee Exercises Options in Year 5**

Corp	Account	Description	Debit	Credit
<b>Cinergy Corp. Entry (Manual Journal Entry)</b>				
800	131XXX	Cash	\$17,500	
800	211113	Miscellaneous Paid in Capital - LTIP Stock Options	2,240	
800	201000	Common Stock		\$5
800	207000	Premium on Common Stock		19,735

Stock Option Plan

This entry is to record the exercise of 500 stock options by Employee B assuming issuance of new shares. If Cinergy shares had been obtained through open market purchases the credit would have been to Account 211. (Debit to Account 211113 calculated as follows: 500 stock options \* \$4.48 per share fair value). (Debit to cash calculated as follows: 500 stock options \* \$35 per share exercise price)

See Exercise of Stock Options Policy for further guidance on accounting for the exercise of stock options.

**Entry 5 - Expiration of Unexercised Stock Options End of Year 10**

Corp	Account	Description	Debit	Credit
<b>Cinergy Corp. Entry (Manual Journal Entry)</b>				
800	211113	Miscellaneous Paid in Capital - LTIP Stock Options	\$1,120	
800	211000	Paid in Capital		\$1,120

This entry is to record the expiration of unexercised stock options. (Entry calculated as follows: 250 expired stock options \* \$4.48 per share fair value)

*Note: Stock options awarded prior to the adoption of SFAS 123 on January 1, 2003 will continue to be accounted for in accordance with the provisions of APB 25.*

**Procedure**

- Capture information on business transactions (CoA.1)
- Classify transactions for journalizing (CoA.2)
- Cutoff transactions (CoA.5)
- Identify error(s) in source documents and pushback for correction (CoA.3)
- Correct error(s) in source documents (CoA.4)

DEPARTMENT	RESPONSIBILITY	ACTION
Compensation Committee of the Board of Directors (Section 16 employees) or CEO (non-section 16 employees)		1. Approve award of stock options.
Legal Secretarial	Frank Ramundo David Lloyd	2. Distribute Award Agreements and Compensation Committee resolutions or CEO approval to Payroll & Benefits Accounting and External Reporting.

Stock Option Plan

Secretarial	Teri O'Neal	3. Distribute Cinergy's Board of Directors dividend resolutions to Payroll & Benefits Accounting.
Human Resources	Julie McGehee	4. Input stock option awards into Equity Edge.
Payroll & Benefits Accounting	Lisa Carver	5. Determine expected option life associated with awards granted using historical option exercise data from Equity Edge.
Payroll & Benefits Accounting	Lisa Carver	6. Request following information from Treasury Department: <ul style="list-style-type: none"> <li>• Cinergy closing stock prices at stock option grant date;</li> <li>• Volatility at grant date</li> <li>• Risk-free interest rate (historical yield curve on zero-coupon U.S. government issues) at grant date.</li> </ul>
Treasury	Mary Ann Nally	7. Obtain the following information from <u>Bloomberg Professional</u> : <ul style="list-style-type: none"> <li>• Cinergy closing stock prices at stock option grant date;</li> <li>• Volatility at stock option grant date;</li> <li>• Risk-free interest rate (historical yield curve on zero-coupon U.S. government issues) at stock option grant date.</li> </ul> Provide data to Payroll & Benefits Accounting.
Payroll & Benefits Accounting	Lisa Carver	8. Interpolate risk-free interest rate to reflect expected option life. Provide fair value assumptions to Julie McGehee.
Human Resources	Julie McGehee	9. Input fair value assumptions into Equity Edge and calculate fair value.
Human Resources	Julie McGehee	10. Input forfeitures and retirements in Equity Edge.
Human Resources	Julie McGehee	11. Generate SFAS 123 reports from Equity Edge. Verify accuracy and completeness of reports and provide to Lisa Carver and External Reporting.

Prepare journal entries (CO A.6)

Stock Option Plan

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll & Benefits Accounting	Payroll & Benefits Accounting Staff	1a. Extract compensation cost from supporting workpapers and input into JE Tool. <i>Note: this process should be complete by day 3, EOD.</i>
Corporate Accounting	Chrissy Dyer	1b. Extract SOP shares issued data from Common Stock Issued on the Open Market report or Common Stock Issued Report and input into JE Tool. This transaction is booked as necessary. <i>Note: this process should be complete by day 3, EOD.</i>

Identify error in prepared journal entries (CoA.7a)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll & Benefits Accounting Corporate Accounting	Lisa Carver Benita Ross	1. Verify a copy of the journal entry against the source documents to ensure data entry accuracy. <i>Note: this process should be complete by Day 3, EOD.</i>

Correct error in prepared journal entries (CoA.7b)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll & Benefits Accounting Corporate Accounting	Payroll & Benefits Accounting Staff Chrissy Dyer	1. Correct data entry errors in JE Tool. <i>Note: this process should be complete by Day 3, EOD.</i>

Post journal entries to BDMS 2.0 (CoA.8)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll & Benefits Accounting Corporate Accounting	Lisa Carver Benita Ross	1. Approve journal entry for posting
Corporate Accounting	BDMS Coordinator/John Linton	2. BDMS will post all journal entries approved for posting. <i>Note: this process should be complete by Day 3, EOD.</i>

Create and post accruals (CoA.10)

Create and post reserves (CoA.11)

DEPARTMENT	RESPONSIBILITY	ACTION
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N/A	N/A	All accruals and reserves are included in the above processes.
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## Training and Documents

Training:

Additional Documents:

- Cinergy Corp. Stock Option Plan Prospectus
- FASB Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation*
- APB Opinion No. 25, *Accounting for Stock Issued to Employees*
- Tax Procedures - Stock Based Compensation Plans

## Who Should Know

- Controller
- Assistant Controllers
- Corporate Accounting
- External Reporting
- Accounting Research
- Tax
- Payroll & Benefits Accounting

## Related Information

Stock-Based Employee Compensation Plans Policy

Long-term Incentive Compensation Plan - Stock Options Policy

Long-term Incentive Compensation Plan - Performance-Based Awards Policy

Long-term Incentive Compensation Plan - Phantom Stock Policy

Long-term Incentive Compensation Plan - Deferred Shares Policy

Long-term Incentive Compensation Plan - Restricted Stock Policy

Employee Stock Purchase and Savings Plan Policy

Exercise of Stock Options Policy

Stock-Based Compensation - Employee Plans Reconciliation & Analysis Policy

**Contacts**

NAME	ROLE	DEPARTMENT
Lisa Carver	Manager	Payroll
Gwen Pate	Manager	Corporate Accounting
Julie McGehee	Manager	Human Resources
Erica Glenn	Senior Analyst	Accounting Research
Amy Sheppard	Manager	Accounting Research

**Definitions**

APB 25 - APB Opinion No. 25, *Accounting for Stock Issued to Employees*

SFAS 123 - FASB Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation*

GAAP - Generally Accepted Accounting Principles

EOD - End of Day

**Revisions**

The following revisions are effective 01/01/05:

- Update policy for new manual ownership
- Update policy to reflect reorganization of manual

Short-Term Disability Benefits



## Short-Term Disability Benefits

Functional Area: General Accounting  
Sarbanes-Oxley Category: Payroll/Human Resources  
Process Owner: Gwen Pate  
Effective Date: 10/01/03  
Revised Date: 01/01/05

All accounting policies and procedures can be found on the Accounting Policies and Procedures community within iPower as follows:

- Launch iPower
- Select "Accounting Policies and Procedures" under the "Communities" heading at the top of the page

### Policy Statement

Cinergy will record all transactions associated with short-term disability benefits.

### Reason for Policy

To record transactions associated with short-term disability benefits in the Company financial statements in adherence with GAAP and regulatory requirements

### Process Flows

### Process Description/Narrative

## Frequently Asked Questions

### **Q1. What are Cinergy's short-term disability benefits?**

A. Cinergy will pay eligible employees 100% of base salary continuation up to twenty-six (26) weeks after being disabled from job for seven (7) continuous calendar days. To receive short-term disability benefits medical documentation must be provided.

Short-term benefits stop on the day the first of the following happens:

- The 26-week period ends;
- The employee is no longer disabled;
- Required proof of disability is not provided by the employee;
- The employee does not comply with the terms and conditions of the plan by failing to seek proper medical care.

Employees on the Limited Work Program may receive short-term disability benefits for the hours not worked.

Employees disabled for more than 26 weeks may become eligible for long-term disability benefits. See Long-term Disability Benefits Policy

### **Q2. Who administers Cinergy's short-term disability benefits?**

A. CNA administers Cinergy's short-term benefits. CNA's administrative fee is charged to the fringe benefits cost pool (account 184100). See Fringe Benefits Cost Pool - Annual & Periodic Studies Policy for information regarding the Fringe Benefits Cost Pool.

### **Q3. Does Cinergy record a reserve for its short-term disability benefits?**

A. Due to immateriality of amount, Cinergy does not currently record a reserve for its short-term disability benefits. Payroll & Benefits Accounting performs a study on a periodic basis to support Cinergy's conclusion regarding materiality.

## Procedure

### **Employee Labor Costs**

Capture information on business transactions (CoA.1)

Classify transactions (CoA.2)

Identify error(s) in source documents and pushback for correction (CoA.3)

Correct error in source documents (CoA.4)



Short-Term Disability Benefits

DEPARTMENT	RESPONSIBILITY	ACTION
Any	Employee	1. Notify immediate supervisor or Employee Services Team Lead (ESTL) of intent to apply for short-term disability benefits.
Any	Supervisor or ESTL	2. Notify employee to call CNA to apply for short-term disability.
Any	Employee	3. Call CNA and apply for sort-term benefits. Provide CNA Authorization to Release Information form to treating physician.
CNA	CNA	4. Notify iPeople Center of employee's short-term disability claim determination (i.e., approval or denial) and expected return to work date.
iPeople Center	iPeople Center	5. Notify employee supervisor or ESTL of claim determination and expected return to work date via e-mail.
Any	Supervisor or ESTL	6. Update employee status by submitting an Employee Job Status Change form and updating LDCS.
Payroll and Benefits Accounting	Accounting System Specialist	7. Capture payroll accrual and expense activity and classify into LDCS based upon accounting information in LDCS. Month end cutoff occurs based upon pay date where all activity occurring within a month is booked in the same month. <i>Note: this process should be complete by Day 1, EOD for the final pay of each month.</i>
Payroll and Benefits Accounting	Accounting System Specialist	8. Review LDCS pay runs and verify that debits and credits equal. An error message is generated if an error occurred. <i>Note: this process should be complete by Day 1, EOD for the final pay of each month.</i>
Payroll IT		9. Review error report and do manual file maintenance to LDCS to correct. <i>Note: this process should be complete by Day 1, EOD for the final pay of the month.</i>

**CNA Administrative Fees**

Short-Term Disability Benefits

DEPARTMENT	RESPONSIBILITY	ACTION
CNA	Outside consultant	1. Invoice Cinergy for administrative costs associated with administering the Short-term disability plan.
Payroll & Benefits Accounting	Kathy Walker	2. Review invoice for reasonableness. Contact CNA with any questions.
Payroll & Benefits Accounting	Kathy Walker	3. Prepare Request for Pay to pay CNA administrative fee. Fees are charged to the Fringe Benefits Cost Pool.
Payroll & Benefits Accounting	Kathy Walker	4. Review and approve Request for Payment. Forward Request for Pay to AP.
Accounts Payable	Account Payable staff	5. Process Request for Payment in Passport and generate check to CNA.

Prepare journal entries (including feeder extract) (CoA.6)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll and Benefits Accounting	Accounting System Specialist	1. Run distribution program in LDMS to create auto feed to BDMS 2.0. <i>Note: this process should be complete by Day 1, EOD for the final pay of each month.</i>

Identify errors in prepared journal entries (CoA.7a)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll and Benefits Accounting	Accounting System Specialist	1. Verify the auto feed control report against an Excel spreadsheet, which has been tied-out to the distribution for each pay run. <i>Note: this process should be complete by Day 2, EOD.</i>

Correct error in prepared journal entries (CoA.7b)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll and Benefits Accounting	Accounting System Specialist	1. Correct errors in LDMS and re-process the auto feed. <i>Note: this process should be complete by Day 2, EOD.</i>

Post journal entries (and feeder extracts) to BDMS 2.0 (CoA.8)

DEPARTMENT	RESPONSIBILITY	ACTION
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Short-Term Disability Benefits

Payroll and Benefits Accounting	Lead Human Resources Accountant	1. Approve auto feed for posting.
Corporate Accounting	BDMA Coordinator/John Linton	2. BDMS will post all auto feeds approved for posting. <i>Note: this process should be complete by Day 2, EOD</i>

Create and post accruals (CoA.10)  
 Create and post reserves (CoA.11)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll and Benefits Accounting		1. All accruals and reserves are included in the above process.

## Training and Documents

Training:

Documents:

- Statement of Financial Accounting Standards No. 112 *Employers' Accounting for Post employment Benefits*
- Statement of Financial Accounting Standards No. 43 *Accounting for Compensated Absences*
- Statement of Financial Accounting Standards No. 5 *Accounting for Contingencies*

## Who Should Know

- Corporate Accounting
- Accounting Research
- Payroll and Benefits Accounting

## Related Information

Fringe Benefits Cost Pool - Annual & Periodic Studies Policy  
 Long-term Disability Benefits Policy

Short-Term Disability Benefits

## Contacts

NAME	ROLE	DEPARTMENT
Lisa Carver	Manager	Payroll and Benefits Accounting
Caryl West	Senior Analyst	Payroll and Benefits Accounting
Rose Marie Starkey	Lead HR Accountant	Payroll and Benefits Accounting
Erica Glenn	Coordinator	Accounting Research
Amy Sheppard	Manager	Accounting Research

## Definitions

GAAP - Generally Accepted Accounting Principles  
EOD - End of Day

## Revisions

The following revisions are effective 01/01/05:

- Update policy for new manual ownership
- Update policy to reflect reorganization of manual



# Stock-Based Employee Compensation Plans

Functional Area: HR, Payroll & Benefits Accounting  
Sarbanes-Oxley Category: Stock Purchase and Compensation  
Plans  
Process Owner: Lisa Carver  
Effective Date: 11/01/03  
Revised Date: 01/01/05

All accounting policies and procedures can be found on the Accounting Policies and Procedures community within iPower as follows:

- Launch iPower
- Select "Accounting Policies and Procedures" under the "Communities" heading at the top of the page

## Policy Statement

Cinergy will record all transactions associated with its stock-based employee compensation plans.

## Reason for Policy

To record transactions associated with stock-based employee compensation plans in the Company financial statements in adherence with GAAP and regulatory requirements

## Process Flows

## Process Description/Narrative

## Frequently Asked Questions

### **Q1. What are stock-based employee compensation plans?**

A. Stock-based employee compensation plans include all arrangements by which employees receive shares of stock or other equity instruments of Cinergy or Cinergy incurs liabilities to employees in amounts based on the price of Cinergy's stock. This procedure does not apply to equity instruments held by employee stock ownership plans.

Cinergy's has the following stock-based employee compensation plans:

Long-term Incentive Compensation Plan - Stock Options Policy

Long-term Incentive Compensation Plan - Restricted Stock Policy

Employee Stock Purchase & Savings Plan Policy

Stock Option Plan Policy

UK Sharesave Scheme

Directors' Deferred Compensation Plan Policy

Directors' Equity Compensation Plan Policy

Retirement Plan for Directors Policy

Cinergy Corp. 401(k) Excess Plan

Cinergy Corp. Excess Profit Sharing Plan

### **Q2. How does Cinergy account for its stock-based employee compensation plans?**

A. Effective with compensation awards granted or modified beginning after January 1, 2003, Cinergy will account for its stock-based employee compensation plans in accordance with the provisions of SFAS 123. Under SFAS 123, the measurement basis for stock-based employee compensation is fair value. Compensation awards granted prior to January 1, 2003, are accounted for under the provisions of APB 25. Under APB 25, the measurement basis for stock-based

employee compensation is intrinsic value. Generally, the stock options granted under Cinergy's stock-based employee compensation plans had no intrinsic value so under APB 25 no compensation cost was recognized. Compensation cost was recognized under APB 25 for Cinergy's compensation awards with variable, primarily performance-based, features.

**Q3. Who is considered an employee when applying the provision of SFAS 123?**

A. SFAS 123 does not define who should be considered an employee. FIN 44 adopts a common-law approach to the definition of employee and concludes that an individual is an employee of a grantor if the grantor exercises or has the right to exercise sufficient control over that individual to establish an employer-employee relationship. Non-employee members of Cinergy's board of directors are treated as employees as long as 1) the director was elected by Cinergy's shareholders (including a new appointee to a board position that will be filled by shareholders election when the existing term expires), and 2) the equity award is granted for services provided as a director.

**Q4. How is fair value measured?**

A. Usually, all or part of the consideration received for equity instruments issued to employees is past or future employee services. Equity instruments issued to employees and the cost of employee services received as compensation (e.g., consideration) is measured at the grant date based on the fair value of the equity instruments issued. The portion of the fair value of an equity instrument attributed to employee services is net of the amount, if any, that the employee pays for the instrument when it is granted.

The fair value of a share of nonvested stock awarded to an employee is measured at the market price of a share of the same stock as if it were vested and issued on the grant date.

The fair value of a stock option is estimated using an option-pricing model that takes into account as of the grant date the exercise price and expected life of the option, the current price of the underlying stock and its expected volatility for the expected term of the option, expected dividends on the stock, and the risk-free interest rate for the expected term of the option. The fair value of an option estimated at the grant date is not subsequently adjusted for changes in the price of the underlying stock or its volatility, the life of the option, dividends on the stock, or the risk-free interest rate.

The amount of liability for awards to be settled in cash is measured each period based on the current stock price. The effects of changes in the stock price during the service period are recognized as compensation cost over the service period. Changes in the amount of the liability due to stock price changes after the service period has ended but before the award is exercised are compensation cost of the period in which the change occurs.

**Q5. How is compensation cost recognized?**

A. Compensation cost is recognized over the service period, which is usually the vesting period. The total amount of compensation cost recognized for an award is based on the number of instruments that eventually vests. No compensation cost is recognized for awards that employees forfeit either because they fail to satisfy a service requirement for vesting or because Cinergy does not achieve a performance condition, unless the condition is a target stock price or specific amount of intrinsic value on which vesting or exercisability is conditioned. For awards with the latter condition, compensation cost is recognized for awards to employees who remain in service for the requisite period regardless of whether the target stock price or amount of intrinsic value is reached. Previously recognized compensation cost is not reversed if a vested employee stock option expires unexercised.

Compensation cost for an award with a graded vesting schedule (i.e., award has several vesting dates) is recognized in accordance with the method described in FIN 28 if the fair value of the award is determined based on different expected lives for the options that vest each year. Per FIN 28 compensation cost is charged to expense over the periods in which the employee performs the related services, but must be recognized by the time the employee is vested. If the expected life (or lives) of the award is determined in another manner, compensation cost is recognized on a straight-line basis. However, the amount of compensation cost recognized at any date must at least equal the value of the vested portion of the award at that date.

**Q6. How are dividends accounted for?**

A. Under SFAS123, dividends or dividend equivalents paid to employees on the portion of an award of stock or other equity instruments that vest are charged to retained earnings. Non-forfeitable dividends or dividend equivalents paid on shares of stock that do not vest are recognized as additional compensation cost. For any awards granted under APB 25, dividends or dividend equivalents are recognized as additional compensation cost.



**Q7. How are the option-pricing model assumptions used for stock option fair value calculation determined?**

A. The option pricing model assumptions used for stock option fair value calculation are determined as follows:

**Expected Life**

SFAS 123 indicates that the objective in estimating the expected lives of employee stock options is to approximate the expectations that an outside party with access to detailed information about employees' exercise behavior likely would develop based on information available at the grant date. If there is a range of reasonable expectations about option life, with no amount within the range as a better estimate than any other amount, an estimate at the low end of the range should be used.

SFAS 123 states that the value of an award of a stock option may be based either on an appropriately weighted average expected life for the entire award or on appropriately weighted lives for subgroups of the award based on more detailed data about employees' exercise behavior. The expected life must at least include the vesting period.

Factors to consider in estimating the expected life of a stock option include:

- The vesting period of the grant
- The average lengths of time similar grants have remained outstanding in the past.
- Expected volatility of the underlying stock.

As it relates to the LTIP and Stock Option plans, Cinergy determines expected life using historical stock option exercise data from Equity Edge.

**Expected Volatility**

Volatility is a measure of the amount by which a price has fluctuated or is expected to fluctuate during a period. In estimating the expected volatility of Cinergy stock, the objective is to approximate the expectations that likely would be reflected in a current market or negotiated exchange price for the option. If there is a range of reasonable expectations about future volatility, with no amount within the range as a better estimate than any other amount, an estimate at the low end of the range should be used.

Factors to consider in estimating expected volatility include:

- The historical volatility of the stock over the most recent period that is generally commensurate with the expected option life.
- The length of time the stock has been publicly traded
- Appropriate and regular intervals for price observations

Cinergy determines expected volatility using Cinergy's historical price volatility from Bloomberg Professional.

### Expected Dividends

In estimating expected dividends on Cinergy's stock, the objective is to approximate the expectations that likely would be reflected in a current market or negotiated exchange price for the option. Generally, the assumption should be based on publicly available information. If there is a range of reasonable expectations about future dividends, with no amount within the range as a better estimate than any other amount, an estimate at the high end of the range should be used.

Cinergy determines expected dividends using Cinergy's historical dividend yield (annualized dividends/closing price of Cinergy's stock on date of grant). Cinergy's closing price is obtained from Bloomberg Professional.

### Risk-free Interest Rate

SFAS 123 indicates that the risk-free interest rate is the implied yield currently available on zero-coupon U.S. government issues with a remaining term equal to the expected life of the option that is being valued.

Cinergy obtains the risk-free interest rate (historical yield curve for government issues) from Bloomberg Professional.

### **Q8. What are the disclosure requirements associated with stock-based employee compensation plans?**

A. The financial statements should include a description of each plan, including the general terms of awards under each plan, such as vesting requirements, the maximum term of options granted, and the number of shares authorized for grants of options or other equity instruments.

Additionally, the following information should be disclosed for each year that an income statement is provided:

1. The number and weighted-average exercise prices of options for each of the following groups of options:
  - those outstanding at the beginning of the year,

- those outstanding at the end of the year,
  - those exercisable at the end of the year,
  - those granted during the year,
  - those exercised during the year,
  - those forfeited during the year, and
  - those expired during the year.
2. The weighted-average grant-date fair value of options granted during the year. If the exercise prices of some options differ from the market price of the stock on the grant date, weighted-average exercise prices and weighted-average fair values of options shall be disclosed separately for options whose exercise price (1) equals, (2) exceeds, or (3) is less than the market price of the stock on the grant date.
  3. The number and weighted-average grant-date fair value of equity instruments other than options, for example, shares of nonvested stock, granted during the year.
  4. A description of the method and significant assumptions used during the year to estimate the fair values of options, including the following weighted-average information:
    - risk-free interest rate,
    - expected life,
    - expected volatility, and
    - expected dividends.
  5. Total compensation cost recognized in income for stock-based employee compensation awards.
  6. The terms of significant modifications of outstanding awards.

The above disclosures should be provided for different types of awards to the extent that the differences in the characteristics of the awards make separate disclosure important to an understanding of Cinergy's use of stock-based compensation.

For options outstanding at the date of the latest balance sheet, the range of exercise prices (as well as the weighted-average exercise price) and the weighted-average remaining contractual life should be disclosed. If the range of exercise prices is wide, the exercise prices should be segregated into ranges that are meaningful for assessing the number and timing of additional shares that may be issued and the cash that may be received as a result of option exercises. The following information should be disclosed for each range

Stock-Based Employee Compensation Plans

1. The number, weighted-average exercise price, and weighted-average remaining contractual life of options outstanding
2. The number and weighted-average exercise price of options currently exercisable.

In addition, SFAS 148 requires that the following information be disclosed in the "Summary of Significant Accounting Policies" footnote:

1. The method used – either the intrinsic value method or the fair value method – to account for stock-based employee compensation in each period presented.
2. For an entity that adopts the fair value recognition provisions of SFAS 123, for all financial statements in which the period of adoption is presented, a description of the method of reporting the change in accounting principle.
3. If awards of stock-based employee compensation were outstanding and accounted for under the intrinsic value method of Opinion 25 for any period for which an income statement is presented, a tabular presentation as follows is required for all periods presented:

	<b>Year Ended December 31</b>		
	<b>20XX</b>	<b>20XX</b>	<b>20XX</b>
Net income, as reported			
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects			
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects			
Pro forma net income			
Earnings per share			
Basic - as reported			
Basic - pro forma			
Diluted - as reported			
Diluted - pro forma			

Additionally, the above tabular disclosure is required in interim reports if any period presented includes the effects of stock-based compensation accounted for under Opinion 25.

**Procedure**

See specific stock-based compensation plan for applicable procedures.

## Training and Documents

Training:

Additional Documents:

- FASB Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation*
- FASB Statement of Financial Accounting Standards No. 148, *Accounting for Stock-Based Compensation – Transition and Disclosure*
- FASB Interpretation No. 44, *Accounting for Certain Transactions Involving Stock Compensation*
- FASB Interpretation No. 28, *Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans*
- Tax Procedures – Stock Based Compensation Plans

## Who Should Know

- Controller
- Assistant Controllers
- Corporate Accounting
- External Reporting
- Accounting Research
- Tax
- Payroll & Benefits Accounting

## Related Information

Stock-Based Employee Compensation Plans Policy

Directors' Deferred Compensation Plan Policy

Directors' Equity Compensation Plan Policy

Retirement Plan for Directors Policy

Stock-Based Compensation – Directors' Plans Reconciliation & Analysis Policy

Stock-Based Employee Compensation Plans

- Long-term Incentive Compensation Plan – Stock Options Policy
- Long-term Incentive Compensation Plan – Performance-Based Awards Policy
- Long-term Incentive Compensation Plan – Phantom Stock Policy
- Long-term Incentive Compensation Plan – Deferred Shares Policy
- Long-term Incentive Compensation Plan – Restricted Stock Policy
- Employee Stock Purchase and Savings Plan Policy
- Stock Option Plan Policy
- Exercise of Stock Options Policy
- Stock-Based Compensation - Employee Plans Reconciliation & Analysis Policy

**Contacts**

NAME	ROLE	DEPARTMENT
Lisa Carver	Manager	Payroll
Gwen Pate	Manager	Corporate Accounting
Julie McGehee	Manager	Human Resources
Erica Glenn	Senior Analyst	Accounting Research
Amy Sheppard	Manager	Accounting Research

**Definitions**

- SFAS 123 - FASB Statement of Financial Accounting Standards No. 123,  
*Accounting for Stock-Based Compensation*
- SFAS 148 - FASB Statement of Financial Accounting Standards No. 148,  
*Accounting for Stock-Based Compensation – Transition and Disclosure*
- FIN 44 - FASB Interpretation No. 44, *Accounting for Certain Transactions involving Stock Compensation*
- FIN 28 - FASB Interpretation No. 28, *Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans*

APB 25 - Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*

GAAP - Generally Accepted Accounting Principles

## Revisions

The following revisions are effective 01/01/05:

- Update policy for new manual ownership
- Update policy to reflect reorganization of manual



## Voluntary Workforce Reduction

Functional Area: General Accounting  
Sarbanes-Oxley Category: Payroll/Human Resources  
Process Owner: Gwen Pate  
Effective Date: 09/01/98  
Revised Date: 01/01/05

All accounting policies and procedures can be found on the Accounting Policies and Procedures community within iPower as follows:

- Launch iPower
- Select "Accounting Policies and Procedures" under the "Communities" heading at the top of the page

### Policy Statement

Cinergy will record all transactions relating to the Voluntary Workforce Reduction in the Company financial statements.

### Reason for Policy

- To record employee benefit activity in the Company financial statements in adherence with GAAP and regulatory requirements

### Process Flows

### Process Description/Narrative

### Frequently Asked Questions



**Procedure**

Capture information on business transactions (CoA.1)  
 Classify transactions for journalizing (CoA.2)  
 Cutoff transactions (CoA.5)

DEPARTMENT	RESPONSIBILITY	ACTION
Hewitt - Outside Vendor	Michelle Hanson	1. Generate Actuarial Statement and distribute to Cinergy Human Resources Department. <i>Note: distribute annually during February.</i>

Identify error(s) in Source Documents and pushback for correction (CoA.3)  
 Correct error(s) in source documents (CoA.4)

DEPARTMENT	RESPONSIBILITY	ACTION
Hewitt - Outside Vendor	Michelle Hanson	1. Verification of source documents for accuracy occurs within the originating organization. Human Resources processes the documents as received.

Prepare journal entries (CoA.6)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll & Benefits Accounting	Human Resources Analyst	1. Extract data from Actuarial Statement Monthly Allocations and enter into a predefined journal entry in the JE Tool. This entry is developed annually. <i>Note: this process should be complete by Day 2, EOD.</i>

Identify errors in prepared journal entries (CoA.7a)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll & Benefits Accounting	Human Resources Analyst	1. Verify a copy of the journal entry against the source document to ensure data entry accuracy. If an error is located, notify the preparer and provide a copy of source doc's & JE's. <i>Note: this process should be complete by</i>

Voluntary Workforce Reduction

	Day 2, EOD.
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Correct errors in prepared journal entries (CoA.7b)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll & Benefits Accounting	Human Resources Analyst	1. Correct data entry errors in JE Tool. <i>Note: this process should be complete by Day 2, EOD.</i>

Post journal entries to BDMS 2.0 (CoA.8)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll & Benefits Accounting	Lisa Carver	1. Approve journal entries for posting.
Corporate Accounting	BDMS Coordinator/John Linton	2. BDMS will post all journal entries approved for posting. <i>Note: this process should be complete by Day 2, EOD.</i>

Create and post accruals (CoA.10)

Create and post reserves (CoA.11)

DEPARTMENT	RESPONSIBILITY	ACTION
N/A	N/A	All accruals and reserves are included in the above processes.

## Training and Documents

Training:

Additional Documents:

## Who Should Know

- Controller
- Assistant Controllers
- Corporate Accounting
- Human Resources

**Related Information**

- FAS106 Post Retirement Benefits Policy
- Supplemental Retirement Plan (SERP) Policy
- Health Insurance Reallocation of Flexible Benefit Deductions Policy
- Health Insurance Employee Contribution Policy
- Health Insurance Employee/Employer Allocations Policy
- Health Insurance Claims Incurred But Not Reported (BNR) Policy
- 401k Employer Expense Policy
- UK Sharesaver Plan Policy
- Pension Expense Policy
- Contract Pension Policy
- Employee Benefit Accounts- Reconciliation & Analysis Policy
- Workers' Compensation Benefits Policy
- Workers' Compensation Reserve Policy
- Workers' Compensation Supplemental Benefits Policy

**Contacts**

NAME	ROLE	DEPARTMENT
Larry Sawyer	Human Resources Analyst	Payroll & Benefits Accounting
Michelle Hanson	Actuary	Hewitt Associates
Lisa Carver	Manager	Payroll & Benefits Accounting
Erica Glenn	Senior Analyst	Accounting Research
Amy Sheppard	Manager	Accounting Research

## Definitions

EOD: End of Day

## Revisions

The following revision is effective 08/01/00:

- Update procedure for personnel changes

The following revision is effective 12/01/02:

- Update procedure for personnel changes

The following revisions are effective 01/01/05:

- Update policy for new manual ownership
- Update policy to reflect reorganization of manual



## Reconciliation of Accounts Payable Disbursements Between Cash Ledger & General Ledger

Functional Area: Office Services: Accounts Payable,  
Sarbanes-Oxley Category: ~~Treasury~~ Treasury  
Process Owner: Dale Butler  
Effective Date: 01/01/99  
Revised Date: 01/01/05

All accounting policies and procedures can be found on the Accounting Policies and Procedures community within iPower as follows:

- Launch iPower
- Select "Accounting Policies and Procedures" under the "Communities" heading at the top of the page

### Policy Statement

Accounts Payable shall reconcile the cash data provided by PassPort (the accounts payable system) to the Cash Ledger and the General Ledger - Cash accounts for each Cinergy system company on a weekly basis.

### Reason for Policy

- To ensure that the cash activity provided by the PassPort system to the Cash Ledger and the General Ledger - Cash Accounts is accurate
- To ensure that PassPort problems are identified and corrected on a timely basis

### Process Flows

**Process Description/Narrative**

**Frequently Asked Questions**

**Procedure**

Reconciliation of Disbursement Activity

DEPARTMENT	RESPONSIBILITY	ACTION
Accounts Payable	Rick Colvin	1. On a daily basis, obtain Check Register totals of ACH payments, WIRE payments and Checks Paid for each Cinergy system company in Bundl report TIBAPPMT under mail code PIG100P.
Accounts Payable	Rick Colvin	2. Enter daily Check Register information into spreadsheet creating weekly and monthly totals for each Cinergy system company.
Accounts Payable	Rick Colvin	3. On Monday of each week, obtain BDMS Extract totals for each Cinergy system company by running Easytrieve reports.
Accounts Payable	Rick Colvin	4. On Monday of each week, obtain to-date totals of checks cancelled for each bank account from Passport and determine for each bank the total of checks cancelled for the week.
Accounts Payable	Rick Colvin	5. On Monday of each week, obtain total of Accounts Payable Memo Entries for each Cinergy system company from PassPort.
Treasury	Kim Sipes Bob Burwell	6. By the 2 <sup>nd</sup> working day of the following month, provide Rick Colvin of A/P with the timing differences due to ACHs.
Accounts Payable	Rick Colvin	7. On the 3 <sup>rd</sup> working day of the following month, generate FRT reports for all cash accounts (Account

Reconciliation of Accounts Payable Disbursements Between Cash Ledger & General Ledger

		131xxx).
Accounts Payable	Rick Colvin	<p>8. On Monday of each week and on the day after the last Extract to BDMS for the month, reconcile the Accounts Payable cash disbursements extracted to the General Ledger - Cash accounts and the cash disbursements provided to Treasury Cash Ledger for each Cinergy system company by performing the following calculation:</p> <ul style="list-style-type: none"> <li>• BDMS Extract total</li> <li>• Plus: Cancelled Checks</li> <li>• Less: Memo entries</li> <li>• Equals: Total of weekly Check Registers</li> </ul> <p>Additionally, accumulate month-to-date totals.</p> <p><i>Note: This reconciliation process is completed on a weekly basis, and for the last week of the month is completed by the 3<sup>rd</sup> working day of the following month.</i></p>
Accounts Payable	Rick Colvin	<p>9. By the 3<sup>rd</sup> working day of the following month, provide Kim Sipes of Treasury with the total of Accounts Payable Disbursements for the month applicable to each subsidiary to be posted to the Cash Ledger per the A/P reconciliation analysis.</p>
Treasury	Kim Sipes Bob Burwell	<p>10. By the 3<sup>rd</sup> working day of each month, verify that the A/P Disbursements activity for the month applicable to each subsidiary to be posted to the Cash Ledger per A/P reconciliation analysis ties to the amount posted to the Cash Ledger by Treasury. By the 3<sup>rd</sup> working day of each month, notify Rick Colvin of any variances identified by this reconciliation.</p>
Accounts Payable	Rick Colvin	<p>11. By the 3<sup>rd</sup> working day of the following month, verify that the A/P Disbursements activity for the month applicable to each subsidiary to be posted to the General Ledger per the A/P reconciliation analysis ties to the amount actually posted to the General</p>

Reconciliation of Accounts Payable Disbursements Between Cash Ledger & General Ledger

		Ledger per the FRT reports.
Accounts Payable	Rick Colvin	12. Investigate reconciliation differences, as necessary. <i>Note: this process is completed on a weekly basis, and for the last week of the month is completed by the 3<sup>rd</sup> working day of the following month.</i>
Accounts Payable	Rick Colvin	13. Create correcting adjustments, as necessary to the General Ledger cash accounts. By the 3 <sup>rd</sup> working day of each month, notify Treasury of any adjustments needed to the Cash Ledger. <i>Note: this process is completed on a weekly basis, and for the last week of the month is completed by the 3<sup>rd</sup> working day of the following month.</i>
Treasury	Kim Sipes	14. Create adjustments, as necessary, to the Cash Ledger. <i>Note: this process is completed by the 3<sup>rd</sup> working day of the following month.</i>
Accounts Payable	Rick Colvin Bill Rothan	15. Review reconciliation spreadsheet and approve General Ledger adjusting entries. <i>Note: this process is completed on a weekly basis, and for the last week of the month is completed by the 3<sup>rd</sup> working day of the following month.</i>
Accounts Payable	Rick Colvin	16. Document variances identified by the reconciliation process and the timing and nature of adjustments made to either the Cash Ledger or the General Ledger - Cash accounts and provide a copy by the 3 <sup>rd</sup> working day to Treasury and the Bank Reconciliation Team of Corporate Accounting.

Correct PassPort System Problems

DEPARTMENT	RESPONSIBILITY	ACTION
Accounts Payable	Dale Butler	1. For reconciliation differences caused by system errors, request system enhancement of PassPort IT support staff.
IT PassPort Support Staff		2. Modify system to eliminate reconciliation problems due to system errors.



Reconciliation of Accounts Payable Disbursements Between Cash Ledger & General Ledger

Accounts Payable	Dale Butler Rick Colvin Bill Rothan	3. Test system enhancements and place into production
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**Training and Documents**

Training:

Additional Documents:

**Who Should Know**

- Controller
- Assistant Controllers
- Treasurer
- Treasury
- Corporate Accounting
- Accounts Payable

**Related Information**

Positive Pay Process Policy

Bank Reconciliation Procedures - Corporate Center Process Policy

Cash - Transaction Procedures Policy

Cash - Reconciliation & Analysis Policy

**Contacts**

Name	Role	Dept
Dale Butler	Manager, AP	Accounts Payable
Rick Colvin	Sr. Financial Analyst	Accounts Payable
Bill Rothan	Supervisor	Accounts Payable
Erica Glenn	Senior Analyst	Accounting Research
Amy Sheppard	Manager	Accounting Research

## Definitions

## Revisions

The following revision is effective 01/01/01:

- Update procedures for personnel changes

The following revision is effective 11/01/01:

- Update procedure for personnel changes

No revisions were made upon review on 02/01/03.

The following revisions are effective 01/01/05:

- Update policy for new manual ownership
- Update policy to reflect reorganization of manual



## Vacation Retirement Bank Reserve

Functional Area: HR, Payroll & Benefits Accounting  
Sarbanes-Oxley Category: Payroll / Human Resources  
Process Owner: Lisa Carver  
Effective Date: 01/01/04  
Revised Date: 01/01/05

All accounting policies and procedures can be found on the Accounting Policies and Procedures community within iPower as follows:

- Launch iPower
- Select "Accounting Policies and Procedures" under the "Communities" heading at the top of the page

### Policy Statement

A liability shall be accrued as employees bank vacation under the Retirement Vacation Bank program.

### Reason for Policy

To ensure that the retirement vacation bank reserves are recorded in the Company's financial statements in accordance with GAAP and other regulatory requirements

### Process Flows

### Process Description/Narrative

## Frequently Asked Questions

### **Q1. What is the Retirement Vacation Bank program?**

A. The former Retirement Vacation Bank policy allowed non-union eligible employees, aged 50 or older, to accumulate up to 10 weeks (maximum of 400 hours) of unused vacation to be paid upon retirement at the employee's current rate of pay (i.e., rate of pay at the time of retirement). The 10 weeks accumulation period did not have to be in consecutive years and did not include eligible vacation weeks for the year of retirement or for the next year's accrual in the year of retirement (for those employees eligible for such benefit).

The former policy was effective until January 1, 2004 and any non-union employee retiring prior to January 1, 2006 is grand fathered under the former policy. The Retirement Vacation Bank policy that came into effect on January 1, 2004 for all non-union employees is as follows:

Employees may begin banking vacation in the year that they turn 47 and may bank up to 16 weeks (maximum of 640 hours) of unused vacation based on their years of service at the time of termination:

Years of Service at Termination (determined by anniversary date of employment)	Maximum Vacation Bank
1-6 years	12 weeks
7-14 years	13 weeks
15-20 years	14 weeks
21-33 years	15 weeks
34 years or more	16 weeks

Upon retirement, banked vacation is paid out at the employee's rate of pay at the time of retirement. The accumulation period does not have to be in consecutive years and does not include eligible vacation weeks for the year of retirement. Under the current policy, if an employee banks vacation but leaves the Company prior to turning 50 years old, all banked vacation is forfeited.

Once vacation has been earmarked for the retirement bank (under both the former and current policies) it cannot be used as regular vacation time.

### **Q2. How does Cinergy track vacation banked in the Retirement Vacation Bank?**

A. The vacation banked under the Retirement Vacation Bank program is tracked through HRIS (PeopleSoft). The employee's supervisor is responsible for submitting the eligible employee's current year banked vacation to HR/Payroll.

**Q3. What is the proper accounting treatment for vacation benefits?**

A. Statement of Financial Accounting Standards No. 43, *Accounting for Compensated Absences*, states that a liability for vacation should be accrued if all of the following conditions are met:

- The employer's obligation is attributable to services already rendered
- The obligation relates to rights that eventually either:
  - Vest— those rights for which the employer has an obligation to make payment even if an employee terminates; thus, they are not contingent on an employee's future service; or
  - Accumulate— those rights that are earned and when unused may be carried forward to one or more periods subsequent to that in which they are earned (although the amount an employee can carry forward may be limited)
- Payment of the compensation is probable
- The amount can be reasonably estimated

Since Cinergy meets the above conditions as it relates to the retirement vacation bank, a liability, using current salary/wage rates, is accrued over the period when the employees perform the services. The retirement vacation bank liability should be adjusted annually to reflect changes in employee salaries and/or wage rates.

**Q4. How does Cinergy account for the Retirement Vacation Bank program?**

A. On an annual basis, Payroll & Benefits Accounting determines the appropriate reserve that should be recorded for vacation banked under the Retirement Vacation Bank program. The net change in the Retirement Vacation Bank reserve (account 242380) is charged to the Indirect Labor cost pool (account 184600/184610).

**Q5. How will retirement vacation banked be accounted for?**

A. The Company will continue to charge retirement vacation banked against the Indirect Labor cost pool in the year that the vacation is banked to ensure that all current year vacation is reflected in the Company's income statement.

**Procedure**

**BANKING OF VACATION**

Capture information on business transactions (CoA.1)

Classify transactions (CoA.2)

Identify error(s) in source documents and pushback for correction (CoA.3)

Correct error in source documents (CoA.4)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll & Benefits Accounting	Lisa Carver	1. In mid to late November, notify all managers that they need to provide to Payroll & Benefits Accounting the number of weeks of vacation that each eligible direct report will bank for the current year.
Any Department	Employee	2. Notify supervisor of the number of weeks of vacation that will be banked under the Vacation Retirement Bank program.
Any Department	Supervisor	3. Submit Retirement Vacation Bank information to HR/Payroll in December. Information to be provided to HR includes the following: <ul style="list-style-type: none"> <li>• Employee Name</li> <li>• Employee ID number</li> <li>• Effective Date (year of banking)</li> <li>• Hours Banked for the Year</li> <li>• Supervisor Approving Banked Hours</li> </ul>
Payroll & Benefits Accounting	Lou Ann Funk	4. Update HRIS (PeopleSoft) for Retirement Vacation Bank information.
Any Department	Supervisor	5. Verify accuracy of HRIS Retirement Vacation Bank information. Notify HR/Payroll of any errors.
Payroll & Benefits Accounting	Lou Ann Funk	6. Update HRIS for corrected Retirement Vacation Bank information.
Payroll & Benefits Accounting	Caryl West	7. Generate report from HRIS specifying for each Cinergy subsidiary the total retirement vacation banked (by hours and dollar amount). Review for reasonableness.

Payroll & Benefits Accounting	Lisa Carver	8. Review HRIS report reasonableness/accuracy.
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Prepare journal entries (CoA.6)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll & Benefits Accounting	Caryl West	1. Extract data from retirement vacation bank worksheet and enter into a predefined journal entry in the JE Tool. This entry is developed annually. <i>Note: this process should be complete by Day 2, EOD.</i>

Identify errors in prepared journal entries (CoA.7a)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll & Benefits Accounting	Lisa Carver	1. Verify copy of journal entry to source documents to ensure data entry accuracy. Notify preparer to correct journal entry. <i>Note: this process should be complete by Day 3.</i>

Correct error in prepared journal entries (CoA.7b)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll & Benefits Accounting	Caryl West	1. Correct data entry errors in JE Tool. <i>Note: this process should be complete by Day 3, EOD.</i>

Post journal entries to BDMS 2.0 (CoA.8)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll & Benefits Accounting	Lisa Carver	1. Approve journal entries for posting. <i>Note: this process should be complete by Day 3, EOD.</i>
Corporate Accounting	BDMS Coordinator/John Linton	2. BDMS will post all journal entries approved for posting. <i>Note: this process should be complete by Day 3, EOD.</i>

Create and post accruals (CoA.10)

Create and post reserves (CoA.11)

DEPARTMENT	RESPONSIBILITY	ACTION
N/A	N/A	1. All accruals and reserves related to this process have been included in the above procedures.

**PAYOUT OF RETIREMENT VACATION BANK**

Capture information on business transactions (CoA.1)

DEPARTMENT	RESPONSIBILITY	ACTION
Any Department	Any employee	1. Manager submits a job status change announcing the retirement of an employee and instructs Payroll and Benefits to pay out all eligible, accrued vacation time.
Payroll & Benefits Accounting	Lou Ann Funk	2. Run PeopleSoft report detailing retiring employee's amount of retirement vacation bank and price it out based on retiring employee's current rate of pay at retirement.

Identify error(s) and pushback for correction (CoA.3)  
 Correct error(s) (CoA.4)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll & Benefits Accounting	Rose Marie Starkey	1. Review records to ensure that the amount of retirement vacation bank is appropriate (based on years of service and current rate of pay) and that the employee qualifies for payout (age 50 or over).
Payroll & Benefits Accounting	Lisa Carver	2. Review and approve the amount of retirement vacation bank to be paid to the retiring employee.
Payroll & Benefits Accounting	Rose Marie Starkey	3. Correct any errors identified.

Prepare journal entries (CoA.6)  
 Identify & correct errors (CoA.7)  
 Post journal entries to BDMS 2.0 (CoA.8)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll & Benefits Accounting	Rose Marie Starkey	1. Process amount of retirement vacation bank for payment to the



Vacation Retirement Bank Reserve

		retiring employee.
Payroll & Benefits Accounting	Caryl West	2. Prepare journal entry to charge the amount of retirement vacation bank paid to the accrued liability (242380) account.
Payroll & Benefits Accounting	Lisa Carver	3. Verify copy of journal entry to source documents to ensure data entry accuracy. Notify preparer to correct journal entry. <i>Note: this process should be complete by Day 3.</i>
Payroll & Benefits Accounting	Caryl West	4. Correct data entry errors in JE Tool. <i>Note: this process should be complete by Day 3, EOD.</i>
Payroll & Benefits Accounting	Lisa Carver	5. Approve journal entries for posting. <i>Note: this process should be complete by Day 3, EOD.</i>
Corporate Accounting	BDMS Coordinator/John Linton	6. BDMS will post all journal entries approved for posting. <i>Note: this process should be complete by Day 3, EOD.</i>

Create and post accruals (CoA.10)  
 Create and post reserves (CoA.11)

DEPARTMENT	RESPONSIBILITY	ACTION
N/A	N/A	1. All accruals and reserves related to this process have been included in the above procedures.

## Training and Documents

Training:

Documents:

- Statement of Financial Accounting Standards No. 43 *Accounting for Compensated Absences*
- Union Contracts
- My iPeople information

Cinergy Retirement Vacation Banking Plans, effective January 1, 2004

- Update policy for new manual ownership
- Update policy to reflect reorganization of manual

The following revisions are effective 01/01/05:

### Revisions

GAAP – Generally Accepted Accounting Principles  
 P&BA - Payroll & Benefits Accounting

### Definitions

Name	Role	Dept
Lisa Carver	Manager	Payroll & Benefits Accounting
Caryl West	Sr. Analyst	Payroll & Benefits Accounting
Tom Heath	Lead Analyst	Accounting Research
Amy Sheppard	Manager	Accounting Research

### Contacts

Vacation Reserve Policy  
 Vacation Retirement Bank Reserves - Reconciliation & Analysis Policy

### Related Information

- Controller
- Assistant Controllers
- Corporate Accounting
- Payroll & Benefits Accounting
- Human Resources

### Who Should Know

Vacation Reserve



## Vacation Reserve

Functional Area: HR, Payroll & Benefits Accounting  
Sarbanes-Oxley Category: Payroll/Human Resources  
Process Owner: Lisa Carver  
Effective Date: 01/01/04  
Revised Date: 01/01/05

All accounting policies and procedures can be found on the Accounting Policies and Procedures community within iPower as follows:

- Launch iPower
- Select "Accounting Policies and Procedures" under the "Communities" heading at the top of the page

### Policy Statement

A liability shall be accrued as Cinergy employees earn vacation.

### Reason for Policy

To ensure that vacation reserves are recorded in the Company's financial statements in accordance with GAAP and other regulatory requirements

### Process Flows

### Process Description/Narrative

## Frequently Asked Questions

### **Q1. What is Cinergy's vacation policy for non-union (exempt and non-exempt) employees?**

A. Vacation status is determined by the employee's anniversary of employment. Cinergy's vacation policy for all non-union employees is as follows (although specific arrangements that deviate from the table can be made in hiring experienced employees):

Years of Service	Vacation Entitlement
Less than one year of service	One day for each month worked up to a maximum of ten days
One - Six years of service	Two weeks
Seven - fourteen years of service	Three weeks
Fifteen - twenty years of service	Four weeks
Twenty-one - thirty three years of service	Five weeks
Thirty-four years of service or more	Six weeks

After the year hired, non-union employees receive 1/12 of their vacation entitlement for each month worked in the current year.

### **Q2. What unions does Cinergy have? What Cinergy subsidiaries do the union members work for?**

A. Cinergy has the following unions:

Union	Contract Expiration	Cinergy Subsidiary
International Brotherhood of Electrical Workers (IBEW) Local 1347	4/1/2006	CG&E (010), ULH&P (070)
IBEW Local 1393	5/1/2005	PSI (100)
United Steelworkers of America (USWA) Locals 12049 and 5541-06	5/15/2007	CG&E, ULH&P, LGC (030)
Utility Workers Union of America (UWUA)/Independent Utilities Union (IUU) Local 600	4/1/2005	CG&E, ULH&P, LGC, Cinergy Services (500)
Employees' Representation Association (ERA)	10/15/2008	CS of St. Bernard (631)
IBEW Local 352	2/4/2005	Lansing (642)
International Union of Operating Engineers (IUOE) Local 399	11/15/2006	CS of Tuscola (655)
The Paper, Allied-Industrial, Chemical and Energy	3/31/2006	CSGP of Southeast

Vacation Reserve

(PACE) Workers Local 4-1		Texas (643)
Union of Needletrades Industrial and Textile Employees (UNITE) Local 2024	6/29/2008	CS of Narrows (635)
Union of Needletrades Industrial and Textile Employees (UNITE) Local 1093T	6/29/2008	CS of Rock Hill

**Q3. What is Cinergy's vacation policy for union employees?**

A. Vacation status is determined by the employee's anniversary of employment. Cinergy's vacation policy for union employees represented by unions IBEW 1347, USWA and UWUA is as follows:

Years of Service	Vacation Entitlement
Less than one year of service	One day for each month worked up to a maximum of ten days
One year of service	Two weeks
Seven years of service	Three weeks
Fifteen years of service	Four weeks
Twenty-one years of service	Five weeks
Thirty-four years of service	Six weeks

Employees who are members of IBEW 1393, ERA, IBEW 352, IUOE 399, PACE, UNITE 2024 and UNITE 1093T must complete one year of service in order to be entitled to vacation. With the exception of the one-year service requirement, the vacation policies for IBEW 1393, ERA and PACE are consistent with the above.

The vacation policy for members of IBEW 352, UNITE 2024 and UNITE 1093T is as follows:

Years of Service	Vacation Entitlement
One year of service	Two weeks
Seven years of service	Three weeks
Fifteen years of service	Four weeks
Twenty-one years of service	Five weeks

The vacation policy for members of IUOE 399 is as follows:

Years of Service	Vacation Entitlement
One year of service	One week
Two years of service	Two weeks
Seven years of service	Three weeks
Fifteen years of service	Four weeks

Twenty-five years of service	Five weeks
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**Q4. When is vacation earned for union employees?**

A. The IBEW Local 1347 and USWA unions require that their members be on the payroll the last day of the preceding year as full-time regular or probationary employees to be eligible for vacation. Employees on Short-Term Disability, Long-Term Disability and Leave of Absence are not considered to be on payroll. Such employees must return to active duty to be eligible for the current year's vacation. The UWUA requires that employees be ready, willing and able to work as a full-time regular or probationary employee during the calendar year the vacation is taken. All of the other unions require that their members complete one year of service before they are eligible for vacation.

**Q5. What is the vacation entitlement for employees returning from a military leave of absence?**

A. Unless otherwise noted, Cinergy's policy, which is consistent with the military leave of absence clause in certain of the union contracts, is as follows:

Return to Service	Vacation Entitlement
Employee returns on or before June 30 <sup>th</sup>	Receives full vacation for the current year
Employee returns between July 1 <sup>st</sup> and September 30 <sup>th</sup>	Receives half of vacation for the current year
Employee returns after September 30 <sup>th</sup>	Receives no vacation for the current year

The exceptions to this policy include the union contracts for IBEW Local 1393 and the USWA.

IBEW 1393's policy is to allow full current year vacation to any employee who returns on or before September 1<sup>st</sup> and completes ninety days of continuous employment. Any employee who returns after September 1<sup>st</sup> receives no vacation for the current year.

The policy of the two USWA unions is to allow the full current year vacation to any employee who returns from a military leave of absence at any time during the year.

**Q6. What is the proper accounting treatment for vacation benefits?**

A. Statement of Financial Accounting Standards No. 43, *Accounting for Compensated Absences*, states that a liability for vacation should be accrued if all of the following conditions are met:

Vacation Reserve

- The employer's obligation is attributable to services already rendered
- The obligation relates to rights that eventually either:
  - Vest - those rights for which the employer has an obligation to make payment even if an employee terminates; thus, they are not contingent on an employee's future service; or
  - Accumulate - those rights that are earned and when unused may be carried forward to one or more periods subsequent to that in which they are earned (although the amount an employee can carry forward may be limited)
- Payment of the compensation is probable; and
- The amount can be reasonably estimated.

As Cinergy meets all conditions for accrual of the vacation liability, the liability should be accrued over the period when the services are performed and the vacation earned by the employees.

**Q7. What accounts are utilized to record the vacation reserve and related expense?**

A. Cinergy utilizes account 242850 (Vacation Entitlement Reserve) to accrue vacation entitlement and carryover. The net change in the vacation entitlement and carryover reserve is charged to the Indirect Labor cost pool (account 184600/184610).

**Q8. How will actual vacation be accounted for?**

A. The Company will continue to charge actual vacation against the Indirect Labor cost pool. The accrued vacation liability will then be trued up as part of the yearend close to accrue for anticipated carryover and subsequent year entitlement for union employees.

**Q9. How are the vacation reserves and expenses allocated to the appropriate Cinergy corporations?**

A. The vacation entitlement and carryover reserve is recorded on the applicable Pay Corp of each employee. Cinergy Services (Corp. 500) and CPGS (Corp 210) employees' costs are cost assigned to the appropriate Cinergy subsidiaries through the Indirect Labor cost pool loadings process.

**Q10. What is the Company policy regarding the carryover of unused vacation?**

Vacation Reserve

A. The IBEW 1393 contract allows for a carryover if a full week of vacation is begun in the current year and runs into the subsequent year, e.g., begins on 12/30 and ends on 1/4. The UWUA is allowed to carryover up to one week of vacation with supervisor approval per a sidebar agreement and union members are allowed to take this vacation at any time during the following year. No other union contracts allow carryover of unused vacation.

Non-union employees are allowed to carryover vacation from one year to the next with management approval, ONLY in those unusual business circumstances when an employee was not able to take all of his or her vacation during the year. Under these circumstances, the employee may carryover up to five vacation days to the following year. Generally, all carryover vacation days must be used within the first three months of the following year.

**Q11. What is Cinergy's policy regarding unused vacation for employees that terminate or resign from the Company?**

A. Company policy is that non-union employees leaving the company for any reason are generally entitled to their unused earned vacation pay. If an employee is discharged for cause or fails to give two weeks written notice of resignation, the payment of unused earned vacation is at the discretion of the employee's supervisor.

Generally, union employees are entitled to all unused vacation pay.

**Q12. What other vacation entitlements does an employee receive upon retirement?**

A. Certain eligible retiring union employees are entitled to receive one-twelfth of their vacation allotment in the year subsequent to the year of retirement for each month worked in the current year. For example, if an eligible union employee with a current year vacation entitlement of six weeks retires on August 1<sup>st</sup>, the employee is eligible to receive seven twelfths of six weeks vacation time, or 3.5 weeks, representing the allotment for the year subsequent to retirement in addition to amounts earned in prior year, but not taken in current year. Also, UWUA employees receive unused personal time at retirement.

Non-union employees who retire before January 1, 2006 are also entitled to receive one-twelfth of their vacation allotment in the year subsequent to the year of retirement for each month worked in the current year. However, non-union employees retiring after January 1, 2006 will no longer be paid vacation for the year following their date of retirement. Non-union employees retiring after January 1, 2006 will instead be eligible to bank more vacation time. Refer to the Vacation Retirement Bank Reserve Policy for additional information.



Vacation Reserve

**Q13. What vacation benefits, if any, are provided to an employee's estate upon the employee's death?**

A. Company policy for all employees, union and non-union, is to pay out all unused current year vacation to the employee's estate.

In addition, the IBEW Local 1347 and UWUA union contracts provide for the payment of one-twelfth of the vacation an employee would have earned in the calendar year following death, for each month worked in the current year. No other employee groups (or their estates) are entitled to this benefit in the event of an employee death as the one-twelfth-allotment benefit is keyed upon an employee retiring from the Company.

**Procedure**

Capture information on business transactions (CoA.1)

Classify transactions (CoA.2)

Identify error(s) in source documents and pushback for correction (CoA.3)

Correct error in source documents (CoA.4)

**RECORDING OF VACATION ENTITLEMENT (union employees and grandfathered non-union employees retiring prior to January 1, 2006)**

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll & Benefits Accounting	Caryl West	1. On January 2 <sup>nd</sup> , run report from PeopleSoft, which details, by employee according to PayCorp, each employee's year's vacation entitlement hours and current rate of pay.
Payroll & Benefits Accounting	Caryl West	2. For union employees, and based on the terms of the union contracts, determine each union employee's escalated pay rate for the following year. For non-union employees, determine each employee's escalated pay rate based on department budgets. <i>Note: The only thing recorded for nonunion is carryover that is required to be taken by 3/1 - no escalation necessary.</i>
Payroll & Benefits Accounting	Caryl West	3. Enter the appropriate data into Excel spreadsheets to calculate the year's vacation entitlement in dollars.
Payroll & Benefits	Lisa Carver	4. Review and approve vacation

Vacation Reserve

Accounting		entitlement calculation.
Payroll & Benefits Accounting	Caryl West	5. Make any corrections to calculation.

RECORDING OF VACATION CARRYOVER

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll & Benefits Accounting	Lisa Carver	1. In mid to late November, notify all managers via email that they need to provide an amount of the estimated vacation to be carried over into the following year, broken down by employee, if any.
Any Department	Manager	2. In December of each year notify Payroll & Benefits Accounting of any planned vacation carryover of all direct reports.
Payroll & Benefits Accounting	Lou Ann Funk	3. Update HRIS for vacation carryover.

Prepare journal entries (CoA.6)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll & Benefits Accounting	Caryl West	1. Extract data from supporting worksheets for vacation entitlement and vacation carryover and enter into predefined journal entries in the JE Tool in December to adjust current balances to the appropriate amounts. This entry is developed annually.
Any Department	Manager	2. In early January of the following year, verify the accuracy of HRIS vacation carryover for all employees based on actual results and notify Payroll & Benefits Accounting of any revisions.
Payroll & Benefits Accounting	Lou Ann Funk	3. Update HRIS for corrected vacation carryover information.
Payroll & Benefits Accounting	Caryl West	4. Generate report from HRIS specifying for each Cinergy employee total vacation entitlement and total vacation carryover.
Payroll & Benefits Accounting	Lisa Carver	5. Review HRIS report for reasonableness / accuracy.
Payroll & Benefits	Caryl West	6. Subsequent to yearend, record a

Accounting		journal entry to reflect any significant differences between the estimated amounts of carryover versus actual.
Payroll & Benefits Accounting	Caryl West	7. In March, reverse the entry/(ies) booked to establish and/or adjust the vacation carryover liability, as all carryover is required to be used by the end of March.

Identify errors in prepared journal entries (CoA.7a)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll & Benefits Accounting	Lisa Carver	1. Verify copy of journal entry to source documents to ensure data entry accuracy. Notify preparer to correct journal entry. <i>Note: this process should be complete by Day 3.</i>

Correct error in prepared journal entries (CoA.7b)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll & Benefits Accounting	Caryl West	1. Correct data entry errors in JE Tool. <i>Note: this process should be complete by Day 3, EOD.</i>

Post journal entries to BDMS 2.0 (CoA.8)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll & Benefits Accounting	Lisa Carver	1. Approve journal entries for posting. <i>Note: this process should be complete by Day 3, EOD.</i>
Corporate Accounting	BDMS Coordinator/John Linton	2. BDMS will post all journal entries approved for posting. <i>Note: this process should be complete by Day 3, EOD.</i>

Create and post accruals (CoA.10)

Create and post reserves (CoA.11)

DEPARTMENT	RESPONSIBILITY	ACTION
N/A	N/A	1. All accruals and reserves related to this process have been included in the above procedures.

VACATION TAKEN (Entitlement or Carryover)

DEPARTMENT	RESPONSIBILITY	ACTION
Any Department	Any Employee	1. Obtain approval from supervisor to take vacation.
Any Department	Any Employee	2. Before or after taking vacation, complete time report charging LOST TIME V (vacation) or LOST TIME F (floating personal days) for amount of vacation time taken.
Any Department	Time Report Processor	3. Enter time report of department employees into the LDCS system.

Identify error(s) in source documents and pushback for correction (CoA.3)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll	Marion Felix	1. Review the LDCS pay runs and verify that debits & credits are equal. If an error is located, notify Jeff Ferguson of IT via phone and provide all notes and source reports. <i>Note: this process should be complete by Day 1, EOD for the final pay of each month.</i>

Correct error(s) in source documents (CoA.4)

DEPARTMENT	RESPONSIBILITY	ACTION
IT	Jeff Ferguson	1. Receive correction requests from Payroll and make necessary corrections to LDCS. <i>Note: this process should be complete by Day 1, EOD for the final pay of each month.</i>

Prepare journal entries (CoA.6)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll & Benefits Accounting	System Generated	1. Automated journal entry (PR001) is recorded each month to charge vacation taken per LDCS to the Indirect Labor Cost Pool. <i>Note: this process should be complete by Day 2, EOD.</i>

Post journal entries to BDMS 2.0 (CoA.8)

Vacation Reserve

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll & Benefits Accounting	Lisa Carver	1. Approve journal entries for posting.
Corporate Accounting	BDMS Coordinator/ John Linton	2. BDMS will post all journal entries approved for posting. <i>Note: this process should be complete by Day 2, EOD.</i>

Create and post accruals (CoA.10)

Create and post reserves (CoA.11)

DEPARTMENT	RESPONSIBILITY	ACTION
N/A	N/A	All accruals and reserves are included in the above processes.

## Training and Documents

Training:

Documents:

- Statement of Financial Accounting Standards No. 43, *Accounting for Compensated Absences*
- Union Contracts
- My iPeople benefit information

Cinergy Retirement Vacation Banking Plans, effective January 1, 2004

## Who Should Know

- Controller
- Assistant Controllers
- Corporate Accounting
- Payroll & Benefits Accounting
- Human Resources

## Related Information

Vacation Retirement Bank Reserve Policy

Vacation & Vacation Retirement Bank Reserves - Reconciliation & Analysis Policy

**Contacts**

Name	Role	Dept
Lisa Carver	Manager	Payroll & Benefits Accounting
Caryl West	Sr. Analyst	Payroll & Benefits Accounting
Terry Rumley	Labor Relations Analyst	Labor Relations
Erica Glenn	Senior Analyst	Accounting Research
Amy Sheppard	Manager	Accounting Research

**Definitions**

ERA - Employees' Representation Association

GAAP - Generally Accepted Accounting Principles

IBEW - International Brotherhood of Electrical Workers

IUOE - International Union of Operating Engineers

IUU - Independent Utilities Union

PACE - The Paper, Allied-Industrial, Chemical and Energy Workers

P&BA - Payroll & Benefits Accounting

UNITE - Union of Needletrades Industrial and Textile Employees

USWA - United Steelworkers of America

UWUA - Utility Workers Union of America

**Revisions**

The following revisions are effective 01/01/05:

Vacation Reserve

- Update policy for new manual ownership
- Update policy to reflect reorganization of manual



## Vacation & Vacation Retirement Bank Reserves - Reconciliation & Analysis

Functional Area: HR, Payroll & Benefits Accounting  
Sarbanes-Oxley Category: Payroll / Human Resources  
Process Owner: Lisa Carver  
Effective Date: 01/01/04  
Revised Date: 01/01/05

All accounting policies and procedures can be found on the Accounting Policies and Procedures community within iPower as follows:

- Launch iPower
- Select "Accounting Policies and Procedures" under the "Communities" heading at the top of the page

### Policy Statement

On at least an annual basis, or more frequently, as determined by the Payroll & Benefits Accounting Manager, all vacation and retirement vacation bank general ledger accounts will be reconciled. All Balance Sheet accounts for all corporations shall be reconciled using Reconciliation and Analysis Standards as outlined in the Reconciliation & Analysis of Accounts Policy. The reconciliation shall be done on a timely basis, which is determined according to the account standards defined in the New Account Set-up & Definition (Account Standards) Policy.

### Reason for Policy

- To ensure that responsibility for accuracy of data within an account is held by those closest to the transaction
- To increase control of accounts
- To clearly define ownership of accounts providing a single source for information regarding the accounts



## Process Flows

## Process Description/Narrative

## Frequently Asked Questions

### Q1. What documentation should be included in the Account Reconciliation workpapers?

A. Account reconciliation workpapers will vary from account to account. However, at a minimum, each account's workpapers should include the following:

1. Account Background
  - a. Business purpose of account
  - b. Nature of charges to the account
  - c. Related accounts
  - d. Key contact person/department
2. Key Account Documents, as applicable
  - a. HRIS reports supporting vacation entitlement, carryover and retirement vacation bank
  - b. Excel reports supporting reserve calculations
  - c. Union contracts
  - d. My iPeople vacation policies
  - e. Other applicable documents
3. Reconciliation Data
  - a. Date reconciliation performed
  - b. Individual performing reconciliation
  - c. Support for ending account balance
  - d. Reconciling items identified
  - e. Date, method, individual clearing reconciling items

The workpapers should also include any other documentation deemed necessary to support the appropriateness of the ending account balance.

**Procedure**

Reconcile all vacation and vacation retirement bank reserve accounts (CoA.9)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll & Benefits Accounting	Caryl West	1. Run General Ledger reports from FRT for all applicable accounts (accounts 242380-retirement vacation bank & 242850-vacation entitlement).
Payroll & Benefits Accounting	Caryl West	2. Obtain supporting documentation/reserve workpapers.
Payroll & Benefits Accounting	Caryl West	3. Verify the General Ledger balance (FRT) to the supporting documentation.
Payroll & Benefits Accounting	Caryl West	4. Investigate balance differences and misposted transactions as necessary.
Payroll & Benefits Accounting	Caryl West	5. Create correcting adjustments, as necessary.
Payroll & Benefits Accounting	Caryl West	6. Update "Last Reconciled Date" field in BDMS (PBR - Accounting Data Set-up) to reflect the last period for which the account balance was verified/reconciled.
Payroll & Benefits Accounting	Lisa Carver	7. Review and approve any correcting adjustments and the account reconciliation.

Perform analysis of transactions (CoA.12)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll & Benefits Accounting	Caryl West	1. Perform variance analysis on General Ledger account balances as necessary.

Perform analysis of financial statements: business unit review (CoA.13a)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll & Benefits Accounting	Caryl West	1. Business Unit specific Financial Statement analysis is at the discretion of the Business Unit with the exception of minimum analysis required to support Legal Entity analysis. The extent of Legal Entity analysis will be determined on a case-by-case basis, as required.

Perform analysis of financial statements: legal review of regulatory entity (CoA.13b)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll & Benefits Accounting	Lisa Carver Caryl West	1. Provide Corporate Accounting information, as required, for their variance analysis.

## Training and Documents

Training:

Documents:

- Statement of Financial Accounting Standards No. 43, *Accounting for Compensated Absences*

## Who Should Know

- Controller
- Assistant Controllers
- Corporate Accounting
- Payroll & Benefits Accounting
- Human Resources

## Related Information

New Account Set-up & Definition (Account Standards) Policy

Reconciliation & Analysis of Accounts Policy

Vacation Reserve Policy

Vacation Retirement Bank Reserve Policy

**Contacts**

NAME	ROLE	DEPARTMENT
Lisa Carver	Manager	Payroll & Benefits Accounting
Caryl West	Sr. Analyst	Payroll & Benefits Accounting
Erica Glenn	Senior Analyst	Accounting Research
Amy Sheppard	Manager	Accounting Research

**Definitions**

P&BA - Payroll & Benefits Accounting

**Revisions**

The following revisions are effective 01/01/05:

- Update policy for new manual ownership
- Update policy to reflect reorganization of manual



## Payroll - Disbursements

Functional Area: HR, Payroll & Benefits Accounting  
Sarbanes-Oxley Category: Payroll / Human Resources  
Process Owner: Lisa Carver  
Effective Date: 08/01/98  
Revised Date: 01/01/05

All accounting policies and procedures can be found on the Accounting Policies and Procedures community within iPower as follows:

- Launch iPower
- Select "Accounting Policies and Procedures" under the "Communities" heading at the top of the page

### Policy Statement

The Cinergy Payroll Department will record all transactions relating to cash disbursements for net payroll and payroll tax liabilities.

### Reason for Policy

To record payroll activity in the Company financial statements in adherence to GAAP

### Process Flows

### Process Description/Narrative

### Frequently Asked Questions

Payroll - Disbursements

**Procedure**

- Capture information on business transactions (CoA.1)
- Classify transactions for journalizing (CoA.2)
- Cutoff transactions (CoA.5)

DEPARTMENT	RESPONSIBILITY	ACTION
Various	LDCS Operators	1. Enter time and labor information or utilize predefined labor documents to classify payroll expense. Month end cutoff occurs based upon pay date where all activity occurring within a month is booked in the same month.
Payroll and Benefits Accounting	Payroll Processors	2. Capture payroll disbursement activity and classify into BDMS 2.0 via journal entry PY161. Month end cutoff occurs based upon pay date where all activity occurring within a month is booked in the same month. Generate the Payroll Summary Report and distribute it to the Payroll Department. <i>Note: this information is produced at the end of each pay run.</i>
Payroll and Benefits Accounting	Sr. Accounting Assistant	3. Capture payroll Adjustments and special pays and classify into LDCS based upon accounting information provided for special pay. Month end cutoff occurs based upon pay date where all activity occurring within a month is booked in the same month. <i>Note: this information is produced at the end of each pay run.</i>

- Identify error(s) in Source Documents and pushback for correction (CoA.3)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll	Lou Ann Funk	1. Perform a tie-out of cash deductions on the Payroll Summary Register to Treasury. Tie out detail spreadsheet of 161 entry to transfer books. <i>Note: this process should be complete by Day 1, MOD.</i>
Payroll	Lou Ann Funk	2. Review the exception reports

Payroll - Disbursements

		generated with each pay run for errors. <i>Note: this process should be complete by Day 1, MOD.</i>
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Correct error(s) in source documents (CoA.4)  
 Prepare journal entries (CoA.6)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll	Debbie Stout Lou Ann Funk Debby Wilson (also does JE)	1. Create a transfer sheet for Accounting, including all details for the JE. Summarize each pay run into Excel to create a single JE for each company for the month. Extract data from Transfer Books and enter into Excel to create JE. <i>Note: this process should be complete by Day 1, MOD.</i>
Payroll	Paula Freeman	2. Extract data from the Excel spreadsheet and enter into JE Tool. <i>Note: this process should be complete by MOD.</i>

Identify errors in prepared journal entries (CoA.7a)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll	Rose Marie Starkey	1. Verify a copy of the journal entry against the source document to ensure data entry accuracy. If an error is located, Payroll is notified via phone and provided a copy of source doc & JE's. <i>Note: this process should be complete by Day 2, EOD.</i>

Correct errors in prepared journal entries (CoA.7b)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll	Paula Freeman	1. Correct data entry errors in JE Tool. <i>Note: this process should be complete by Day 2, EOD.</i>

Post journal entries to BDMS 2.0 (CoA.8)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll	Lisa Carver	1. Approve journal entries for posting.
Corporate Accounting	BDMS Coordinator / John	2. BDMS will post all journal entries

Payroll - Disbursements

	Linton	approved for posting. <i>Note: this process should be complete by Day 2, EOD.</i>
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Create and post accruals (CoA.10)  
 Create and post reserves (CoA.11)

DEPARTMENT	RESPONSIBILITY	ACTION
N/A	N/A	All accruals and reserves are included in the above processes.

## Training and Documents

Training:

Documents:

## Who Should Know

- Controller
- Assistant Controllers
- Corporate Accounting
- Payroll

## Related Information

Payroll - Accrual & Expense Policy

Payroll - Incentive Plan Accrual Policy

Closing Procedure: Payroll - Reconciliation & Analysis Policy

Cash Ledger Procedures Policy

## Contacts

NAME	ROLE	DEPARTMENT
Lisa Carver	Manager.	Payroll



Payroll - Disbursements

Paula Freeman	Payroll	Payroll
Lou Ann Funk	Payroll	Payroll
Erica Glenn	Senior Analyst	Accounting Research
Amy Sheppard	Manager	Accounting Research

## Definitions

LDCS: Labor Data Capture System

MOD: Middle of Day

EOD: End of Day

## Revisions

The following revision is effective 08/01/99:

- Update "Responsibility" column for personnel changes

The following revision is effective 11/01/00:

- Update procedure for personnel changes

The following revision is effective 12/01/02:

- Update procedure for personnel changes

The following revisions are effective 01/01/05:

- Update policy for new manual ownership
- Update policy to reflect reorganization of manual



## Payroll - Reconciliation & Analysis

Functional Area: HR, Payroll & Benefits Accounting  
Sarbanes-Oxley Category: Payroll/Human Resources  
Process Owner: Lisa Carver  
Effective Date: 08/01/98  
Revised Date: 01/01/05

All accounting policies and procedures can be found on the Accounting Policies and Procedures community within iPower as follows:

- Launch iPower
- Select "Accounting Policies and Procedures" under the "Communities" heading at the top of the page

### Policy Statement

All Balance Sheet accounts for all corporations shall be reconciled using Reconciliation and Analysis Standards as outlined in the Reconciliation & Analysis of Accounts Policy. The reconciliation shall be done on a timely basis, which is determined according to the account standards defined in the New Account Set-up & Definition (Account Standards) Policy.

### Reason for Policy

- To ensure that responsibility for accuracy of data within an account is held by those closest to the transaction
- To increase control of accounts
- To clearly define ownership of accounts providing a single source for information regarding the accounts

### Process Flows

**Process Description/Narrative**

**Frequently Asked Questions**

**Procedure**

Reconcile Accounts (CoA.9)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll	Lisa Carver	1. Payroll is responsible for annual reconciliation of the following accounts: 236150, 242850, 242380, 141110, 253300, 253390
Payroll	Various	2. Payroll is responsible for the quarterly reconciliation of the following accounts: 143210, 143230, 143240, 232660, 232710, 232720, 232740, 232760, 241920, 241930, 242180, 242220, 242230, 242300, 242310, 242330, 242340, 242350, 242410, 242420, 242430, 242440, 242660, 242670, 253045, 232700, 232730, 232750, 242680
Payroll	Various	3. Payroll is responsible for the monthly reconciliation of the following accounts: 232310, 241010-020, 241080, 241100, 241210-220, 241240, 241250, 241900, 241920, 241930, 242350, 242440, 242660, 242220, 241530, 241540, 241550, 241590, 241600, 241910, 241960, 241560, 242180, 242310, 242330, 242410

Payroll - Reconciliation & Analysis

Payroll	Various	4. Generate FRT reports: transactions by source type, all accounts payable transactions by invoice date/ number, General Ledger and source documents. <i>Note: these reports are to be generated after the close.</i>
Payroll	Various	5. For all Liability Accounts, verify that the remaining General Ledger balance equals the cash transfer balance.
Payroll	Debby Wilson	6. For all Receivable Accounts, compare General Ledger balance to detail files maintained for each advance.
Payroll	Marian Felix	7. Reconcile account 232310 to distribution report.
Payroll	Various	8. Update "Last Reconciled Date" field in BDMS (PBR - Accounting Data Set-up) to reflect the last period for which the account balance was verified/reconciled.

Perform analysis of transactions (CoA.12)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll	Lou Ann Funk Debbie Stout	1. Generate payroll processing reports.
Payroll	Lou Ann Funk Debbie Stout	2. Tie out the State Gross Wage Register to the Federal Gross Wage Register.
Payroll	Lou Ann Funk Debbie Stout	3. Perform a reasonableness test on the tax withholdings.
Payroll	Lou Ann Funk Debbie Stout	4. Recalculate the Cincinnati city tax withholding.

Perform analysis of financial statements: business unit review (CoA.13a)

DEPARTMENT	RESPONSIBILITY	ACTION
Business Unit		1. Business Unit specific Financial Statement analysis is at the discretion of the Business Unit with the exception of minimum analysis required to support Legal Entity analysis. The extent of Legal Entity analysis will be determined on a case

		by case basis, as required.
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Perform analysis of financial statements: legal review of regulatory entity  
 (CoA.13b)

DEPARTMENT	RESPONSIBILITY	ACTION
Business Unit		1. Business Units have the responsibility for reviewing payroll expenses. The payroll department is able to assist in researching issues as necessary.

## Training and Documents

Training:

Additional Documents:

## Who Should Know

- Controller
- Assistant Controllers
- Corporate Accounting
- Payroll

## Related Information

Payroll - Accrual & Expense Policy

Payroll - Disbursements Policy

Payroll - Incentive Plan Accrual Policy

New Account Set-up & Definition (Account Standards) Policy

Reconciliation & Analysis of Accounts Policy

## Contacts

NAME	ROLE	DEPARTMENT
Lisa Carver	Manager	Payroll
Lou Ann Funk	Payroll	Payroll
Erica Glenn	Senior Analyst	Accounting Research
Amy Sheppard	Manager	Accounting Research

## Definitions

LDCS: Labor Data Capture System

FRT: Financial Reporting Tool

BDMS: Business Data Management System

## Revisions

The following revision is effective 08/01/99:

- Update "Responsibility" column for personnel changes

The following revisions are effective 11/01/00:

- Update procedure for personnel changes
- Update procedure for process changes due to Account Reconciliation Database

The following revision is effective 12/01/02:

- Update procedure for personnel changes

The following revisions are effective 01/01/05:

- Update policy for new manual ownership
- Update policy to reflect reorganization of manual



## Payroll - Accrual & Expense

Functional Area: HR, Payroll & Benefits Accounting  
Sarbanes-Oxley Category: Payroll / Human Resources  
Process Owner: Lisa Carver  
Effective Date: 08/01/98  
Revised Date: 01/01/05

All accounting policies and procedures can be found on the Accounting Policies and Procedures community within iPower as follows:

- Launch iPower
- Select "Accounting Policies and Procedures" under the "Communities" heading at the top of the page

### Policy Statement

The Cinergy Payroll Department will record all transactions relating to accrued wages and expenses.

### Reason for Policy

To record payroll activity in the Company financial statements in adherence to GAAP

### Process Flows

### Process Description/Narrative

### Frequently Asked Questions

**Procedure**

Capture information on business transactions. (CoA.1)

Classify transactions for journalizing. (CoA.2)

Cutoff transactions (CoA.5)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll	Accounting Systems Specialist	1. Capture payroll accrual and expense activity and classify into LDCS based upon accounting information on time reports. Month end cutoff occurs based upon pay date where all activity occurring within a month is booked in the same month. <i>Note: this process should be complete by Day 1, EOD for the final pay of each month.</i>

Identify error(s) in Source Documents and pushback for correction (CoA.3)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll	Accounting Systems Specialist	1. Review LDCS pay runs and verify that debits & credits equal. An error message is generated if an error has occurred. <i>Note: this process should be complete by Day 1, EOD for the final pay of each month.</i>

Correct error(s) in source documents (CoA.4)

DEPARTMENT	RESPONSIBILITY	ACTION
IT	Accounting Systems Specialist	1. Review error report and do manual file maintenance to LDCS to correct. <i>Note: this process should be complete by Day 1, EOD for the final pay of each month.</i>

Prepare journal entries (CoA.6)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll	Accounting Systems	1. Run distribution program in LDCS



	Specialist	to create auto feed to BDMS 2.0. <i>Note: this process should be complete by Day 1, EOD for the final pay of each month.</i>
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Identify errors in prepared journal entries (CoA.7a)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll	Accounting Systems Specialist	1. Verify the auto feed control report against an excel spreadsheet which has been tied-out to the distribution for each pay run. <i>Note: this process should be complete by Day 2, EOD.</i>

Correct errors in prepared journal entries (CoA.7b)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll	Accounting Systems Specialist	1. Correct errors in LDCS and re-process the auto feed. <i>Note: this process should be complete by Day 2, EOD.</i>

Post journal entries to BDMS 2.0. (CoA.8)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll	Lead HR Accountant	1. Approve journal entries for posting.
Corporate Accounting	BDMS Coordinator / John Linton	2. BDMS will post all journal entries approved for posting. <i>Note: this process should be complete by Day 2, EOD.</i>

Create and post accruals (CoA.10)

Create and post reserves (CoA.11)

DEPARTMENT	RESPONSIBILITY	ACTION
N/A	N/A	All accruals and reserves are included in the above processes.

**Training and Documents**

## Who Should Know

- Controller
- Assistant Controllers
- Corporate Accounting
- Payroll & Benefits Accounting

## Related Information

Payroll - Disbursements Policy

Payroll - Incentive Plan Accrual Policy

Payroll - Reconciliation & Analysis Policy

## Contacts

NAME	ROLE	DEPARTMENT
Lisa Carver	Manager	Payroll
Marian Felix	Accounting Sys. Specialist	Payroll
Erica Glenn	Senior Analyst	Accounting Research
Amy Sheppard	Manager	Accounting Research

## Definitions

LDCS: Labor Data Capture System

EOD: End of Day

## Revisions

The following revision is effective 08/01/99:

- Update "Responsibility" column for personnel changes

The following revision is effective 11/01/00:

- Update procedure column for personnel changes

The following revisions are effective 01/01/05:

- Update policy for new manual ownership
- Update policy to reflect reorganization of manual



## Duplicate Payments: Reconciliation & Analysis

Functional Area: Office Services: Accounts Payable,  
Sarbanes-Oxley Category: ~~Expenditures~~ Mail  
Process Owner: Dale Butler  
Effective Date: 01/01/02  
Revised Date: 01/01/05

All accounting policies and procedures can be found on the Accounting Policies and Procedures community within iPower as follows:

- Launch iPower
- Select "Accounting Policies and Procedures" under the "Communities" heading at the top of the page

### Policy Statement

On a monthly basis, the duplicate payment miscellaneous accounts receivable account (Account 143) will be reconciled using Reconciliation and Analysis Standards as outlined in the Reconciliation & Analysis of Accounts Policy. The reconciliation shall be done on a timely basis, which is determined according to the account standards defined in the New Account Set-up & Definition (Account Standards) Policy.

### Reason for Policy

- To ensure that the duplicate payment miscellaneous accounts receivable account, (Account 143) balance is recorded in the Company's financial statements in adherence to GAAP and Regulatory Requirements
- To shift responsibility for accuracy of data within an account to those closest to the transactions
- To increase control of accounts

- To clearly define ownership of accounts providing a single source for information regarding the accounts

**Process Flows**

**Process Description/Narrative**

**Frequently Asked Questions**

**Procedure**

Reconcile duplicate payment miscellaneous accounts receivable account (CoA.9)

*Note: The following process is performed on a monthly basis, to reconcile the duplicate payment miscellaneous accounts receivable account.*

DEPARTMENT	RESPONSIBILITY	ACTION
A/P Department	A/P Sr. Accounting Clerk	1. Run General Ledger reports from FRT for the 143xxx account, as appropriate to each entity (e.g. Corporations 010, 100, 500).
A/P Department	A/P Sr. Accounting Clerk	2. Obtain supporting "Duplicate Payment" Excel schedules.
A/P Department	A/P Sr. Accounting Clerk	3. Verify the General Ledger balance (FRT) to the supporting "Duplicate Payment" Excel schedule balances.
A/P Department	A/P Sr. Accounting Clerk	4. Investigate balance differences and misposted transactions as necessary.
A/P Department	A/P Sr. Accounting Clerk	5. Create correcting adjustments, as necessary.
A/P Department	A/P Sr. Accounting Clerk	6. Update "Last Reconciled Date" field in BDMS (PBR - Accounting Data Set-up) to reflect the last period for which the account balance was verified/reconciled.

Perform analysis of transactions (CoA.12)

Duplicate Payments: Reconciliation & Analysis

A/P Department	Rick Colvin Bill Rothan	1. Perform variance analysis on General Ledger account balances as necessary.
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Perform analysis of financial statements: legal review of regulatory entity (CoA.13b)

A/P Department	Rick Colvin Bill Rothan	1. Provide Corporate Accounting information as required, for their variance analysis.
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## Training and Documents

Training:

Additional Documents:

## Who Should Know

- Controller
- Assistant Controllers
- A/P Department Staff
- A/P Department Supervisor
- A/P Department Manager

## Related Information

New Account Set-up & Definition (Account Standards) Policy

Reconciliation & Analysis of Accounts Policy

Prevention & Identification of Duplicate Payments Policy

## Contacts

Name	Role	Dept
Bill Rothan	Supervisor	Accounts Payable

Duplicate Payments: Reconciliation & Analysis

Rick Colvin	Senior Analyst	Accounts Payable
Dale Butler	Manager	Accounts Payable
Erica Glenn	Senior Analyst	Accounting Research
Amy Sheppard	Manager	Accounting Research

## Definitions

GAAP - Generally Accepted Accounting Principles

FRT - Financial Reporting Tool

A/P - Accounts Payable

## Revisions

No revisions were noted upon review on 02/01/03

The following revisions are effective 01/01/05:

- Update policy for new manual ownership
- Update policy to reflect reorganization of manual



## Prevention & Identification of Duplicate Payments

Functional Area: Office Services: Accounts Payable,  
Sarbanes-Oxley Category: ~~Mail~~ Expenditures  
Process Owner: Dale Butler  
Effective Date: 01/01/02  
Revised Date: 01/01/05

All accounting policies and procedures can be found on the Accounting Policies and Procedures community within iPower as follows:

- Launch iPower
- Select "Accounting Policies and Procedures" under the "Communities" heading at the top of the page

### Policy Statement

Only valid and authorized payables should be recorded and paid. Effective internal controls should be in place to ensure that duplicate payments are either prevented from occurring or are identified and corrected in a timely manner. All duplicate payments should be charged to a miscellaneous accounts receivable pending recovery of funds from the vendors.

### Reason for Policy

- To ensure that duplicate payments to vendors are either prevented from occurring or are identified and corrected in a timely manner
- To ensure that duplicate payment amounts are recovered from vendors and the financial statements are corrected in a timely manner

### Process Flows



## Process Description/Narrative

## Frequently Asked Questions

### **Q1. Who should I contact if I believe that a duplicate payment has occurred?**

A. Please contact Bill Rothan, A/P Supervisor, at 1-513-287-2341. Bill can obtain the documentation supporting the payments and will work with you to resolve the situation.

### **Q2. What procedures does the A/P Department have in place to prevent duplicate payments?**

A. The Passport system issues an error/warning message whenever an A/P Clerk enters a duplicate invoice number for the same vendor suffix name. The A/P Clerk can only override this error/warning message after researching and verifying that the payment is not a duplicate. The A/P Clerk will document on the Notes Tab Panel in Passport their research and conclusions for any message override.

Also, the A/P A Clerk reviews the vendor files to ensure that prior to establishing a new vendor, the vendor is not already on the vendor file.

### **Q3. What procedures does the A/P Department have in place to identify duplicate payments after they occur?**

A. On a monthly basis, the A/P Department generates a report that identifies all payments made to a vendor with the same amount and invoice number. All items on this report are researched to determine if any are duplicate payments. The A/P Department will contact and work with the originating department and/or vendor to recover any duplicate payment amounts. Additionally, the A/P Department will correct the financial statement effect of the duplicate payment through the establishment of miscellaneous accounts receivable for the duplicate payment.

## Procedure

Preventing Duplicate Payments through Warning Message from Passport

Prevention & Identification of Duplicate Payments

DEPARTMENT	RESPONSIBILITY	ACTION
A/P Department	A/P Clerks	1. Research all Passport system error/warning messages relating to duplicate invoice numbers that indicate a potential duplicate payment.
A/P Department	A/P Clerks	2. For all error/warning message overrides, document in Passport the research performed and support for conclusions reached.
A/P Department	Bill Rothan	3: Review all situations where the monthly duplicate payment report process identifies a duplicate payment, which has been overridden by an A/P Clerk.

Preventing Establishment of Duplicate Vendors

A/P Department	A/P A Clerk A/P Sr. Accounting Clerk	1. Research the Vendor files to ensure that prior to establishing a new vendor that the vendor is not already on the Vendor file.
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Identifying Duplicate Payments After These Occur

A/P Department	Bill Rothan	1. On a monthly basis, generate and review the duplicate payment report (i.e., listing by vendor suffix of all payments with the same amount and invoice number). Research all payments reflected on the report and determine which, if any, are duplicate payments.
A/P Department	Bill Rothan	2. Contact originating department when duplicate payments are identified to determine if originating department has initiated any efforts to recover duplicate payment amounts.
A/P Department	Bill Rothan	3. Identify all instances where an A/P Clerk override caused the issuance of a duplicate payment. Follow-up and modify override procedures as appropriate.
A/P Department	A/P Sr. Accounting Clerk	4. Contact Corporate Accounting to establish a 143xxx account, duplicate

		payment miscellaneous receivable account, on any Corporation that does not already have such an account.
Corporate Accounting	Corporate Accounting A/P Contact	5. Establish new 143xxx account, as requested.
A/P Department	A/P Sr. Accounting Clerk	6. Change entry on Panel G091 in Passport to record duplicate payment amount to the 143xxx account. Update "Duplicate Payment" Excel spreadsheet for duplicate payment information.
A/P Department	A/P Clerk or Bill Rothan	7. Contact vendor for recovery of duplicate payment amounts (i.e., recover through wire, check or credit memo).
A/P Department	A/P Sr. Accounting Clerk	8. Update "Duplicate Payment" Excel spreadsheet with vendor contact and expected recovery terms information.
A/P Department	A/P Clerk	9a. Apply credit memos to vendor account to offset future payments to the vendor.
Treasury Department	Treasury Department Staff	9b. Process through the Treasury Workstation ACH/Wire Transfer or checks received for recovery of duplicate payments.
A/P Department	A/P Clerk	10. Update Passport duplicate payment information to reflect recovery of duplicate payment.
A/P Dept.	A/P Sr. Accounting Clerk	11. Update "Duplicate Payment" Excel spreadsheet for recovery of duplicate payment.
Corporate Accounting	Corporate Accounting Staff	12. Prepare journal entry to credit appropriate 143xxx accounts for recovery of duplicate payments via ACH/Wires or check.
A/P Department	A/P Sr. Accounting Clerk	13. Reconcile 143xxx account balances to the "Duplicate Payment" Excel spreadsheet. Resolve all variances. Create adjusting entries as appropriate.

## Training and Documents

Training:

Additional Documents:

**Who Should Know**

- Controller
- Assistant Controllers
- Corporate Accounting
- A/P Department Staff
- A/P Department Supervisor
- A/P Department Manager

**Related Information**

Duplicate Payments: Reconciliation & Analysis Policy

**Contacts**

Name	Role	Dept
Bill Rothan	Supervisor	Accounts Payable
Rick Colvin	Senior Analyst	Accounts Payable
Dale Butler	Manager	Accounts Payable
Erica Glenn	Senior Analyst	Accounting Research
Amy Sheppard	Manager	Accounting Research

**Definitions**

A/P - Accounts Payable

**Revisions**

No revisions were noted upon review on 02/01/03

The following revisions are effective 01/01/05:

- Update policy for new manual ownership
- Update policy to reflect reorganization of manual



## Health Insurance Reallocation of Flexible Benefit Deductions

Functional Area: General Accounting  
Sarbanes-Oxley Category: Payroll/Human Resources  
Process Owner: Gwen Pate  
Effective Date: 09/01/98  
Revised Date: 01/01/05

All accounting policies and procedures can be found on the Accounting Policies and Procedures community within iPower as follows:

- Launch iPower
- Select "Accounting Policies and Procedures" under the "Communities" heading at the top of the page

### Policy Statement

Cinergy will record all transactions relating to Health Insurance Reallocation of Flexible Benefit Deductions in the Company financial statements.

### Reason for Policy

- To record employee benefit activity in the Company financial statements in adherence with GAAP and regulatory requirements

### Process Flows

### Process Description/Narrative

## Frequently Asked Questions

## Procedure

- Capture information on business transactions (CoA.1)
- Classify transactions for journalizing (CoA.2)
- Cutoff transactions (CoA.5)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll	Marian Felix	1. Capture Flexible Benefit deduction activity and classify into the LDCS based upon accounting information in personnel records. Month end cutoff occurs based upon pay date where all activity occurring within a month is booked in the same month. <i>Note: this process should be complete by Day 1, EOD for the final pay of each month.</i>

- Identify error(s) in Source Documents and pushback for correction (CoA.3)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll	Marian Felix	1. Review the LDCS pay runs and verify that debits & credits equal. If an error is located, notify Jeff Ferguson of IT via phone and provide all notes and source reports. <i>Note: this process should be complete by Day 1, EOD for the final pay of each month.</i>

- Correct error(s) in source documents (CoA.4)

DEPARTMENT	RESPONSIBILITY	ACTION
IT	Jeff Ferguson	1. Receive correction requests from Payroll and make necessary corrections to LDCS. <i>Note: this process should be complete by Day 1, EOD for the final pay of each month.</i>

- Prepare journal entries (CoA.6)

Health Insurance Reallocation of Flexible Benefit Deductions

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll	Lou Ann Funk	1. Generate the Payroll Check Register and distribute to Human Resources. <i>Note: this process should be completed weekly after each pay run.</i>
Payroll	Lisa Carver	2. Tie out the Payroll Check Register to the Flexible Benefit Register. <i>Note: this process should be complete by Day 2, EOD.</i>
Payroll	Lisa Carver	3. Extract the totals by company by category from the Flexible Benefit Register and enter into a predefined journal entry in the JE Tool. <i>Note: this process should be complete by Day 2, EOD.</i>

Identify errors in prepared journal entries (CoA.7a)

DEPARTMENT	RESPONSIBILITY	ACTION
Benefits	Kathy Walker	1. Verify a copy of the journal entry against the source document to ensure data entry accuracy. If an error is located, notify the preparer and provide a copy of source doc's & JE's. <i>Note: this process should be complete by Day 2, EOD.</i>

Correct errors in prepared journal entries (CoA.7b)

DEPARTMENT	RESPONSIBILITY	ACTION
Benefits	Kathy Walker	1. Correct data entry errors in JE Tool. <i>Note: this process should be complete by Day 2, EOD.</i>

Post journal entries to BDMS 2.0 (CoA.8)

DEPARTMENT	RESPONSIBILITY	ACTION
Benefits	Kathy Walker	1. Approve journal entries for posting.
Corporate Accounting	BDMS Coordinator/John Linton	2. BDMS will post all journal entries approved for posting. <i>Note: this process should be complete by Day 2, EOD.</i>

Create and post accruals (CoA.10)

Create and post reserves (CoA.11)



DEPARTMENT	RESPONSIBILITY	ACTION
N/A	N/A	All accruals and reserves are included in the above processes.

## Training and Documents

Training:

Additional Documents:

## Who Should Know

- Controller
- Assistant Controllers
- Corporate Accounting
- Human Resources
- Payroll

## Related Information

FAS106 Post Retirement Benefits Policy

Supplemental Retirement Plan (SERP) Policy

Health Insurance Employee Contribution Policy

Health Insurance Employee/Employer Allocations Policy

Health Insurance Claims Incurred But Not Reported (BNR) Policy

401k Employer Expense Policy

UK Sharesaver Plan Policy

Pension Expense Policy

Contract Pension Policy

Voluntary Workforce Reduction Policy

Health Insurance Reallocation of Flexible Benefit Deductions

Employee Benefit Accounts- Reconciliation & Analysis Policy

Workers' Compensation Benefits Policy

Workers' Compensation Reserve Policy

Workers' Compensation Supplemental Benefits Policy

## Contacts

NAME	ROLE	DEPARTMENT
Kathy Walker	Coordinator	Payroll
Marian Felix	Payroll	Payroll
Lou Ann Funk	Payroll	Payroll
Lisa Carver	Manager	Payroll
Erica Glenn	Senior Analyst	Accounting Research
Amy Sheppard	Manager	Accounting Research

## Definitions

## Revisions

The following revision is effective 08/01/00:

- Update procedure for personnel changes.

The following revision is effective 12/01/02:

- Update procedure for personnel changes

The following revisions are effective 01/01/05:

- Update policy for new manual ownership
- Update policy to reflect reorganization of manual



## Allocation of A&G Expenses to Construction Overheads

Functional Area: Management Reporting & Cost Acctg.  
Sarbanes-Oxley Category: Capital Expenditures and Fixed Assets  
Process Owner: Barry Blackwell  
Effective Date: 01/01/02  
Revised Date: 01/01/05

All accounting policies and procedures can be found on the Accounting Policies and Procedures community within iPower as follows:

- Launch iPower
- Select "Accounting Policies and Procedures" under the "Communities" heading at the top of the page

### Policy Statement

On an annual basis, the Management Reporting & Cost Accounting Staff will complete a study of administrative and general costs (A&G) to determine the appropriate amounts to be capitalized by qualifying A&G departments. Periodically, at least quarterly, the Management Reporting & Cost Accounting Staff will review and compare the amounts charged to A&G expense during the period to the amounts budgeted to determine if the monthly accrual to A&G is appropriate.

### Reason for Policy

To ensure that A&G amounts are recorded in the Company's financial statements in accordance with the Company's policies and procedures that are pursuant to GAAP and other regulatory requirements

## Process Flows

## Process Description/Narrative

## Frequently Asked Questions

### **Q1. What is the nature of items that are considered to be A&G costs?**

A. A&G costs include those costs properly chargeable to the utility, but not chargeable directly to a particular operating function (i.e., production, transmission, distribution, etc.). These costs include, but are not limited to, labor and miscellaneous costs associated with general office salaries and charges, legal expenses, purchasing, accounts payable, insurance premiums, injuries and damages, relief and pensions, and taxes.

### **Q2. What is the proper accounting treatment for A&G costs?**

A. In accordance with the Code of Federal Regulation (CFR), all A&G costs for A&G functions should be charged to the appropriate account within the 920 - 935 series of accounts.

However, the Federal Energy Regulatory Commission (FERC) states that if there is a definite relationship to construction, A&G costs should be capitalized. The FERC further states that all overhead construction costs shall be charged to particular jobs or units on the basis of the amounts of these overheads applicable thereto, to the end that each job or unit shall bear its equitable proportionate share.

Therefore, departments that directly or indirectly support construction, but due to the nature of A&G support functions (i.e., a high volume of transactions) it is impractical to charge directly to a work order or charge directly to a functional overhead account, shall charge A&G overhead.

### **Q3. What is the appropriate amount of A&G to be capitalized?**

A. The FERC states that the determination of payroll charges included in construction overheads shall be based on time card distributions or where impractical, based upon special periodic studies of the time of supervisory

employees devoted to construction activities. Only those overhead costs that have a definite relationship to construction shall be capitalized. The addition to direct construction costs of arbitrary percentages or amounts to cover assumed overhead costs is not permitted.

**Q4. How does the company determine the appropriate amount of A&G to be capitalized?**

A. On an annual basis, the Management Reporting & Cost Accounting Staff will perform a study in order to determine and update the appropriate amount of A&G cost by eligible center that should be capitalized and how these departmental expenditures should be split between gas and electric operations.

This study is completed by conducting interviews and distributing questionnaires to the applicable department heads. The primary objectives of these interviews and questionnaires are as follows:

- Ascertain the type of work that the department does
- Determine what departments and business units the group supports
- Determine general relationship to construction, both direct (charging work orders) and indirect (support those that charge work orders)
- Determine the amount of time that each department spends supporting gas or electric operations
- Determine if there is any transaction data (or internal tracking) that the department maintains that would provide a better breakout of time than the general allocators
- Determine significant changes forecasted for the subsequent year.

**Q5. When is the study completed?**

A. The annual study is completed during the fall of each calendar year. The study focuses on the services that were provided during the current year and any significant changes forecasted for future periods.

**Q6. What are the drivers or allocation methods used?**

A. A variety of drivers or allocation methods are used to determine the appropriate capitalization percentage, as well as the appropriate split between gas and electric operations for each center. These allocation methods are based on current statistical information. These allocation methods include the following:

- Number of General Ledger Journal Entry Transaction Lines
- Number of Accounts Payable Transaction Lines

- Number of Personal Computers
- Number of Miscellaneous Accounts Receivable Journal Entry Transaction Lines
- Mainframe Computer Utilization Weighted for Each Mainframe Application
- Study of the Fixed Assets Department's Activities Performed in Support of Capital
- Study of the Legal Department's Activities Performed in Support of Capital
- Labor Dollars Charged by Operating Departments

**Q7. How are eligible centers defined?**

A. Eligible centers are defined as those centers that indirectly support construction, but due to a high volume of transactions, it is impractical to charge directly to a work order or charge directly to a functional overhead account. All centers, with a few exceptions, that charged more than \$100,000 in A&G labor expense during the current year are included in the study.

**Q8. How are the A&G capitalized amounts maintained?**

A. All A&G costs are charged to the 920 - 935 series of expense accounts. On a monthly basis, the Management Reporting & Cost Accounting Staff records an entry to reclassify a portion of these costs from expense to capital, based on the current year's budget.

Periodically, the Management Reporting & Cost Accounting Staff will review and compare the amounts charged to expense during the period to the budgeted amounts. They will also review transactions for reasonableness and propriety. If any amounts are considered unusual, the parties responsible for these entries will be contacted. If deemed necessary, adjustments will be posted to properly state the account balances.

At year-end, the Management Reporting & Cost Accounting Staff performs the annual study and makes an adjustment to properly record the amount that should have been capitalized during the year based on the results of the interviews and questionnaires.

**Q9. Should any centers be charging A&G costs directly to capital?**

A. Only authorized centers should charge A&G costs directly to capital. These centers include those associated with purchasing (i.e., 106, 151, 152, 155, DCT, DGT, DTD, 118, G32, G82, GSA, GSE, ISE, ISW, and SDD). These centers are excluded from the annual study.

**Procedure**

Annual Study

DEPARTMENT	RESPONSIBILITY	ACTION
Management Reporting & Cost Accounting	Management Reporting & Cost Accounting Staff	1. Annually, perform a study to determine the appropriate percent of A&G expenses that should be capitalized by qualifying departments.
Management Reporting & Cost Accounting	Management Reporting & Cost Accounting Staff	2. Create a journal entry to properly capitalize the amounts that should have been recorded during the year.

Monthly Reclassification

DEPARTMENT	RESPONSIBILITY	ACTION
Management Reporting & Cost Accounting	Management Reporting & Cost Accounting Staff	1. Monthly, record an entry to reclassify a portion of A&G costs from expense to capital, based on the current year's budget.
Management Reporting & Cost Accounting	Management Reporting & Cost Accounting Staff	2. Create a journal entry to properly reclassify these costs.

Periodic Account Analysis

DEPARTMENT	RESPONSIBILITY	ACTION
Management Reporting & Cost Accounting	Management Reporting & Cost Accounting Staff	1. Periodically, the Management Reporting & Cost Accounting Staff will review and compare the amounts expensed during the period to the amounts budgeted  Investigate any large, non-system generated amounts to determine the nature and propriety of the adjustments and contact those responsible for making the entries for further clarification.
Management Reporting & Cost Accounting	Management Reporting & Cost Accounting Staff	2. Create a journal entry, as deemed necessary, to properly reclassify these costs.

## Training and Documents

Training:

Additional Documents:

- Accounting for Construction Overheads
- Annual Budget Guidelines

## Who Should Know

- Controller
- Asst. Controllers
- Corporate Accounting
- Accounting Research
- Management Reporting & Cost Accounting
- Business Unit CFOs
- Business Unit Accounting Managers
- Business Unit Financial staffs

## Related Information

Allocation of Administrative & General & Customer Expenses Between Gas & Electric Operations - Annual & Periodic Studies Policy

Accounting for Construction Overheads Policy

## Contacts

Name	Role	Dept
Libbie Miller	Supervisor	Energy Merchant Business Unit
Susan Eliason	Financial Coordinator	Regulated Businesses Business Unit
Gwen Pate	Manager	Corporate Accounting
Dave Schafer	Supervisor	Regulated Businesses Business Unit
Scott Field	Supervisor	External Reporting
Barry Blackwell	Director	Management Reporting & Cost Acctg.
Erica Glenn	Senior Analyst	Accounting Research



Amy Sheppard	Manager	Accounting Research
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## Definitions

A&G - Administrative and General

GAAP - Generally Accepted Accounting Principles

CFR - Code of Federal Regulation

FERC - Federal Energy Regulatory Commission

## Revisions

The following revision is effective 11/01/03:

- Update for personnel and department name changes

The following revisions are effective 01/01/05:

- Update policy for new manual ownership
- Update policy to reflect reorganization of manual



# Allocation of A&G & Customer Expenses Between Gas & Electric Operations

Functional Area: Management Reporting & Cost Acctg.  
Sarbanes-Oxley Category: Capital Expenditures and Fixed Assets  
Process Owner: Barry Blackwell  
Effective Date: 01/01/02  
Revised Date: 01/01/05

All accounting policies and procedures can be found on the Accounting Policies and Procedures community within iPower as follows:

- Launch iPower
- Select "Accounting Policies and Procedures" under the "Communities" heading at the top of the page

## Policy Statement

On an annual basis, the Management Reporting & Cost Accounting Staff will complete a study of Administrative and General (A&G) and Customer expenses to determine the appropriate amounts to be charged to gas and electric operations.

## Reason for Policy

To ensure that "joint" A&G and Customer expenses (cost that cannot be direct charged to gas and/or electric expenses) are recorded in the Company's financial statements in accordance with the Company's policies and procedures that are pursuant to GAAP and other regulatory requirements

Allocation of A&G & Customer Expenses Between Gas & Electric Operations - Annual & Periodic Studies

**Process Flows**

**Process Description/Narrative**

**Frequently Asked Questions**

**Q1. Why is it necessary to split certain departmental expenditures between gas and electric operations?**

A. Sometimes the full amount of an expenditure that benefits both gas and electric operations cannot be directly assigned to a specific gas operations or electric operations account. Therefore, it is necessary to split these expenditures between gas and electric operations.

**Q2. What departments are included in the study?**

A. Any department charging 901 - 917 (Customer) and 920 - 935 (A&G) accounts.

**Q3. How does the company determine the appropriate amount of departmental expenditures to be split between gas and electric operations?**

A. On an annual basis, the Management Reporting & Cost Accounting Staff will perform a study in order to determine and update the appropriate amount of joint departmental expenditures that should be split between gas and electric operations by center.

This study is completed by conducting interviews and distributing questionnaires to the applicable department heads.

**Q4. When is the study completed?**

A. The annual study is completed during the fall of each calendar year. The study focuses on the services that were provided during the current year and any significant changes forecasted for future periods. The rates determined are used throughout the ensuing year. The gas and electric splits would need to be entered into BDMS and reviewed by the end of January as they will be used in the gas/ electric split processing during January close.

**Q5. What are the drivers or allocation methods used to split these joint expenditures?**

A. A variety of drivers or allocation methods are used to determine the appropriate split between gas and electric operations for each center. These allocation methods are based on current statistical information. These allocation methods include the following:

- Number of General Ledger Journal Entry Transaction Lines
- Number of Accounts Payable Transaction Lines
- Number of Personal Computers
- Number of Customers
- Number of Meters
- Number of Miscellaneous Accounts Receivable Journal Entry Transaction Lines
- Mainframe Computer Utilization Weighted for Each Mainframe Application
- Labor Dollars Charged by Operating Departments

**Q6. How are eligible centers defined?**

A. Eligible centers are defined as all centers that indirectly support gas and electric operations, but due to the nature of those functions (i.e., a high volume of transactions), it is impractical to charge directly to a gas or electric account.

**Q7. Does the study look at every center charging A&G and/or Customer accounts?**

A. Yes. However, while every center is included within the study, only those centers, with a few exceptions, that charged more than \$100,000 in A&G labor expense (account 920) or in Customer expense (accounts 901 through 917) during the current year are reviewed in detail for potential changes to the gas and electric rates.

**Q8. Do all centers require a gas/electric split?**

A. For the most part, ANY center can charge ANY work code, including those pointing to joint accounts. Since there is no way to determine ahead of time which center will eventually charge a joint work code, a gas/electric split is required for ALL centers. It is important to note that 100% gas/0% electric and 0% gas/100% electric splits are permitted.

**Q9. How are Non-A&G/Non-Customer centers split?**

Allocation of A&G & Customer Expenses Between Gas & Electric Operations - Annual & Periodic Studies

A. Non-A&G/Non-Customer centers gas and electric splits are determined by the business units i.e., RBBU, PTIS, and EMBU financial departments.

**Q10. How are new centers handled?**

A. Centers are not corporation specific. Therefore, when adding a new center, gas/ electric splits are required for ALL centers on Corps 010 and 070, since these are the only corporations with multiple services (i.e., gas and electric).

**Procedure**

Annual Study

DEPARTMENT	RESPONSIBILITY	ACTION
Management Reporting & Cost Accounting	Management Reporting & Cost Accounting Staff	1. Annually, perform a study to determine the appropriate percent of A&G and Customer expenses that should be capitalized by qualifying departments.
Management Reporting & Cost Accounting	Management Reporting & Cost Accounting Staff	2. Send a list of updates of the gas/ electric operations rates by department to Corporate Accounting.
Corporate Accounting	Corporate Accounting Staff	3. Update the gas/ electric operations rates, as provided by the Management Reporting & Cost Accounting Staff, in BDMS.
Management Reporting & Cost Accounting	Management Reporting & Cost Accounting Staff	4. Obtain the revised gas/ electric operations rates that were input by Corporate Accounting and review for accuracy. Report any discrepancies to Corporate Accounting.

**Training and Documents**

Training:

Additional Documents:

- Annual Budget Guidelines

Allocation of A&G & Customer Expenses Between Gas & Electric Operations - Annual & Periodic Studies

- Administrative and General Annual and Periodic Studies Procedures

**Who Should Know**

- Comptroller
- Assistant Comptrollers
- Corporate Accounting
- Accounting Research and Reporting
- Management Reporting & Cost Accounting
- Business Unit CFOs
- Business Unit Accounting Managers
- Business Unit Financial staffs

**Related Information**

Allocation of A&G Expenses to Construction Overheads - Annual & Periodic Studies Policy

Accounting for Construction Overheads Policy

**Contacts**

Name	Role	Dept
Libbie Miller	Supervisor	Energy Merchant Business Unit
Susan Eliason	Financial Coordinator	Regulated Businesses Business Unit
Gwen Pate	Manager	Corporate Accounting
Chad Ream	Senior Analyst	Corporate Accounting
Scott Field	Supervisor	External Reporting
Barry Blackwell	Director	Management Reporting & Cost Acctg.
Erica Glenn	Senior Analyst	Accounting Research
Amy Sheppard	Manager	Accounting Research

**Definitions**

BDMS - Business Data Management System

GAAP - Generally Accepted Accounting Principles

Allocation of A&G & Customer Expenses Between Gas & Electric Operations - Annual & Periodic Studies

## Revisions

The following revision is effective 11/01/03:

- Update for personnel and department name changes

The following revisions are effective 01/01/05:

- Update policy for new manual ownership
- Update policy to reflect reorganization of manual



## Construction Overheads

Functional Area: Management Reporting & Cost Acctg.  
Sarbanes-Oxley Category: Capital Expenditures and Fixed Assets  
Process Owner: Barry Blackwell  
Effective Date: 01/01/02  
Revised Date: 01/01/05

All accounting policies and procedures can be found on the Accounting Policies and Procedures community within iPower as follows:

- Launch iPower
- Select "Accounting Policies and Procedures" under the "Communities" heading at the top of the page

### Policy Statement

Business units' accounting management and corporate accounting management will appropriately account for costs associated with construction overheads.

### Reason for Policy

To ensure that the corporation is in compliance with applicable GAAP and other regulatory requirements related to accounting for construction overheads

### Process Flows

### Process Description/Narrative



## Frequently Asked Questions

### **Q1. What is the nature of items that are considered to be construction overhead?**

A. Construction overhead costs include all indirect costs associated with completing a construction project. These costs include, but are not limited to, engineering, supervision, general office salaries and miscellaneous costs, construction engineering and supervision, legal costs, insurance premiums, injuries and damages, relief and pensions, and taxes.

### **Q2. What is the proper accounting treatment for construction overheads?**

A. In accordance with the Code of Federal Regulation (CFR), all construction overheads shall be charged to particular jobs or units, where reasonably applicable thereto. When the expenses cannot be charged to a particular job or unit, they are spread ratably to all capital projects within that functional area. Ultimately, each job or unit should bear its equitable portion of the overhead costs.

### **Q3. What is considered a functional overhead vs. an administrative and general overhead?**

A. Functional overhead costs are those that are specifically related to one of the functional areas (e.g., transmission, distribution, production, etc.). These costs relate to centers that provide construction support to a number of construction projects within a particular function. Whereas, administrative and general (A&G) overhead costs are related to centers that provide construction support across several functional areas.

### **Q4. How are the overhead rates determined?**

A. The construction overhead rates are determined by first allocating the budgeted A&G overhead costs for the year to the functional areas (e.g., distribution, transmission, production, etc.) based on the construction budget.

Then, the total anticipated overhead charges (including allocated A&G overhead costs, as discussed above) for the year are divided by the total construction (and retirement) budget for each functional area to derive the construction overhead rate for each functional area.

If any amounts are remaining in the construction overhead amounts from the previous year, these amounts are included in the total anticipated overhead charges.

**Q5. Why would amounts remain in the construction overhead accounts at the end of the year?**

A. Cost remaining in the construction overhead accounts could relate to engineering or other administrative work that is performed before the commencement of a construction project. As such, a reasonable amount of construction overhead costs associated with ongoing construction is appropriate.

**Q6. How are the construction overhead account balances maintained?**

A. All indirect costs associated with completing a construction project are aggregated in the 107 series of accounts (see below). These costs are either charged directly to the account for that particular functional area or allocated from administrative and general overhead costs to the appropriate functional area, based on the construction budget, as described above.

When construction dollars are spent, the amounts aggregated in the 107 series of accounts are loaded out to each applicable work order, based on the construction overhead rate for each functional area, as described above.

The following separate accounts are maintained for each of the functional areas:

- 107020 Administrative and General
- 107040 Distribution
- 107050 General Plant
- 107060 Land Rights
- 107070 Production
- 107080 Substation
- 107090 Transmission
- 107100 Gas
- 107700 Common

On a monthly basis, the Fixed Asset Accounting Staff prepares a worksheet that shows, in detail, the amount of construction overhead charges (debits) to the various construction accounts. Debits to account 107020 (administrative and general) are then spread to the various functional overhead accounts based on rates as described above. The credit charges or allocations to specific work orders are also broken out by balance sheet account and posted to the worksheet. A journal entry is prepared which reflects the allocation of A&G debits to the

Construction Overheads

functional overhead accounts, as well as the allocations to the construction overhead work orders.

**Q7. Why does the adjusting journal entry need to be made?**

A. The loading occurs when a specific work order is charged. However, all loadings are applied to account 107020. As such, the journal entry is to properly allocate the credit to the appropriate functional overhead account.

**Q8. How frequently are the overheads reviewed?**

A. The Management Reporting & Cost Accounting Staff will review the construction expenditures at least quarterly. Any unusual or non-recurring activity is investigated for propriety by following-up with those responsible for this activity.

Periodically throughout the year, the Management Reporting & Cost Accounting Staff will review the balances left in the construction overhead accounts (or the effectiveness of the loading rates) and adjustments will be made accordingly.

**Procedure**

DEPARTMENT	RESPONSIBILITY	ACTION
Management Reporting & Cost Accounting	Management Reporting & Cost Accounting Staff	1. Annually, perform a study to determine the appropriate percent of administrative and general expenses that should be capitalized by qualifying departments.
Management Reporting & Cost Accounting	Management Reporting & Cost Accounting Staff	2. After the annual budgets for all administrative and general departments have been completed, apply the applicable capitalization percentages, as determined in the annual A&G study from the previous year's study, to the budgeted A&G amounts.
Management Reporting & Cost Accounting	Management Reporting & Cost Accounting Staff	3. Allocate the administrative and general amounts that are to be capitalized to the functional areas based on the percent of the functional construction budgets to the total construction budget.
Management Reporting & Cost Accounting	Management Reporting & Cost Accounting Staff	4. Obtain the construction dollars budget from the business units for

Construction Overheads

		<p>each of the functional areas.</p> <p>Calculate the construction overhead rate by function, by taking the total direct functional overhead cost plus the allocated A&amp;G overhead cost, plus the prior year balance (if any) divided by the construction budget for each function.</p>
Fixed Asset Accounting	Fixed Asset Accounting Staff	5. Monthly, prepare a worksheet that reflects debits to the construction overhead accounts and allocations to specific work orders.
Fixed Asset Accounting	Fixed Asset Accounting Staff	6. Prepare a journal entry that reflects the allocation of A&G charges to the functional overhead accounts, as well as the allocation of the construction overheads to the specific work orders.
Management Reporting & Cost Accounting	Management Reporting & Cost Accounting Staff	7. At least quarterly, review the construction expenditures and investigate any unusual or non-recurring activity for propriety by contacting those responsible if further explanation is needed; then make adjustments as deemed necessary.
Management Reporting & Cost Accounting	Management Reporting & Cost Accounting Staff	<p>8. Periodically throughout the year, review the balances left in the construction overhead accounts (or the effectiveness of the loading rates).</p> <p>If the balance exceeds \$1 million (negative or positive), contact those within the business units who are responsible for monitoring construction activity to discuss the findings, then make adjustments as deemed necessary.</p>

**Training and Documents**

Training:

Additional Documents:

- Analytical Procedures for Administrative and General Expenses

**Who Should Know**

- Controller
- Asst. Controllers
- Corporate Accounting
- Accounting Research
- Management Reporting & Cost Accounting
- Fixed Asset Accounting
- Business Unit CFOs
- Business Unit Accounting Managers
- Business Unit Financial Staffs

**Related Information**

A&G Expenses to Construction Overheads - Annual & Periodic Studies Policy

Allocation of A&G & Customer Expenses Between Gas & Electric Operations - Annual & Periodic Studies Policy

**Contacts**

Name	Role	Dept
Libbie Miller	Supervisor	Energy Merchant Business Unit
Humphrey Englemon	Finance Specialist	Energy Merchant Business Unit
Susan Eliason	Financial Coordinator	Regulated Businesses Business Unit
Dave Schafer	Supervisor	Regulated Businesses Business Unit
Peggy Laub	Manager	Fixed Asset Accounting
Jim Dean	Supervisor	Fixed Asset Accounting
Joe Roetting	Senior Accounting Clerk	Fixed Asset Accounting
Brooks Steedman	General Manager	Financial Forecasts
Scott Field	Supervisor	External Reporting
Barry Blackwell	Director	Management Reporting & Cost Acctg.
Erica Glenn	Senior Analyst	Accounting Research
Amy Sheppard	Manager	Accounting Research

**Definitions**

GAAP - Generally Accepted Accounting Principles

CFR - Code of Federal Regulation

## Revisions

The following revision is effective 11/01/03:

- Update for personnel and department name changes

The following revisions are effective 01/01/05:

- Update policy for new manual ownership
- Update policy to reflect reorganization of manual



## Stores, Freight & Handling - Capital vs. Expense Accounting

Functional Area: Management Reporting & Cost Acctg.  
Sarbanes-Oxley Category: General Ledger Accounting  
Process Owner: Barry Blackwell  
Effective Date: 01/01/02  
Revised Date: 01/01/05

All accounting policies and procedures can be found on the Accounting Policies and Procedures community within iPower as follows:

- Launch iPower
- Select "Accounting Policies and Procedures" under the "Communities" heading at the top of the page

### Policy Statement

Business units accounting management and corporate accounting management will appropriately account for costs associated with stores, freight and handling (SF&H) charges.

### Reason for Policy

To ensure that the corporation is in compliance with applicable GAAP and other regulatory requirements related to accounting for stores related expenditures

### Process Flows

### Process Description/Narrative

## Frequently Asked Questions

**Q1: What is the nature of items that are considered to be SF&H costs?**

**A:** SF&H costs include the expense associated with buying, receiving, storing and issuing materials. These costs include, but are not limited to, labor and expenses associated with storeroom and purchasing personnel, maintenance of stores equipment, inventory record keeping, handling of scrap materials, freight, utilities for storerooms, rent of storage space and facilities, and the costs of transfers between storerooms.

**Q2: What is the proper accounting treatment for SF&H costs?**

**A:** The proper accounting, by business unit, is as follows:

- ***Regulated Businesses Business Unit (RBBU)/Power Technology and Infrastructure Services Business Unit (PTIS):*** In accordance with the Code of Federal Regulation (CFR), all SF&H costs should be charged to the 163000 (Stores Expense Undistributed) cost pool account. This account shall be cleared by adding to the cost of materials and supplies issued a suitable loadings charge that will distribute the expense equitably over the materials and supplies issued. These costs will be loaded out by attaching an additional charge to material issuances and to certain accounts payable transactions. This loadings charge will follow the same accounting as the material issued (i.e., capital or expense).
- ***Energy Merchant Business Unit (EMBU):*** Direct SF&H costs associated with larger projects (e.g., any project requiring significant time, without respect to total dollars), for the EMBU should be charged directly to the project (operation and maintenance expense (O&M) and/or capital). All other amounts should be charged directly to production O&M accounts (506XXX and 514XXX). The appropriate business segment code should be charged to ensure that the costs align with the correct generating station.

Direct SF&H costs include EMBU storeroom personnel and expenses and EMBU related procurement expenditures.

For those providing supervision to construction projects, if the labor and expenses do not relate to a specific construction project, but to construction projects in general, the labor and expenses should be charged to the production construction overhead account (107070).



**Q3: Why do the EMBU and the RBBU have different accounting treatments?**

**A:** As the EMBU is moving into a de-regulated environment, it is important to be able to better manage its business and costs in a manner that is consistent with its current business practice. As such, EMBU has elected to move away from the cost pool approach.

**Q4: How is this loading rate determined?**

**A:** The loading rate for RBBU is determined by taking the total anticipated SF&H charges into the cost pool for a particular year, by account, and dividing by the total budgeted material issuances by account. There is no loading rate for EMBU.

**Q5: What are the appropriate balances to be maintained in the 163000 accounts?**

**A:** Through various studies of its inventory turnover and reviews of other utilities' Form 1's in prior years, Cinergy has determined that the appropriate balances to be maintained in the 163000 accounts are 6% of the total inventory remaining in the 154 accounts. This target represents a reasonable amount of SF&H costs associated with the ongoing levels of inventory.

**Q6: How are the 163 reserve balances maintained?**

**A:** Costs associated with buying, receiving, storing and issuing materials are aggregated in the 163000 accounts. When materials are issued, these amounts are loaded out of the 163000 accounts by attaching the applicable loading rate. On a monthly basis, the activity in the SF&H cost pool accounts is reviewed and any unusual or non-recurring activity is investigated for propriety. Periodically, the balances left in the SF&H cost pool accounts will be reviewed and compared to 6% of the total inventory remaining in the 154 accounts. The difference between the target balance and the actual balance in the 163 accounts is reviewed and adjusted, if material. The adjustment is debited/credited to the 163 accounts and the corresponding entry is apportioned between capital and operations and maintenance accounts.

**Q7: How should departments providing SF&H services across business units record their expenditures (i.e., labor, expenses, etc.)?**

**A:** The proper accounting, by business unit, is as follows:

- **Regulated Businesses Business Unit/Power Technology and Infrastructure Services Business Unit:** Certain departments within RBBU and PTIS, including purchasing), which support EMBU, should charge the

Stores, Freight & Handling - Capital vs. Expense Accounting

appropriate portion of their costs related to EMBU to a specific construction project, where feasible. Those individuals within the purchasing function, who do not provide direct services to specific work orders, should charge the production construction overhead account by corporation. All other purchasing costs should be charged to the appropriate production O&M accounts. Purchasing should charge the appropriate business segment code to ensure that their costs are aligned with the correct generating station.

Other centers, including Asset Recovery and Inventory and Material Services, should charge all of their costs related to EMBU to production O&M accounts.

- **Energy Merchant Business Unit:** There are no departments within EMBU that support or provide services to RBBU. As such, all costs associated with EMBU should be charged as indicated above.

**Q8: How will transfers and issues between EMBU and RBBU be handled?**

**A:** Transfers from RBBU to EMBU and other non-regulated businesses will be accounted for using an intercompany "trans type" that will apply the applicable loading to the transfer of material. Transfers from EMBU to RBBU are minimal and will not include a loading. Periodically, at a minimum annually, the EMBU accounting department will review the materiality of these transfers to determine if this practice should be revised. Transfers between EMBU storerooms will not have a loading applied.

**Procedure**

Energy Merchant Business Unit

DEPARTMENT	RESPONSIBILITY	ACTION
EMBU	Storeroom Personnel	1a. If labor and expenses relate to a specific construction project, code labor and expense documents to charge the costs to the appropriate work order. If not related to a specific construction project, code the labor and expense documents with the work code to charge to the applicable production operation and maintenance accounts.
EMBU	Power Production Stores	1b. If labor and expenses relate to a

Stores, Freight & Handling - Capital vs. Expense Accounting

		specific construction project, code labor and expense documents to charge the costs to the appropriate work order. If labor and expenses do not relate to a specific construction project, but to construction projects in general, code labor and expense documents with the work code to charge the production construction overhead account. Otherwise, code labor and expense documents with the work code to charge the production O&M accounts.
EMBU	Financial Coordinators Becky Green	2. Ensure that Passport is setup to charge all freight on EMBU invoices to the default production O&M expense accounts (506XXX and 514XXX). Freight will be tracked and recorded by facility using the applicable facility code.
EMBU	Financial Coordinators	3. On a monthly lag, record a journal entry to move applicable freight dollars from the production O&M expense accounts to the appropriate production construction overhead account. The amount to be moved should be determined based on the amount of material issuances to capital versus the amount to O&M.

Regulated Businesses Business Unit and  
 Power Technology and Infrastructure Services Business Unit  
 Performing services for Energy Merchant Business Unit

DEPARTMENT	RESPONSIBILITY	ACTION
PTIS	Purchasing Buyers/Sourcing	1a. If labor and expenses relate to a specific construction project, code labor and expense documents to charge the costs to the appropriate work order. If labor and expenses do not relate to a specific construction project, code labor and expense documents with the work code to charge the production O&M accounts.
PTIS	Purchasing Supervision and	1b. If labor and expenses relate to a

Stores, Freight & Handling - Capital vs. Expense Accounting

	Support	specific construction project, code labor and expense documents to charge the costs to the appropriate work order. If labor and expenses do not relate to a specific construction project, but to construction projects in general, code labor and expense documents with the work code to charge the functional production overhead account. Otherwise, code labor and expense documents with the work code to charge the production O&M accounts.
RBBU	Inventory and Material Services, Asset Recovery	1c. If labor and expenses relate to support provided to EMBU, code labor and expense documents with the work code to charge to the applicable production O&M accounts. If not related to EMBU, code labor and expense documents with the work code to charge the 163000 accounts.
RBBU/PTIS	Financial Coordinators Becky Green	2. Ensure that Passport is setup to charge all freight on RBBU invoices to the default account (163000).

Regulated Businesses Business Unit and  
 Power Technology and Infrastructure Services Business Unit

DEPARTMENT	RESPONSIBILITY	ACTION
RBBU/PTIS	All Centers	1. If not related to EMBU, code labor and expense documents with the work code to charge the 163000 accounts.
RBBU/PTIS	Financial Coordinators Becky Green	2. Ensure that Passport is setup to charge all freight on RBBU invoices to the default account (163000).

**Training and Documents**

Training:

Additional Documents:

- SF&H Research Paper
- Process Flow Diagrams
- SF&H Project Paper

**Who Should Know**

- Controller
- Asst. Controller
- Corporate Accounting
- Accounting Research
- Management Reporting & Cost Accounting
- Accounts Payable
- Business Unit CFOs
- Business Unit Accounting Managers
- Business Unit Financial Staffs

**Related Information**

Stores, Freight & Handling - Annual & Periodic Studies Policy  
 Stores, Freight & Handling Reconciliation & Analysis Policy

**Contacts**

Name	Role	Dept
Nancy Bosse	Financial Coordinator	Energy Merchant Business Unit
Susan Eliason	Financial Coordinator	Regulated Businesses Business Unit
Barry Blackwell	Manager	Management Reporting & Cost Acctg.
Amy Dean	Senior Analyst	Management Reporting & Cost Acctg.
Erica Glenn	Senior Analyst	Accounting Research
Amy Sheppard	Manager	Accounting Research

**Definitions**

Stores, Freight & Handling - Capital vs. Expense Accounting

GAAP - Generally Accepted Accounting Principles

CFR - Code of Federal Regulation

**Revisions**

The following revisions are effective 01/01/05:

- Update policy for new manual ownership
- Update policy to reflect reorganization of manual



## Stores, Freight & Handling Reconciliation & Analysis

Functional Area: Management Reporting & Cost Acctg.  
Sarbanes-Oxley Category: General Ledger Accounting  
Process Owner: Barry Blackwell  
Effective Date: 01/01/02  
Revised Date: 01/01/05

All accounting policies and procedures can be found on the Accounting Policies and Procedures community within iPower as follows:

- Launch iPower
- Select "Accounting Policies and Procedures" under the "Communities" heading at the top of the page

### Policy Statement

All Balance Sheet accounts for all corporations shall be reconciled using Reconciliation and Analysis Standards as outlined in Policy Reconciliation & Analysis of Accounts. The reconciliation shall be done on a timely basis, which is determined according to the account standards defined in Policy New Account Set-up & Definition (Account Standards).

### Reason for Policy

To ensure that the (SF&H) account balances are recorded in the Company's financial statements in accordance with the Company's policies and procedures which are pursuant to GAAP and other regulatory requirements

### Frequently Asked Questions

**Q1: What is the nature of items that are considered to be SF&H costs?**

**A:** SF&H costs include the expense associated with buying, receiving, storing, and issuing materials. These costs include, but are not limited to, labor and expenses associated with storeroom and purchasing personnel, maintenance of stores equipment, inventory record keeping, handling of scrap materials, freight, utilities for storerooms, rent of storage space and facilities, and the costs of transfers between storerooms.

**Q2: What is the proper accounting treatment for SF&H costs?**

**A:** The proper accounting method, by business unit, is as follows:

- **Regulated Businesses Business Unit (RBBU)/Power Technology and Infrastructure Services Business Unit (PTIS):** In accordance with the Code of Federal Regulation (CFR), all SF&H costs should be charged to the 163000 (Stores Expense Undistributed) cost pool account. This account shall be cleared by adding to the cost of materials and supplies issued a suitable loading charge that will distribute the expense equitably over the materials and supplies issued. These costs will be loaded out by attaching an additional charge to material issuances and to certain accounts payable transactions. This loading will follow the same accounting as the material issued (i.e., capital or expense).
- **Energy Merchant Business Unit:** Direct SF&H costs associated with larger projects (e.g., any project requiring significant time, without respect to total dollars), for the Energy Merchant Businesses Business Unit (EMBU) should be charged directly to the project (Operation and Maintenance expense (O&M) and/or capital). All other amounts should be charged directly to production O&M accounts (506XXX and 514XXX). The appropriate business segment code should be charged to ensure that the costs align with the correct generating station.

Direct SF&H costs include EMBU storeroom personnel and expenses and EMBU related procurement expenditures.

**Q3: Why do the EMBU and the RBBU have different accounting treatments?**

**A:** As the EMBU is moving into a de-regulated environment, it is important to be able to better manage its business and costs in a manner that is consistent with its current business practice.

**Q4: What are the appropriate balances to be maintained in the 163000 accounts?**



Stores, Freight & Handling - Reconciliation & Analysis

**A:** Through various studies of its inventory turnover and reviews of other utilities' Form 1's in prior years, Cinergy has determined that the appropriate balances to be maintained in the 163000 accounts are 6% of the total inventory remaining in the 154 accounts. This target represents a reasonable amount of SF&H costs associated with the ongoing levels of inventory.

**Q5: How are the 163-accounts reserve balances maintained?**

**A:** Costs associated with buying, receiving, storing and issuing materials are aggregated in the 163000 accounts. When materials are issued, these amounts are loaded out of the 163000 accounts by attaching the applicable loading rate. On a monthly basis, the activity in the SF&H cost pool accounts is reviewed and any unusual or non-recurring activity is investigated for propriety. Periodically, the balances left in the SF&H cost pool accounts will be reviewed and compared to 6% of the total inventory remaining in the 154 accounts. The difference between the target balance and the actual balance in the 163 accounts is reviewed and adjusted, if material. The adjustment is debited/credited to the 163 accounts and the corresponding entry is apportioned between capital and O&M accounts.

**Procedure**

Reconcile Accounts (CoA.9)

DEPARTMENT	RESPONSIBILITY	ACTION
Management Reporting & Cost Accounting	Management Reporting & Cost Accounting Staff	Run general ledger reports monthly from <u>FRT</u> for the following accounts: 163000 on corps 010, 070, and 100.
Management Reporting & Cost Accounting	Management Reporting & Cost Accounting Staff	1. Complete the Budget to Actual Analysis Schedule. Investigate any large, non-system generated amounts to determine the nature and propriety of the adjustments. Compare charges in the cost pool to those budgeted on a monthly basis. Contact those responsible for making the entries.
Management Reporting & Cost Accounting	Management Reporting & Cost Accounting Staff	2. Periodically, compare the balance in the 163 accounts of RBBU to 6% of the total in the 154 accounts.
Management Reporting & Cost Accounting	Management Reporting & Cost Accounting Staff	3. Create correcting adjustments, as deemed necessary. These adjustments can be accomplished by creating a journal entry or by

Stores, Freight & Handling - Reconciliation & Analysis

		adjusting the loading rate.
Management Reporting & Cost Accounting	Management Reporting & Cost Accounting Staff	4. Update the "Last Reconciled Date" field in BDMS (PBR - Accounting Data Set-up) to reflect the last period for which the account balance was verified/reconciled.

Perform analysis of transactions (CoA.12)

DEPARTMENT	RESPONSIBILITY	ACTION
Management Reporting & Cost Accounting	Management Reporting & Cost Accounting Staff	1. Perform variance analysis on GL account balances as necessary.

Perform analysis of financial statements: business unit review (CoA.13a)

DEPARTMENT	RESPONSIBILITY	ACTION
Management Reporting & Cost Accounting	Management Reporting & Cost Accounting Staff	1. Business Unit specific Financial Statement analysis is at the discretion of the Business Unit with the exception of minimum analysis required to support Legal Entity analysis. The extent of Legal Entity analysis will be determined on a case-by-case basis, as required.

Perform analysis of financial statements: legal review of regulatory entity (CoA.13b)

DEPARTMENT	RESPONSIBILITY	ACTION
Management Reporting & Cost Accounting	Management Reporting & Cost Accounting Staff	1. Provide Corporate Accounting information as required for their variance analysis.

## Training and Documents

Training:

Additional Documents:

- SF&H Research Paper
- Process Flow Diagrams

- SF&H Project Paper
- SF&H Monthly Cost Pool Procedures

## Who Should Know

- Controller
- Asst. Controller
- Corporate Accounting
- Accounting Research
- Management Reporting & Cost Accounting
- Business Unit CFOs
- Business Unit Accounting Managers
- Business Unit Financial staffs

## Related Information

New Account Set-up and Definition (Account Standards) Policy

Reconciliation & Analysis of Accounts Policy

Stores, Freight & Handling Annual & Periodic Studies Policy

Stores, Freight & Handling Capital Vs. Expense Accounting Policy

## Contacts

Name	Role	Dept
Nancy Bosse	Financial Coordinator	Energy Merchant Business Unit
Susan Eliason	Financial Coordinator	Regulated Businesses Business Unit
Barry Blackwell	Manager	Management Reporting & Cost Acctg.
Amy Dean	Senior Analyst	Management Reporting & Cost Acctg.
Erica Glenn	Senior Analyst	Accounting Research
Amy Sheppard	Manager	Accounting Research

## Definitions

GAAP - Generally Accepted Accounting Principles

## FRT - Financial Reporting Tool

### Revisions

The following revisions are effective 01/01/05:

- Update policy for new manual ownership
- Update policy to reflect reorganization of manual



## Exercise of Stock Options

Functional Area: HR, Payroll & Benefits Accounting  
Sarbanes-Oxley Category: Stock Purchase and Compensation Plans  
Process Owner: Lisa Carver  
Effective Date: 11/01/03  
Revised Date: 01/01/05

All accounting policies and procedures can be found on the Accounting Policies and Procedures community within iPower as follows:

- Launch iPower
- Select "Accounting Policies and Procedures" under the "Communities" heading at the top of the page

### Policy Statement

Cinergy will record all transactions associated with the exercise of stock options.

### Reason for Policy

To record transactions associated with the exercise of stock options in the Company financial statements in adherence with GAAP and regulatory requirements

### Process Flows

### Process Description/Narrative

## Frequently Asked Questions

**Q1. Under what employee benefit plans has Cinergy issued stock options to its employees?**

A. Cinergy has issued stock options to its employees under the Cinergy Corp. Stock Option Plan and the Cinergy Corp. Long-term Incentive Compensation Plan (Long-term Incentive Compensation Plan - Stock Options Policy and Stock Option Plan Policy).

**Q2. How does Cinergy account for the exercise of stock options?**

A. Cinergy provides its employees flexibility on how they can exercise their stock options. Below are examples of the accounting associated with the eight most common methods:

**Example 1  
 Exercise of Non-Qualified Stock Options  
 with Share Swap for Consideration -New Cinergy Shares**

Assumptions: On January 1, 20XX, a Cinergy Services employee exercises 7,265 non-qualified stock options. As consideration for this exercise, the employee swaps 4,955 shares from his DRIP account. The employee also elects to have Cinergy withhold 739 shares acquired through this exercise to cover the statutory minimum tax withholding due on this exercise. New Cinergy shares are issued.

- Exercise Price - \$23.81250 per share
- Market Price at Time of Exercise - \$34.9150 per share
- Fair Value at Date of Grant - \$4.48 per share

Stock Distribution	
Description	Number of Shares
Shares Exercised	7,265
Less: Shares Traded for Taxes Due	739
Equals: Shares Issued	6,526
Less: Swapped Shares	4,955
Equals: Incremental Shares Issued	1,571
Calculation of Shares Traded for Taxes	
Description	Calculation
Market Value (7,265 * \$34.915)	\$253,657.48
Less: Option Price (7,265 * \$23.8125)	\$172,997.81

Exercise of Stock Options

Equals: Total Gain	\$80,659.67
Times: Tax Withholding Rates	31.989%
Equals: Total Tax Liability	\$25,802.19
Divided by: Market Value Per Share	\$34.915
Equals: Shares Traded for Taxes Due	739
<b>Calculation of Swapped Shares and Amount Due Employee</b>	
<b>Description</b>	<b>Calculation</b>
Shares Exercised	7,265
Times: Option Price	\$23.81250
Equals: Amount Due from Employee	\$172,997.81
Divided by: Market Value Per Share	\$34.915
Equals: Shares Needed to Pay for Amount Due	4,954.828
Less: Actual Shares Swapped	4,955
Equals: Fractional Shares Due to Employee	.172
Times: Market Value Per Share	\$34.915
Equals: Total Due Employee for Fractional Shares	\$6.01

Income tax effects, if any, are not reflected (see "Tax Procedures - Stock Based Compensation Plans").

**Employee Exercises Non-Qualified Stock Options - SWAP**

Entry 1

Corp	Account	Description	Debit	Credit
<b>Cinergy Corp. Entry (Corporate Accounting Manual Journal Entry)</b>				
800	211000	Miscellaneous Paid In Capital	\$172,997.81	
800	201000	Common Stock		\$15.71
800	207000	Premium on Common Stock		172,982.10
800	211000	Miscellaneous Paid In Capital	\$25,802.19	
800	234500	AP to Cinergy Services		\$25,802.19
<b>Cinergy Corp. Entry (Payroll Manual Journal Entry)</b>				
800	211100	Paid in Capital - Stock Options	\$6.01	
800	234500	AP to Cinergy Services		\$6.01
<b>Cinergy Services Entry (Corporate Accounting Manual Journal Entry)</b>				
500	146800	AR from Cinergy Corp.	\$25,802.19	
500	241020	Employee FIT Withheld		\$21,809.53
500	241010	Employee FICA Withheld		1,169.57
500	241080	Ohio SIT Withheld		2,823.09
<b>Cinergy Services Entry (Payroll Manual Journal Entry)</b>				
500	146800	AR from Cinergy Corp.	\$6.01	

Exercise of Stock Options

500	232310	Accrued Payroll		\$6.01
500	232310	Accrued Payroll	\$6.01	
500	131	Cash		\$6.01

This entry is to record the exercise of 7,265 non-qualified stock options assuming swap of common stock held by employee in his DRIP account. Shares were withheld for the stock options exercised to pay the statutory minimum tax withholdings due from the employee.

**Entry 2**

Corp	Account	Description	Debit	Credit
<b>Cinergy Corp. Entry (Payroll Manual Journal Entry)</b>				
800	211XXX	Miscellaneous Paid in Capital - LTIP Stock Options	\$32,547.20	
800	207000	Premium on Common Stock		\$32,547.20

This entry is to reclassify the fair value associated with the 7,265 non-qualified stock options exercised (7,265 \* \$4.48).

**Example 2**

**Exercise of Non-Qualified Stock Options  
 with Cash Payment - New Cinergy Shares**

Assumptions: On January 1, 20XX, a Cinergy Services employee exercises 78,145 non-qualified stock options. The employee pays Cinergy the exercise price. The employee also elects to have Cinergy withhold 8,196 shares acquired through this exercise to cover the statutory minimum tax withholding due on this exercise. New Cinergy shares are issued.

- Exercise Price - \$22.875 per share
- Market Price at Time of Exercise - \$34.105 per share
- Fair Value at Date of Grant - \$4.48 per share

<b>Stock Distribution</b>	
Description	Number of Shares
Shares Exercised	78,145
Less: Shares Traded for Taxes Due	8,196
Equals: Shares Issued	69,949
<b>Calculation of Shares Traded for Taxes</b>	
Description	Calculation
Market Value (78,145 * \$34.105)	\$2,665,135.23



Exercise of Stock Options

Less: Option Price (78,145 * \$22.875)	\$1,787,566.88
Equals: Total Gain	\$877,568.35
Times: Tax Withholdings Rates	31.8522%
Equals: Tax Liability	\$279,524.58
Divided by: Market Value Per Share	\$34.105
Equals: Shares Traded for Taxes Due	8,196
<b>Calculation of Amount Due From Employee</b>	
<b>Description</b>	<b>Calculation</b>
Shares Exercised	78,145
Times: Option Price	\$22.875
Equals: Amount Due from Employee	\$1,787,566.88

Income tax effects, if any, are not reflected (see "Tax Procedures - Stock Based Compensation Plans").

**Employee Exercises Non-Qualified Stock Options - Cash**

**Entry 1**

Corp	Account	Description	Debit	Credit
<b>Cinergy Corp. Entry (Corporate Accounting Manual Journal Entry)</b>				
800	131001	Cash	\$1,787,566.88	
800	201000	Common Stock		\$699.49
800	207000	Premium on Common Stock		1,786,867.39
800	211000	Miscellaneous Paid In Capital	\$279,524.58	
800	234500	AP to Cinergy Services		\$279,524.58
<b>Cinergy Services Entry (Corporate Accounting Manual Journal Entry)</b>				
500	146800	AR from Cinergy Corp.	\$279,524.58	
500	241020	Employee FIT Withheld		\$236,962.52
500	241010	Employee FICA Withheld		12,724.74
500	241210	Indiana SIT Withheld		29,837.32

This entry is to record the exercise of 78,145 non-qualified stock options assuming payment of exercise price by employee. Shares were withheld for the stock options exercised to pay the statutory minimum tax withholdings due from the employee.

**Entry 2**

Corp	Account	Description	Debit	Credit
<b>Cinergy Corp. Entry (Payroll Manual Journal Entry)</b>				

Exercise of Stock Options

800	211XXX	Miscellaneous Paid in Capital - LTIP Stock Options	\$350,089.60	
800	207000	Premium on Common Stock		\$350,089.60

This entry is to reclassify the fair value associated with the 78,145 non-qualified stock options exercised (78,145 \* \$4.48).

**Example 3**  
**Exercise of Incentive Stock Options**  
**with Share Swap for Consideration - New Cinergy Shares**

Assumptions: On January 1, 20XX, a Cinergy Services employee exercises 4,000 incentive stock options. As consideration for this exercise, the employee swaps 2,738 shares from his DRIP account. New Cinergy shares are issued.

- Exercise Price - \$24.31250 per share
- Market Price at Time of Exercise - \$35.53 per share
- Fair Value at Date of Grant - \$4.48 per share

Stock Distribution	
Description	Number of Shares
Shares Exercised	4,000
Less: Swapped Shares	2,738
Equals: Incremental Shares Issued	1,262
Calculation of Swapped Shares and Amount Due Employee	
Description	Calculation
Shares Exercised	4,000
Times: Option Price	\$24.31250
Equals: Amount Due from Employee	\$97,250.00
Divided by: Market Value Per Share	\$35.53
Equals: Shares Needed to Pay for Amount Due	2,737.124
Less: Actual Shares Swapped	2,738
Equals: Fractional Shares Due to Employee	.876
Times: Market Value Per Share	\$35.53
Equals: Total Due Employee for Fractional Shares	\$31.12

Income tax effects, if any, are not reflected (see "Tax Procedures - Stock Based Compensation Plans").

**Employee Exercises Incentive Stock Options - SWAP**

**Entry 1**

Corp	Account	Description	Debit	Credit
<b>Cinergy Corp. Entry (Corporate Accounting Manual Journal Entry)</b>				
800	211000	Miscellaneous Paid in Capital	\$97,250.00	
800	201000	Common Stock		\$12.62
800	207000	Premium on Common Stock		97,237.38
<b>Cinergy Corp. Entry (Payroll Manual Journal Entry)</b>				
800	211100	Paid in Capital - Stock Options	\$31.12	
800	234500	AP to Cinergy Services		\$31.12
<b>Cinergy Services Entry (Payroll Manual Journal Entry)</b>				
500	146800	AR from Cinergy Corp.	\$31.12	
500	232310	Accrued Payroll		\$31.12
500	232310	Accrued Payroll	\$31.12	
500	131	Cash		\$31.12

This entry is to record the exercise of 4,000 incentive stock options assuming swap of common stock held by employee in his DRIP account.

**Entry 2**

Corp	Account	Description	Debit	Credit
<b>Cinergy Corp. Entry (Payroll Manual Journal Entry)</b>				
800	211XXX	Miscellaneous Paid in Capital - LTIP Stock Options	\$17,920.00	
800	207000	Premium on Common Stock		\$17,920.00

This entry is to reclassify the fair value associated with the 4,000 incentive stock options exercised (4,000 \* \$4.48).

**Example 4**

**Exercise of Incentive Stock Options with Cash Payment - New Cinergy Shares**

Assumptions: On January 1, 20XX, a Cinergy Services employee exercises 1,950 incentive stock options. The employee pays cash for the exercise price. New Cinergy shares are issued.

- Exercise Price - \$24.625 per share
- Market Price at Time of Exercise - \$35.82 per share
- Fair Value at Date of Grant - \$4.48 per share

<b>Calculation of Amount Due From Employee</b>	
Description	Calculation
Shares Exercised	1,950

Times: Option Price	\$24.625
Equals: Amount Due from Employee	\$48,018.75

Income tax effects, if any, are not reflected (see "Tax Procedures - Stock Based Compensation Plans").

**Employee Exercises Incentive Stock Options - Cash**

**Entry 1**

Corp	Account	Description	Debit	Credit
<b>Cinergy Corp. Entry (Corporate Accounting Manual Journal Entry)</b>				
800	131001	Cash	\$48,018.75	
800	201000	Common Stock		\$19.50
800	207000	Premium on Common Stock		47,999.25

This entry is to record the exercise of 1,950 incentive stock options with cash.

**Entry 2**

Corp	Account	Description	Debit	Credit
<b>Cinergy Corp. Entry (Payroll Manual Journal Entry)</b>				
800	211XXX	Miscellaneous Paid in Capital - LTIP Stock Options	\$8,736.00	
800	207000	Premium on Common Stock		\$8,736.00

This entry is to reclassify the fair value associated with the 1,950 incentive stock options exercised (1,950 \* \$4.48).

**Example 5**

**Exercise of Non-Qualified Stock Options  
 with Share Swap for Consideration - Open Market Purchase of Cinergy Stock**

Assumptions: On January 1, 20XX, a Cinergy Services employee exercises 7,265 non-qualified stock options. As consideration for this exercise, the employee swaps 4,955 shares from his DRIP account. The employee also elects to have Cinergy withhold 739 shares acquired through this exercise to cover the statutory minimum tax withholding due on this exercise. Cinergy stock is purchased in the open market.

- Exercise Price - \$23.81250 per share
- Market Price at Time of Exercise - \$34.9150 per share
- Market Price at Date of Open Market Purchase - \$34.9150

- Fair Value at Date of Grant - \$4.48 per share

Stock Distribution	
Description	Number of Shares
Shares Exercised	7,265
Less: Shares Traded for Taxes Due	739
Equals: Shares Issued	6,526
Less: Swapped Shares	4,955
Equals: Incremental Shares Issued	1,571
Calculation of Shares Traded for Taxes	
Description	Calculation
Market Value (7,265 * \$34.915)	\$253,657.48
Less: Option Price (7,265 * \$23.8125)	\$172,997.81
Equals: Total Gain	\$80,659.67
Times: Tax Withholding Rates	31.989%
Equals: Total Tax Liability	\$25,802.19
Divided by: Market Value Per Share	\$34.915
Equals: Shares Traded for Taxes Due	739
Calculation of Swapped Shares and Amount Due Employee	
Description	Calculation
Shares Exercised	7,265
Times: Option Price	\$23.81250
Equals: Amount Due from Employee	\$172,997.81
Divided by: Market Value Per Share	\$34.915
Equals: Shares Needed to Pay for Amount Due	4,954.828
Less: Actual Shares Swapped	4,955
Equals: Fractional Shares Due to Employee	.172
Times: Market Value Per Share	\$34.915
Equals: Total Due Employee for Fractional Shares	\$6.01

Income tax effects, if any, are not reflected (see "Tax Procedures - Stock Based Compensation Plans").

**Employee Exercises Non-Qualified Stock Options - SWAP**

**Entry 1**

Corp	Account	Description	Debit	Credit
<b>Cinergy Corp. Entry (AP System Transactions)</b>				
800	211100	Paid in Capital - Stock Options	\$54,851.47	
800	131	Cash		\$54,851.47

Exercise of Stock Options

This entry is to record the open market purchase of 1,571 shares of Cinergy common stock (1,571 \* \$34.915).

Entry 2

Corp	Account	Description	Debit	Credit
<b>Cinergy Corp. Entry (Corporate Accounting Manual Journal Entry)</b>				
800	211000	Miscellaneous Paid In Capital	\$172,997.81	
800	211100	Paid in Capital - Stock Options		\$172,997.81
800	211000	Miscellaneous Paid In Capital	\$25,802.19	
800	234500	AP to Cinergy Services		\$25,802.19
<b>Cinergy Corp. (Payroll Manual Journal Entry)</b>				
800	211100	Paid in Capital - Stock Options	\$6.01	
800	234500	AP to Cinergy Services		\$6.01
<b>Cinergy Services Entry (Corporate Accounting Manual Journal Entry)</b>				
500	146800	AR from Cinergy Corp.	\$25,802.19	
500	241020	Employee FIT Withheld		\$21,809.53
500	241010	Employee FICA Withheld		1,169.57
500	241080	Ohio SIT Withheld		2,823.09
<b>Cinergy Services (Payroll Manual Journal Entry)</b>				
500	146800	AR from Cinergy Corp.	\$6.01	
500	232310	Accrued Payroll		\$6.01
500	232310	Accrued Payroll	\$6.01	
500	131	Cash		\$6.01

This entry is to record the exercise of 7,265 non-qualified stock options assuming swap of common stock held by employee in his DRIP account. Shares were withheld for the stock options exercised to pay the statutory minimum tax withholdings due from the employee.

Entry 3

Corp	Account	Description	Debit	Credit
<b>Cinergy Corp. Entry (Payroll Manual Journal Entry)</b>				
800	211XXX	Miscellaneous Paid in Capital - LTIP Stock Options	\$32,547.20	
800	211100	Paid in Capital - Stock Options		\$32,547.20

This entry is to reclassify the fair value associated with the 7,265 non-qualified stock options exercised (7,265 \* \$4.48).

Exercise of Stock Options

**Example 6**  
**Exercise of Non-Qualified Stock Options**  
**with Cash Payment - Open Market Purchase of Cinergy Stock**

Assumptions: On January 1, 20XX, a Cinergy Services employee exercises 78,145 non-qualified stock options. The employee pays Cinergy the exercise price. The employee also elects to have Cinergy withhold 8,196 shares acquired through this exercise to cover the statutory minimum tax withholding due on this exercise. Cinergy stock is purchased in the open market.

- Exercise Price - \$22.875 per share
- Market Price at Time of Exercise - \$34.105 per share
- Market Price at Time of Open Market Purchase - \$34.105 per share
- Fair Value at Date of Grant - \$4.48 per share

Stock Distribution	
Description	Number of Shares
Shares Exercised	78,145
Less: Shares Traded for Taxes Due	8,196
Equals: Shares Issued	69,949
Calculation of Shares Traded for Taxes	
Description	Calculation
Market Value (78,145 * \$34.105)	\$2,665,135.23
Less: Option Price (78,145 * \$22.875)	\$1,787,566.88
Equals: Total Gain	\$877,568.35
Times: Tax Withholdings Rates	31.8522%
Equals: Tax Liability	\$279,524.58
Divided by: Market Value Per Share	\$34.105
Equals: Shares Traded for Taxes Due	8,196
Calculation of Amount Due From Employee	
Description	Calculation
Shares Exercised	78,145
Times: Option Price	\$22.875
Equals: Amount Due from Employee	\$1,787,566.88

Income tax effects, if any, are not reflected (see "Tax Procedures - Stock Based Compensation Plans").

**Employee Exercises Non-Qualified Stock Options - SWAP**

**Entry 1**

Exercise of Stock Options

Corp	Account	Description	Debit	Credit
<b>Cinergy Corp. Entry (AP System Transactions)</b>				
800	211100	Paid in Capital - Stock Options	\$2,385,610.65	
800	131	Cash		\$2,385,610.65

This entry is to record the open market purchase of 69,949 shares of Cinergy common stock (69,949 \* \$34.105).

**Entry 2**

Corp	Account	Description	Debit	Credit
<b>Cinergy Corp. Entry (Corporate Accounting Manual Journal Entry)</b>				
800	131	Cash	\$1,787,566.88	
800	211100	Paid in Capital - Stock Options		\$1,787,566.88
800	211000	Miscellaneous Paid In Capital	\$279,524.58	
800	234500	AP to Cinergy Services		\$279,524.58
<b>Cinergy Services Entry (Corporate Accounting Manual Journal Entry)</b>				
500	146800	AR from Cinergy Corp.	\$279,524.58	
500	241020	Employee FIT Withheld		\$236,962.52
500	241010	Employee FICA Withheld		12,724.74
500	241210	Indiana SIT Withheld		29,837.32

This entry is to record the exercise of 78,145 non-qualified stock options assuming payment of exercise price by employee. Shares were withheld for the stock options exercised to pay the statutory minimum tax withholdings due from the employee.

**Entry 3**

Corp	Account	Description	Debit	Credit
<b>Cinergy Corp. Entry (Payroll Manual Journal Entry)</b>				
800	211XXX	Miscellaneous Paid in Capital - LTIP Stock Options	\$350,089.60	
800	211100	Paid in Capital - Stock Options		\$350,089.60

This entry is to reclassify the fair value associated with the 78,145 stock options exercised (78,145 \* \$4.48).

**Example 7**

**Exercise of Incentive Stock Options with Share Swap for Consideration - Open Market Purchase of Cinergy Stock**



Exercise of Stock Options

Assumptions: On January 1, 20XX, a Cinergy Services employee exercises 4,000 incentive stock options. As consideration for this exercise, the employee swaps 2,738 shares from his DRIP account. Cinergy stock is purchased in the open market.

- Exercise Price - \$24.31250 per share
- Market Price at Time of Exercise - \$35.53 per share
- Market Price at Time of Open Market Purchase - \$35.53
- Fair Value at Date of Grant - \$4.48 per share

Stock Distribution	
Description	Number of Shares
Shares Exercised	4,000
Less: Swapped Shares	2,738
Equals: Incremental Shares Issued	1,262
Calculation of Swapped Shares and Amount Due Employee	
Description	Calculation
Shares Exercised	4,000
Times: Option Price	\$24.31250
Equals: Amount Due from Employee	\$97,250.00
Divided by: Market Value Per Share	\$35.53
Equals: Shares Needed to Pay for Amount Due	2,737.124
Less: Actual Shares Swapped	2,738
Equals: Fractional Shares Due to Employee	.876
Times: Market Value Per Share	\$35.53
Equals: Total Due Employee for Fractional Shares	\$31.12

Income tax effects, if any, are not reflected (see "Tax Procedures - Stock Based Compensation Plans").

Employee Exercises of Incentive Stock Options - SWAP

Entry 1

Corp	Account	Description	Debit	Credit
Cinergy Corp. Entry (AP System Transactions)				
800	211100	Paid in Capital - Stock Options	\$44,838.86	
800	131	Cash		\$44,838.86

This entry is to record the open market purchase of 1,262 shares of Cinergy stock (1,262 \* \$35.53).

**Entry 2**

Corp	Account	Description	Debit	Credit
<b>Cinergy Corp. Entry (Corporate Accounting Manual Journal Entry)</b>				
800	211000	Miscellaneous Paid in Capital	\$97,250.00	
800	211100	Paid in Capital - Stock Options		\$97,250.00
<b>Cinergy Corp. Entry (Payroll Manual Journal Entry)</b>				
800	211100	Paid in Capital - Stock Options	\$31.12	
800	234500	AP to Cinergy Services		\$31.12
<b>Cinergy Services Entry (Payroll Manual Journal Entry)</b>				
500	146800	AR from Cinergy Corp.	\$31.12	
500	232310	Accrued Payroll		\$31.12
500	232310	Accrued Payroll	\$31.12	
500	131	Cash		\$31.12

This entry is to record the exercise of 4,000 incentive stock options assuming swap of common stock held by employee in his DRIP account.

**Entry 3**

Corp	Account	Description	Debit	Credit
<b>Cinergy Corp. Entry (Payroll Manual Journal Entry)</b>				
800	211XXX	Miscellaneous Paid in Capital - LTIP Stock Options	\$17,920.00	
800	211100	Paid in Capital - Stock Options		\$17,920.00

This entry is to reclassify the fair value associated with the 4,000 incentive stock options exercised (4,000 \* \$4.48).

**Example 8**  
**Exercise of Incentive Stock Options**  
**with Cash Payment - Open Market Purchase of Cinergy Stock**

Assumptions: On January 1, 20XX, a Cinergy Services employee exercises 1,950 incentive stock options. The employee pays cash for the exercise price. Cinergy stock is purchased in the open market.

- Exercise Price - \$24.625 per share
- Market Price at Time of Exercise - \$35.82 per share
- Market Price at Time of Open Market Purchase - \$35.82 per share
- Fair Value at Date of Grant - \$4.48 per share

Calculation of Amount Due From Employee	
Description	Calculation
Shares Exercised	1,950
Times: Option Price	\$24,625
Equals: Amount Due from Employee	\$48,018.75

Income tax effects, if any, are not reflected (see "Tax Procedures - Stock Based Compensation Plans").

**Employee Exercises Incentive Stock Options - Cash**

**Entry 1**

Corp	Account	Description	Debit	Credit
<b>Cinergy Corp. Entry (AP System Transactions)</b>				
800	211100	Paid in Capital - Stock Options	\$69,849.00	
800	131	Cash		\$69,849.00

This entry is to record the purchase on the open market of 1,950 shares of Cinergy stock (1,950 \* \$35.82).

**Entry 2**

Corp	Account	Description	Debit	Credit
<b>Cinergy Corp. Entry (Corporate Accounting Manual Journal Entry)</b>				
800	131	Cash	\$48,018.75	
800	211100	Paid in Capital - Stock Options		\$48,018.75

This entry is to record the exercise of 1,950 incentive stock options with cash.

**Entry 3**

Corp	Account	Description	Debit	Credit
<b>Cinergy Corp. Entry (Payroll Manual Journal Entry)</b>				
800	211XXX	Miscellaneous Paid in Capital - LTIP Stock Options	\$8,736.00	
800	211100	Paid in Capital - Stock Options		\$8,736.00

This entry is to reclassify the fair value associated with the 1,950 incentive stock options exercised (1,950 \* \$4.48).

**Procedure**

- Capture information on business transactions (CoA.1)
- Classify transactions for journalizing (CoA.2)
- Cutoff transactions (CoA.5)
- Identify error(s) in source documents and pushback for correction (CoA.3)
- Correct error(s) in source documents (CoA.4)

DEPARTMENT	RESPONSIBILITY	ACTION
Stock Option Grantee		1. Prepare Cinergy Corp. Stock Option Exercise Election Form and distribute to Julie McGehee in HR.
HR	Julie McGehee	2. Update Equity Edge. Prepare Confirmation of Exercise report and cover letter and distribute to Payroll & Benefits Accounting (Lisa Carver), National City Bank, Legal (Frank Ramundo, Dave Lloyd, Jerry Vennemann) and Corporate Accounting (Terri Hover).
National City Bank - Outside Vendor		3. Issue new shares of common stock or purchase shares of Cinergy common stock in the open market, as applicable.
National City Bank - Outside Vendor		4. Prepare Common Stock Purchased in the Open Market or Common Stock Issued Report, as applicable and distribute to Corporate Accounting.

Prepare journal entries (CO A.6)

DEPARTMENT	RESPONSIBILITY	ACTION
Corporate Accounting	Chrissy Dyer	1a. Extract stock option exercise data from the Confirmation of Exercise, Common Stock Purchased on the Open Market, and Common Stock Issued Report, as applicable, and input into JE Tool. <i>Note: this process should be complete by day 3, EOD.</i>
Payroll & Benefits Accounting	Payroll & Benefits Accounting Staff	1b. Extract fair value data associated with stock options exercised from Equity Edge and supporting workpapers and input in JE Tool. <i>Note: this process should be complete by day 3, EOD.</i>

Identify error in prepared journal entries (CoA.7a)

DEPARTMENT	RESPONSIBILITY	ACTION
Corporate Accounting Payroll & Benefits Accounting	Benita Ross Lisa Carver	1. Verify a copy of the journal entry against the source documents to ensure data entry accuracy. <i>Note: this process should be complete by Day 3, EOD.</i>

Correct error in prepared journal entries (CoA.7b)

DEPARTMENT	RESPONSIBILITY	ACTION
Corporate Accounting Payroll & Benefits Accounting	Chrissy Dyer Payroll & Benefits Accounting Staff	1. Correct data entry errors in JE Tool. <i>Note: this process should be complete by Day 3, EOD.</i>

Post journal entries to BDMS 2.0 (CoA.8)

DEPARTMENT	RESPONSIBILITY	ACTION
Corporate Accounting Payroll & Benefits Accounting	Benita Ross Lisa Carver	1. Approve journal entry for posting
Corporate Accounting	BDMS Coordinator/John Linton	2. BDMS will post all journal entries approved for posting. <i>Note: this process should be complete by Day 3, EOD.</i>

Create and post accruals (CoA.10)

Create and post reserves (CoA.11)

DEPARTMENT	RESPONSIBILITY	ACTION
N/A	N/A	All accruals and reserves are included in the above processes.

**Training and Documents**

Training:

Additional Documents:

- Cinergy Corp. Stock Option Plan Prospectus
- FASB Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation*

Exercise of Stock Options

- Tax Procedures – Stock Based Compensation Plans

## Who Should Know

- Controller
- Assistant Controllers
- Corporate Accounting
- External Reporting
- Accounting Research
- Tax
- Payroll & Benefits Accounting

## Related Information

Stock-Based Employee Compensation Plans Policy

Long-term Incentive Compensation Plan – Stock Options Policy

Stock Option Plan Policy

Stock-Based Compensation - Employee Plans Reconciliation & Analysis Policy

## Contacts

NAME	ROLE	DEPARTMENT
Lisa Carver	Manager	Payroll
Gwen Page	Manager	Corporate Accounting
Julie McGehee	Manager	Human Resources
Erica Glenn	Senior Analyst	Accounting Research
Amy Sheppard	Manager	Accounting Research

## Definitions

GAAP – Generally Accepted Accounting Principles

EOD – End of Day

DRIP - Cinergy Corp. Direct Stock Purchase and Dividend Reinvestment Plan

**Revisions**

The following revisions are effective 01/01/05:

- Update policy for new manual ownership
- Update policy to reflect reorganization of manual



## Long-term Incentive Compensation Plan - Deferred Shares

Functional Area: HR, Payroll & Benefits Accounting  
Sarbanes-Oxley Category: Stock Purchase and Compensation  
Plans  
Process Owner: Lisa Carver  
Effective Date: 11/01/03  
Revised Date: 01/01/05

All accounting policies and procedures can be found on the Accounting Policies and Procedures community within iPower as follows:

- Launch iPower
- Select "Accounting Policies and Procedures" under the "Communities" heading at the top of the page

### Policy Statement

Cinergy will record all transactions associated with the Cinergy Corp. 1996 Long-term Incentive Compensation Plan.

### Reason for Policy

To record transactions associated with the Cinergy Corp. 1996 Long-term Incentive Compensation Plan in the Company financial statements in adherence with GAAP and regulatory requirements

### Process Flows

### Process Description/Narrative



## **Frequently Asked Questions**

### **Q1. What is the Cinergy Corp. 1996 Long-term Incentive Compensation Plan?**

A. Cinergy adopted the Cinergy Corp. 1996 Long-term Incentive Compensation on January 25, 1996, as an incentive compensation plan for eligible employees of Cinergy and its subsidiaries. The plan is a stock and cash based plan under which eligible employees may be granted awards payable in either Cinergy common stock or cash. Award may consist of grants of incentive or non-qualified stock options, cash amounts in connection with certain options, stock appreciation rights, restricted stock, performance awards payable in cash or shares of common stock, dividend equivalents, or other stock-based awards. Each award is evidenced by an Award Agreement approved by the Compensation Committee of the Board of Directors (for Section 16 employees) or the CEO (for non-Section 16 employees) setting forth the terms and conditions of the award.

### **Q2. Who is an eligible employee under the plan?**

A. Eligible employees are (1) officers of Cinergy or its subsidiaries, (2) employees who are employed in a significant capacity by Cinergy or its subsidiaries, or (3) employees who have the potential to contribute to the future success of Cinergy or its subsidiaries. Non-employee directors are also eligible to participate in the plan.

### **Q3. What types of awards has Cinergy historically granted under the Cinergy Corp. 1996 Long-term Incentive Compensation Plan?**

A. Historically, Cinergy has granted the following types of awards under this plan:

- Long-term Incentive Compensation Plan - Stock Policy
- Long-term Incentive Compensation Plan - Performance-Based Awards Policy
- Long-term Incentive Compensation Plan - Phantom Stocks
- Long-term Incentive Compensation Plan - Deferred Stock
- Long-term Incentive Compensation Plan - Restricted Policy

### **Q4. What is a deferred share?**

A. A deferred share is similar to a restricted stock unit, which is the economic equivalent of a restricted stock. However, unlike restricted stock, deferred shares are not legally issued or outstanding. Deferred shares do not have voting rights. The employee's right to receive the stock is generally conditioned on continued employment (e.g., employee must meet a service requirement in order to become vested). The employee receives the stock at the end of the vesting period.

**Q5. How is the fair value of a share of deferred stock measured under SFAS 123?**

A. SFAS 123 indicates that the fair value of a share of deferred stock awarded to an employee is measured at the market price of a share of the same stock as if it were vested and issued on the grant date.

**Q6. What compensation cost is recognized under SFAS 123 for deferred stock?**

A. The total amount of compensation cost recognized for an award of deferred stock is based on the number of instruments that eventually vests. No compensation cost is recognized for awards that employees forfeit because they fail to satisfy a service requirement for vesting.

**Q7. What is the period under SFAS 123 over which compensation cost is recognized?**

A. The compensation cost for deferred stock is recognized over the period(s) in which the related employee services are rendered by a charge to compensation cost and a corresponding credit to equity (paid in capital) if the award is for future service. If the service period is not defined as an earlier or shorter period, the service period is presumed to be the period from the grant date to the date that the award is vested and its exercisability does not depend on continued employee service.

**Q8. What is the accounting associated with dividends?**

A. Under SFAS 123, dividends or dividend equivalents paid to employees on the portion of an award of stock or other equity instrument that vests is charged to retained earnings. Nonforfeitable dividends or dividend equivalents paid on shares of stock that do not vest are recognized as additional compensation cost. For any awards granted under APB 25, dividend or dividend equivalents are recognized as additional compensation cost.

**Q9. How should Cinergy account for deferred stock under SFAS 123?**

Long-term Incentive Compensation Plan – Deferred Shares

A. Cinergy should record the following entries associated with deferred stock awarded after the adoption of SFAS 123 on January 1, 2003:

Assumptions: Cinergy awards 2 employees each 750 shares of deferred stock. The employees receive the stock if still employed by Cinergy in 3 years. Employees are paid the dividend equivalent in cash each quarter. Employees A and B are employed by Cinergy Services.

- Shares Award - 750 per employee
- Market Price at Grant Date - \$33
- Vesting Period - 3 years
- Employee A resigns after 1 year
- Employee B meets service requirement
- Dividends - Paid quarterly - \$.45 per share. Receipt is not dependent on vesting (e.g., are nonforfeitable)

Income tax effects, if any, are not reflected (see "Tax Procedures – Stock Based Compensation Plans").

**Entry 1 – Compensation Cost Recorded - Year 1**

Corp	Account	Description	Debit	Credit
<b>Cinergy Corp. Entry (Manual Journal Entry)</b>				
800	146500	Accounts Receivable from Cinergy Services	\$16,500	
800	211111	Miscellaneous Paid in Capital - Deferred Shares		\$16,500
<b>Cinergy Services Entry (Manual Journal Entry)</b>				
500	920010	Compensation Expense	\$16,500	
500	234800	Payable to Cinergy Corp		\$16,500
<b>Cinergy Services Entry (Cost Assignment Process Entry)</b>				
500	146XXX	Accounts Receivable from Client Company	\$16,500	
500	457XXX	Service Company Revenue		\$16,500
<b>Client Company (Cost Assignment Process Entry)</b>				
XXX	920000 or 920090 or 401696	Compensation Expense	\$16,500	
XXX	234500	Accounts Payable to Cinergy Services		\$16,500

Long-term Incentive Compensation Plan - Deferred Shares

This entry is to record the compensation cost recognized in year 1 associated with deferred shares. Compensation cost is calculated using the market price of Cinergy stock at the date of grant and is attributed to the three year vesting period. (750 awards \* 2 employees \* \$33 market price at date of grant / 3 year vest period = \$16,500 annual expense.)

**Entry 2 - Dividend Equivalent Paid on Deferred Stock - Year 1**

Corp	Account	Description	Debit	Credit
<b>Cinergy Services Entry (Manual Journal Entry)</b>				
800	438000	Dividends on Common Stock	\$2,700	
800	131XXX	Cash		\$2,700

This entry is to record the dividend equivalent paid on deferred stock in year 1. (750 awards \* 2 employees \* \$1.80 annual dividend rate = \$2,700 annual dividend equivalent expense.)

**Entry 3 - Reversal of Compensation Cost Due to Forfeiture**

Corp	Account	Description	Debit	Credit
<b>Cinergy Corp. Entry (Manual Journal Entry)</b>				
800	211111	Miscellaneous Paid in Capital - Deferred Shares	\$8,250	
800	146500	Accounts Receivable from Cinergy Services		\$8,250
<b>Cinergy Services Entry (Manual Journal Entry)</b>				
500	234800	Payable to Cinergy Corp	\$8,250	
500	920010	Compensation Expense		\$8,250
<b>Cinergy Services Entry (Cost Assignment Process Entry)</b>				
500	457XXX	Service Company Revenue	\$8,250	
500	146XXX	Accounts Receivable from Client Companies		\$8,250
<b>Client Companies (Cost Assignment Process Entry)</b>				
XXX	234500	Accounts Payable to Cinergy Services	\$8,250	
XXX	920000 or 920090 or 401696	Compensation Expense		\$8,250

This entry is to reverse the compensation cost previously recognized for shares forfeited (i.e., Employee A leaves prior to vesting).

**Entry 4 - Recognition of Compensation Cost for Nonforfeitable Dividend  
 Equivalents on Forfeited Stock**

Corp	Account	Description	Debit	Credit
<b>Cinergy Corp. Entry (Manual Journal Entry)</b>				
800	146500	Accounts Receivable from Cinergy Services	\$1,350	
800	438000	Dividends on Common Stock		\$1,350
<b>Cinergy Services Entry (Manual Journal Entry)</b>				
500	920010	Compensation Expense	\$1,350	
500	234800	Payable to Cinergy Corp		\$1,350
<b>Cinergy Services Entry (Cost Assignment Process Entry)</b>				
500	146XXX	Accounts Receivable from Client Company	\$1,350	
500	457XXX	Service Company Revenue		\$1,350
<b>Client Company (Cost Assignment Process Entry)</b>				
XXX	920000 or 920090 or 401696	Compensation Expense	\$1,350	
XXX	234500	Accounts Payable to Cinergy Services		\$1,350

This entry is to record the compensation cost for nonforfeitable dividend equivalents on shares that did not vest due to forfeiture. (750 awards \* \$1.80 annual dividend rate = \$1,350.)

**Entry 5 - Compensation Cost Recorded - Years 2 and 3**

Corp	Account	Description	Debit	Credit
<b>Cinergy Corp. Entry (Manual Journal Entry)</b>				
800	146500	Accounts Receivable from Cinergy Services	\$8,250	
800	211111	Miscellaneous Paid in Capital - Deferred Shares		\$8,250
<b>Cinergy Services Entry (Manual Journal Entry)</b>				
500	920010	Compensation Expense	\$8,250	
500	234800	Payable to Cinergy Corp		\$8,250
<b>Cinergy Services Entry (Cost Assignment Process Entry)</b>				
500	146XXX	Accounts Receivable from Client Companies	\$8,250	
500	457XXX	Service Company Revenue		\$8,250

Client Companies (Cost Assignment Process Entry)				
XXX	920000 or 920090 or 401696	Compensation Expense	\$8,250	
XXX	234500	Accounts Payable to Cinergy Services		\$8,250

This entry is to record the compensation cost associated with deferred shares recognized in each of the years 2 and 3. Compensation cost is calculated using the market price at the date of grant and is attributed to the three year vesting period. (750 awards \* 1 employee \* \$33 market price at date of grant / 3 year vest period = \$8,250 annual expense.)

**Entry 6 - Dividend Equivalents Paid on Deferred Stock - Years 2 & 3**

Corp	Account	Description	Debit	Credit
<b>Cinergy Services Entry (Manual Journal Entry)</b>				
800	438000	Dividends on Common Stock	\$1,350	
800	131XXX	Cash		\$1,350

This entry is to record the dividend equivalent paid on deferred stock in each of the years 2 & 3. (750 awards \* \$1.80 annual dividend rate = \$1,350 annual dividend equivalent expense.)

**Entry 7 - Distribution to Employee of Deferred Stock at end of Year 3**

Corp	Account	Description	Debit	Credit
<b>Cinergy Corp. Entry (Manual Journal Entry)</b>				
800	211111	Miscellaneous Paid in Capital - Deferred Shares	\$24,750	
800	201000	Common Stock		\$8
800	207000	Premium on Capital Stock		\$24,742

This entry is to record the distribution of new issue Cinergy stock to the employee once the service requirement has been met. Account 211 would have been credited if the shares had been obtained in the open market.

*Note: All awards granted prior to the adoption of SFAS 123 on January 1, 2003, will continue to be accounted for in accordance with the provisions of APB 25. As it relates to the LTIP deferred shares the primary difference between APB 25 and SFAS 123 relates*

Long-term Incentive Compensation Plan - Deferred Shares

dividend equivalents (e.g., charged to compensation expense under APB 25 and retained earnings under SFAS 123).

**Procedure**

- Capture information on business transactions (CoA.1)
- Classify transactions for journalizing (CoA.2)
- Cutoff transactions (CoA.5)
- Identify error(s) in source documents and pushback for correction (CoA.3)
- Correct error(s) in source documents (CoA.4)

DEPARTMENT	RESPONSIBILITY	ACTION
Compensation Committee - Board of Directors		1. Approves award of deferred shares.
Legal Secretarial	Frank Ramundo David Lloyd	2. Distribute Compensation Committee resolutions to Human Resources.
Secretarial	Teri O'Neal	3. Distribute Board dividend resolutions to Human Resources.
Human Resources	Julie McGehee	4. Update Equity Edge for deferred shares awarded, forfeited, and exercised.
Human Resources	Julie McGehee	5. Notify Lisa Carver of deferred shares awarded, forfeited, and exercised.
Human Resources	Lisa Carver	6. Update Deferred Shares Excel worksheet to determine compensation cost.

Prepare journal entries (CO A.6)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll & Benefits Accounting	Caryl West	1a. Extract compensation cost from supporting workpapers and input into JE Tool. This transaction is booked monthly. <i>Note: this process should be complete by Day 3, EOD.</i>
Corporate Accounting	Chrissy Dyer	1b. Extract deferred shares issued data from Common Stock Issued on the Open Market report or Common Stock Issued Report and input into JE Tool. This transaction is booked as necessary. <i>Note: this process should be</i>

Long-term Incentive Compensation Plan - Deferred Shares

		complete by Day 3, EOD.
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Identify error in prepared journal entries (CoA.7a)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll & Benefits Accounting Corporate Accounting	Lisa Carver  Benita Ross	1. Verify a copy of the journal entry against the source documents to ensure data entry accuracy. <i>Note: this process should be complete by Day 3, EOD.</i>

Correct error in prepared journal entries (CoA.7b)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll & Benefits Accounting Corporate Accounting	Caryl West  Chrissy Dyer	1. Correct data entry errors in JE Tool. <i>Note: this process should be complete by Day 3, EOD.</i>

Post journal entries to BDMS 2.0 (CoA.8)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll & Benefits Accounting Corporate Accounting	Lisa Carver  Benita Ross	1. Approve journal entry for posting.
Corporate Accounting	BDMS Coordinator / John Linton	2. BDMS will post all journal entries approved for posting. <i>Note: this process should be complete by Day 3, EOD.</i>

Create and post accruals (CoA.10)

Create and post reserves (CoA.11)

DEPARTMENT	RESPONSIBILITY	ACTION
N/A	N/A	All accruals and reserves are included in the above processes.

**Training and Documents**

Training:

Additional Documents:



- Cinergy Corp. 1996 Long-term Incentive Compensation Plan Prospectus
- APB Opinion No. 25, *Accounting for Stock Issued to Employees*
- FASB Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation*
- Tax Procedures - Stock Based Compensation Plans

## Who Should Know

- Controller
- Assistant Controllers
- Corporate Accounting
- External Reporting
- Accounting Research
- Tax
- Payroll & Benefits Accounting

## Related Information

Stock-Based Employee Compensation Plans Policy

Long-term Incentive Compensation Plan - Stock Options Policy

Long-term Incentive Compensation Plan - Performance-Based Awards Policy

Long-term Incentive Compensation Plan - Phantom Stock Policy

Long-term Incentive Compensation Plan - Restricted Stock Policy

Employee Stock Purchase and Savings Plan Policy

Stock Option Plan Policy

Exercise of Stock Options Policy

Stock-Based Compensation - Employee Plans Reconciliation & Analysis Policy

## Contacts

NAME	ROLE	DEPARTMENT
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Long-term Incentive Compensation Plan - Deferred Shares

Lisa Carver	Manager	Payroll
Gwen Pate	Manager	Corporate Accounting
Julie McGehee	Manager	Human Resources
Erica Glenn	Senior Analyst	Accounting Research
Amy Sheppard	Manager	Accounting Research

## Definitions

SFAS 123 - FASB Statement of Financial Accounting Standards No. 123,  
*Accounting for Stock-Based Compensation*

APB 25 - APB Opinion No. 25, *Accounting for Stock Issued to Employees*

GAAP - Generally Accepted Accounting Principles

EOD - End of Day

## Revisions

The following revisions are effective 01/01/05:

- Update policy for new manual ownership
- Update policy to reflect reorganization of manual



## Long-term Incentive Compensation Plan - Performance-Based Awards

Functional Area: HR, Payroll & Benefits Accounting  
Sarbanes-Oxley Category: Stock Purchase and Compensation Plans  
Process Owner: Lisa Carver  
Effective Date: 11/01/03  
Revised Date: 01/01/05

All accounting policies and procedures can be found on the Accounting Policies and Procedures community within iPower as follows:

- Launch iPower
- Select "Accounting Policies and Procedures" under the "Communities" heading at the top of the page

### Policy Statement

Cinergy will record all transactions associated with the Cinergy Corp. 1996 Long-term Incentive Compensation Plan.

### Reason for Policy

To record transactions associated with the Cinergy Corp. 1996 Long-term Incentive Compensation Plan in the Company financial statements in adherence with GAAP and regulatory requirements

### Process Flows

### Process Description/Narrative

## **Frequently Asked Questions**

### **Q1. What is the Cinergy Corp. 1996 Long-term Incentive Compensation Plan?**

A. Cinergy adopted the Cinergy Corp. 1996 Long-term Incentive Compensation on January 25, 1996, as an incentive compensation plan for eligible employees of Cinergy and its subsidiaries. The plan is a stock and cash based plan under which eligible employees may be granted awards payable in either Cinergy common stock or cash. Awards may consist of grants of incentive or non-qualified stock options, cash amounts in connection with certain options, stock appreciation rights, restricted stock, performance awards payable in cash or shares of common stock, dividend equivalents, or other stock-based awards. Each award is evidenced by an Award Agreement approved by the Compensation Committee of the Board of Directors (for Section 16 employees) or the CEO (for non-Section 16 employees) setting forth the terms and conditions of the award.

### **Q2. Who is an eligible employee under the plan?**

A. Eligible employees are (1) officers of Cinergy or its subsidiaries, (2) employees who are employed in a significant capacity by Cinergy or its subsidiaries, or (3) employees who have the potential to contribute to the future success of Cinergy or its subsidiaries. Non-employee directors are also eligible to participate in the plan.

### **Q3. What types of awards has Cinergy historically granted under the Cinergy Corp. 1996 Long-term Incentive Compensation Plan?**

A. Historically, Cinergy has granted the following types of awards under this plan:

- Long-term Incentive Compensation Plan - Stock Options
- Long-term Incentive Compensation Plan - Phantom Stocks
- Long-term Incentive Compensation Plan - Deferred Shares
- Long-term Incentive Compensation Plan - Restricted Stock
- Long-term Incentive Compensation Plan - Performance-Based Awards

**Q4. What is a performance-based award?**

A. SFAS 123 defines a performance-based award as an "award of stock-based employee compensation for which vesting depends on both (a) an employee's rendering service to the employer for a specified period of time and (b) the achievement of a specified performance target." Traditionally, vesting in Cinergy's performance-based awards have been dependent upon the extent to which Cinergy meets a total shareholder return performance measure for the measurement period in comparison to a selected comparator group (i.e., S&P Super Composite Electric Index). Historically, Cinergy has paid this award in Cinergy common stock. However, during 2003, senior management indicated its intention to pay 50% of the LTIP awards for future cycles in cash.

**Q5. How is the fair value of the performance-based awards measured under SFAS 123?**

A. SFAS 123 indicates that the fair value of a share of stock awarded to an employee is measured at the grant date based on the current market price of the stock that the employee will become entitled when they have rendered the requisite service and satisfied any other conditions necessary to earn the right to benefit from the stock. SFAS 123 indicates that the amount of the liability for awards payable in cash is measured each period based on the current Cinergy stock price.

**Q6. What compensation cost is recognized under SFAS 123 for performance-based awards?**

A. The total amount of compensation cost recognized for a performance-based award is based on the number of instruments that eventually vests. No compensation cost is recognized for awards that employees forfeit because they fail to satisfy a service requirement for vesting or because Cinergy does not achieve a performance condition, unless the condition is a target stock price or specified amount of intrinsic value on which vesting or exercisability is conditioned. For awards with the latter condition, compensation cost shall be recognized for awards to employees who remain in service for the requisite period regardless of whether the target stock price or amount of intrinsic value is reached.

**Q7. What is the period under SFAS 123 over which compensation cost associated with a performance-based award is recognized?**

A. The compensation cost for a performance based award is recognized over the period(s) in which the related employee services are rendered by a charge to compensation cost and a corresponding credit to equity (paid in capital) if the

award is for future service. If the service period is not defined as an earlier or shorter period, the service period is presumed to be the period from the grant date to the date that the award is vested and its exercisability does not depend on continued employee service.

**Q8. What is the accounting associated with dividends?**

A. Under SFAS 123, dividends or dividend equivalents paid to employees on the portion of an award of stock or other equity instrument that vests is charged to retained earnings. Nonforfeitable dividend equivalents paid on shares of stock that do not vest are recognized as additional compensation cost. For any awards granted under APB 25, dividends or dividend equivalents are recognized as additional compensation cost.

**Q9. How should Cinergy account for performance-based awards under SFAS 123?**

A. Cinergy should record the following entries associated with performance-based awards of Cinergy common stock granted after adoption of SFAS 123 on January 1, 2003:

Assumptions: On January 1, 20XX, Cinergy awards 2 employees each 750 performance based awards to be paid 100% with Cinergy common stock. The awards are conditionally upon Cinergy achieving a total shareholder return (TSR) equal to a peer group. Additional performance shares are earned if Cinergy's total shareholder return exceeds that of the peer group. Employees A & B are employees of Cinergy Services.

- Options Granted -750 per employee
- Vesting Period - 3 years
- Employee A resigns after 1 year
- Market Price of Cinergy stock at time of grant - \$30 per share
- TSR - Expectation at End of Year 1 - 100%
- TSR - Expectation at End of Year 2 - 125%
- TSR - Actual Achievement at End of Year 3 - 150%
- Dividends - \$1.80 per share annual rate
- Income tax effects, if any, are not reflected (see "Tax Procedures - Stock Based Compensation Plans")

**Entry 1 - Compensation Cost Recorded - Year 1**

Corp	Account	Description	Debit	Credit
Cinergy Corp. Entry (Manual Journal Entry)				

800	146500	Accounts Receivable from Cinergy Services	\$15,000	
800	211112	Miscellaneous Paid in Capital - LTIP Performance Based Awards		\$15,000
<b>Cinergy Services Entry (Manual Journal Entry)</b>				
500	920010	Compensation Expense	\$15,000	
500	234800	Payable to Cinergy Corp		\$15,000
<b>Cinergy Services Entry (Cost Assignment Process Entry)</b>				
500	146XXX	Accounts Receivable from Client Company	\$15,000	
500	457XXX	Service Company Revenue		\$15,000
<b>Client Companies (Cost Assignment Process Entry)</b>				
XXX	920000 or 920090 or 401696	Compensation Expense	\$15,000	
XXX	234500	Accounts Payable to Cinergy Services		\$15,000

This entry is to record the compensation cost recognized in year 1 associated with performance-based awards. Compensation cost is calculated using the market price at the date of grant and is attributed to the three year vesting period. Target shares are 750. (750 awards \* 2 employees \$30 market price / 3 year vesting period).

**Entry 2 - Recognition of Equivalent Dividends - Year 1**

Corp	Account	Description	Debit	Credit
<b>Cinergy Services Entry (Manual Journal Entry)</b>				
800	438000	Dividends on Common Stock	\$900	
800	211112	Miscellaneous Paid in Capital - LTIP Performance Based Awards		\$900

This entry is to record equivalent dividends for year 1 associated with performance-based awards. (750 awards \* 2 employees \$1.80 dividend rate / 3 year vesting period).

**Entry 3 - Reversal of Compensation Expense due to Forfeiture**

Corp	Account	Description	Debit	Credit
<b>Cinergy Corp. Entry (Manual Journal Entry)</b>				
800	211112	Miscellaneous Paid in Capital - LTIP Performance Based Awards	\$7,500	

800	146500	Accounts Receivable from Cinergy Services		\$7,500
<b>Cinergy Services Entry (Manual Journal Entry)</b>				
500	234800	Payable to Cinergy Corp	\$7,500	
500	920010	Compensation Expense		\$7,500
<b>Cinergy Services Entry (Cost Assignment Process Entry)</b>				
500	457XXX	Service Company Revenue	\$7,500	
500	146XXX	Accounts Receivable from Client Company		\$7,500
<b>Client Companies (Cost Assignment Process Entry)</b>				
XXX	234500	Accounts Payable to Cinergy Services	\$7,500	
XXX	920000 or 920090 or 401696	Compensation Expense		\$7,500

This entry is to reverse the compensation cost previously recognized for awards forfeited after one year (i.e., Employee A leaves prior to vesting). Note: no compensation cost would be recognized if no awards vested due to failed to achieve the performance target. (750 awards \* \$30 / 3 years = \$7,500 amount previously recognized)

**Entry 4 – Reversal of Equivalent Dividends due to Forfeiture**

Corp	Account	Description	Debit	Credit
<b>Cinergy Services Entry (Manual Journal Entry)</b>				
800	211112	Miscellaneous Paid in Capital - LTIP Performance Based Awards	\$450	
800	438000	Dividends on Common Stock		\$450

This entry is to reverse equivalent dividends previously recognized for awards forfeited. (750 awards \* \$1.80 dividends / 3 years = \$450 amount previously recognized)

**Entry 5 – Compensation Cost Recorded - Year 2**

Corp	Account	Description	Debit	Credit
<b>Cinergy Corp. Entry (Manual Journal Entry)</b>				
800	146500	Accounts Receivable from Cinergy Services	\$11,250	
800	211112	Miscellaneous Paid in Capital - LTIP Performance Based Awards		\$11,250
<b>Cinergy Services Entry (Manual Journal Entry)</b>				



500	920010	Compensation Expense	\$11,250	
500	234800	Payable to Cinergy Corp		\$11,250
<b>Cinergy Services Entry (Cost Assignment Process Entry)</b>				
500	146XXX	Accounts Receivable from Client Company	\$11,250	
500	457XXX	Service Company Revenue		\$11,250
<b>Client Companies (Cost Assignment Process Entry)</b>				
XXX	920000 or 920090 or 401696	Compensation Expense	\$11,250	
XXX	234500	Accounts Payable to Cinergy Services		\$11,250

This entry is to record the compensation cost recognized in year 2 associated with performance-based awards. Compensation cost is calculated using the market price at the date of grant and is attributed to the three year vesting period. Target shares are 937.5 (750 \* 125%). (Calculation 937.5 awards \* \$30 = \$28,125 / 3 year service period \* 2 years accrued - \$7,500 accrual per books = \$11,250 current year accrual.)

**Entry 6 - Recognition of Equivalent Dividends - Year 2**

Corp	Account	Description	Debit	Credit
<b>Cinergy Services Entry (Manual Journal Entry)</b>				
800	438000	Dividends on Common Stock	\$1,800	
800	211112	Miscellaneous Paid in Capital - LTIP Performance Based Awards		\$1,800

This entry is to record equivalent dividends for year 2 associated with performance-based awards. (937.5 awards \* \$1.80 dividend rate \* 2 years / 3 year vest \* 2 years - \$450 accrual per books = \$1,800 current year accrual)

**Entry 7 - Compensation Cost Recorded - Year 3**

Corp	Account	Description	Debit	Credit
<b>Cinergy Corp. Entry (Manual Journal Entry)</b>				
800	146500	Accounts Receivable from Cinergy Services	\$15,000	
800	211112	Miscellaneous Paid in Capital - LTIP Performance Based Awards		\$15,000
<b>Cinergy Services Entry (Manual Journal Entry)</b>				
500	920010	Compensation Expense	\$15,000	
500	234800	Payable to Cinergy Corp		\$15,000

<b>Cinergy Services Entry (Cost Assignment Process Entry)</b>				
500	146XXX	Accounts Receivable from Client Company	\$15,000	
500	457XXX	Service Company Revenue		\$15,000
<b>Client Companies (Cost Assignment Process Entry)</b>				
XXX	920000 or 920090 or 401696	Compensation Expense	\$15,000	
XXX	234500	Accounts Payable to Cinergy Services		\$15,000

This entry is to record the compensation cost recognized in year 2 associated with performance-based awards. Compensation cost is calculated using the market price at the date of grant and is attributed to the three year vesting period. Target shares are 1,125 (750 \* 150%). (1,125 awards \* \$30 market price = \$33,750 total compensation expense - \$18,750 accrual per books = \$15,000 current year accrual)

**Entry 8 - Recognition of Equivalent Dividends - Year 3**

Corp	Account	Description	Debit	Credit
<b>Cinergy Services Entry (Manual Journal Entry)</b>				
800	438000	Dividends on Common Stock	\$3,825	
800	211112	Miscellaneous Paid in Capital - LTIP Performance Based Awards		\$3,825

This entry is to record equivalent dividends for year 3 associated with performance-based awards. (1,125 awards \* \$1.8 annual dividend rate \* 3 years = \$6,075 total dividends - \$2,250 dividends accrued per books = \$3,825 current year accrual)

**Entry 9 - Distribution to Employee at end of Year 3**

Corp	Account	Description	Debit	Credit
<b>Cinergy Corp. Entry (Manual Journal Entry)</b>				
800	211112	Miscellaneous Paid in Capital - LTIP Performance Based Awards	\$39,825	
800	201000	Common Stock		\$11
800	207000	Premium on Common Stock		37,789

This entry is to record the distribution of the award assuming issuance of new shares of Cinergy common stock. Account 211 would have been credited if the

Long-term Incentive Compensation Plan - Performance-Based Awards

shares had been obtained in the open market. (Note: entry does not reflect withholdings or payment of payroll or other taxes.)

*Note: The above example assumes that the company plans to pay 100% of the award in Cinergy common stock. To the extent a portion of the award is expected to be paid in cash and not Cinergy common stock, accounts 242112 (current liability) and 253112 (long-term liability) should be used instead of account 211112. In addition the "cash" portion of the award would be measured each period based on the current Cinergy stock price. Also Note: All awards granted prior to the adoption of SFAS 123 on January 1, 2003, will continue to be accounted for in accordance with the provisions of APB 25. As it relates to the LTIP performance-based awards the primary differences between APB 25 and SFAS 123 relate to 1) dividend equivalents (e.g., charged to compensation expense under APB 25 and retained earnings under SFAS 123) and 2) fair value determination date (e.g., measurement date under APB 25 and grant date under SFAS 123).*

**Procedure**

- Capture information on business transactions (CoA.1)
- Classify transactions for journalizing (CoA.2)
- Cutoff transactions (CoA.5)
- Identify error(s) in source documents and pushback for correction (CoA.3)
- Correct error(s) in source documents (CoA.4)

DEPARTMENT	RESPONSIBILITY	ACTION
Compensation Committee - Board of Directors		1. Approve grant of Performance-based awards.
Legal	Frank Ramundo	2. Distribute Compensation Committee resolutions to External Reporting, Corporate Accounting and Human Resources
Investor Relations	Tammy Johnson	3. Provide TSR to Julie McGehee in Payroll & Benefits Accounting.
Payroll & Benefits Accounting	Julie McGehee	4. Update Target Performance Shares worksheet and provide to Lisa Carver.
Payroll & Benefits Accounting	Lisa Carver	5. Update Target Performance Shares worksheet with expected TSR to determine total compensation cost associated with the award.
Payroll & Benefits Accounting	Lisa Carver	6. Update LTIP Performance Shares current month cost worksheet.

Prepare journal entries (CO A.6)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll & Benefits Accounting	Payroll & Benefits Accounting Staff	1a. Extract compensation cost from supporting workpapers and input into JE Tool. This transaction is booked monthly. <i>Note: this process should be complete by Day 3, EOD.</i>
Corporate Accounting	Chrissy Dyer	1b. Extract performance shares issued data from Common Stock Issued on the Open Market report or Common Stock Issued Report and input into JE Tool. This transaction is usually booked in January. <i>Note: this process should be complete by Day 3, EOD.</i>

Identify error in prepared journal entries (CoA.7a)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll & Benefits Accounting	Lisa Carver	1. Verify a copy of the journal entry against the source documents to ensure data entry accuracy. <i>Note: this process should be complete by Day 3, EOD.</i>
Corporate Accounting	Benita Ross	

Correct error in prepared journal entries (CoA.7b)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll & Benefits Accounting Corporate Accounting	Payroll & Benefits Accounting Staff Chrissy Dyer	1. Correct data entry errors in JE Tool. <i>Note: this process should be complete by Day 3, EOD.</i>

Post journal entries to BDMS 2.0 (CoA.8)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll & Benefits Accounting Corporate Accounting	Lisa Carver Benita Ross	1. Approve journal entry for posting
Corporate Accounting	BDMS Coordinator / John Linton	2. BDMS will post all journal entries approved for posting. <i>Note: this process should be complete by Day 3, EOD.</i>

Create and post accruals (CoA.10)

Create and post reserves (CoA.11)

DEPARTMENT	RESPONSIBILITY	ACTION
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N/A	N/A	All accruals and reserves are included in the above processes.
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## Training and Documents

Training:

Additional Documents:

- Cinergy Corp. 1996 Long-term Incentive Compensation Plan
- APB Opinion No. 25, *Accounting for Stock Issued to Employees*
- FASB Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation*
- Tax Procedures – Stock Based Compensation Plans

## Who Should Know

- Controller
- Assistant Controllers
- Corporate Accounting
- External Reporting
- Accounting Research
- Tax
- Payroll & Benefits Accounting

## Related Information

Stock-Based Employee Compensation Plans Policy

Long-term Incentive Compensation Plan – Stock Options Policy

Long-term Incentive Compensation Plan – Phantom Stock Policy

Long-term Incentive Compensation Plan – Deferred Shares Policy

Long-term Incentive Compensation Plan – Restricted Stock Policy

Employee Stock Purchase and Savings Plan Policy

Stock Option Plan Policy

Exercise of Stock Options Policy

Stock-Based Compensation - Employee Plans Reconciliation & Analysis Policy

**Contacts**

NAME	ROLE	DEPARTMENT
Lisa Carver	Manager	Payroll
Gwen Page	Manager	Corporate Accounting
Julie McGehee	Manager	Human Resources
Erica Glenn	Senior Analyst	Accounting Research
Amy Sheppard	Manager	Accounting Research

**Definitions**

APB 25 - APB Opinion No. 25, *Accounting for Stock Issued to Employees*

SFAS 123 - FASB Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation*

GAAP - Generally Accepted Accounting Principles

EOD - End of Day

**Revisions**

The following revisions are effective 01/01/05:

- Update policy for new manual ownership
- Update policy to reflect reorganization of manual



## Long-term Incentive Compensation Plan - Phantom Stocks

Functional Area: HR, Payroll & Benefits Accounting  
Sarbanes-Oxley Category: Stock Purchase and Compensation  
Plans

Process Owner: Lisa Carver

Effective Date: 11/01/03

Revised Date: 01/01/05

All accounting policies and procedures can be found on the Accounting Policies and Procedures community within iPower as follows:

- Launch iPower
- Select "Accounting Policies and Procedures" under the "Communities" heading at the top of the page

### Policy Statement

Cinergy will record all transactions associated with the Cinergy Corp. 1996 Long-term Incentive Compensation Plan.

### Reason for Policy

To record transactions associated with the Cinergy Corp. 1996 Long-term Incentive Compensation Plan in the Company financial statements in adherence with GAAP and regulatory requirements

### Process Flows

### Process Description/Narrative

## **Frequently Asked Questions**

### **Q1. What is the Cinergy Corp. 1996 Long-term Incentive Compensation Plan?**

A. Cinergy adopted the Cinergy Corp. 1996 Long-term Incentive Compensation Plan on January 25, 1996, as an incentive compensation plan for eligible employees of Cinergy and its subsidiaries. The plan is a stock and cash based plan under which eligible employees may be granted awards payable in either Cinergy common stock or cash. Award may consist of grants of incentive or non-qualified stock options, cash amounts in connection with certain options, stock appreciation rights, restricted stock, performance awards payable in cash or shares of common stock, dividend equivalents, or other stock-based awards. Each award is evidenced by an Award Agreement approved by the Compensation Committee of the Board of Directors (for Section 16 employees) or the CEO (for non-Section 16 employees) setting forth the terms and conditions of the award.

### **Q2. Who is an eligible employee under the plan?**

A. Eligible employees are (1) officers of Cinergy or its subsidiaries, (2) employees who are employed in a significant capacity by Cinergy or its subsidiaries, or (3) employees who have the potential to contribute to the future success of Cinergy or its subsidiaries. Non-employee directors are also eligible to participate in the plan.

### **Q3. What types of awards has Cinergy historically granted under the Cinergy Corp. 1996 Long-term Incentive Compensation Plan?**

A. Historically, Cinergy has granted the following types of awards under this plan:

- Long-term Incentive Compensation Plan - Stock Policy
- Long-term Incentive Compensation Plan - Performance-Based Awards Policy
- Long-term Incentive Compensation Plan - Phantom Stocks
- Long-term Incentive Compensation Plan - Deferred Stock
- Long-term Incentive Compensation Plan - Restricted Policy



**Q4. What are phantom shares?**

A. Phantom shares are similar to stock appreciation rights. A theoretical number of shares are awarded for a specific period; the employee may be credited with dividend equivalents, and receives cash or stock equal to the appreciation in unit value at the end of the specified period. Cinergy has also awarded phantom shares in which the employee receives the unit value at the end of the specified period. Previously recognized compensation cost is not reversed if a vested phantom share expires unexercised.

**Q5. How is the compensation cost associated with phantom shares to be settled in cash measured and recognized?**

A. Compensation cost is measured as the amount of the changes in the stock price over the exercise price in the periods in which the changes occur. Compensation cost is accrued as a charge to expense over the periods the employee performs the related services. Compensation cost accrued during the service periods is adjusted in subsequent periods for changes, either increases or decreases, in the quoted market value of the shares but is not adjusted below zero.

**Q6. What is the accounting associated with dividends?**

A. Under FAS 122, dividends or dividend equivalents on awards of phantom stock payable in cash are recognized as additional compensation cost. (Dividends or dividend equivalents on awards of stock appreciation rights payable to employees in stock are charged to retained earnings if vested. Nonforfeitable dividend or dividend equivalents paid on stock appreciation rights payable in stock that do not vest are recognized as additional compensation cost.) For any awards granted under ABB 25, dividend equivalents are recognized as additional compensation cost.

**Q7. How should Cinergy account for phantom shares?**

A. The following is two examples of the entries that Cinergy should record associated with phantom shares payable in cash:

**Example 1**

Assumptions: On January 1, 20XX, Cinergy awards 2 employees each 750 phantom shares. The phantom shares vests after 2 years and the employees have

8 years after the stock vests to exercise the phantom shares (i.e., receive cash for appreciation in value). The employees are employed by Cinergy Services.

- Phantom Shares Granted - 750 per employee
- Vesting Period - 2 years
- Employee A resigns after 1 year
- Market Price - Year 1 - \$32
- Market Price - Year 2 - \$34
- Market Price - Year 3 - \$35
- Exercise Price - \$30 per share
- Employee exercises award - year 4
- Market Price at time of exercise - \$35

Tax and dividend equivalent effects, if any, are not reflected (see "Tax Procedures - Stock Based Compensation Plans").

**Entry 1 - Compensation Cost Recorded - Year 1**

Corp	Account	Description	Debit	Credit
<b>Cinergy Services Entry (Manual Journal Entry)</b>				
500	920010	Compensation Expense	\$1,500	
500	253280	Phantom Shares Liability		\$1,500
<b>Cinergy Services Entry (Cost Assignment Process Entry)</b>				
500	146XXX	Accounts Receivable from Client Company	\$1,500	
500	457XXX	Service Company Revenue		\$1,500
<b>Client Companies (Cost Assignment Process Entry)</b>				
XXX	920000 or 920090 or 401696	Compensation Expense	\$1,500	
XXX	234500	Accounts Payable to Cinergy Services		\$1,500

This entry is to record the compensation cost recognized in year 1 associated with phantom stock. Compensation cost is calculated using the current market price over the exercise price attributed over the two-year vesting period. (750 shares \* 2 employees \* \$2 appreciation in market price / 2 year vesting period = \$1,500 year 1 compensation cost.)

**Entry 2 - Reversal of Compensation Cost due to Forfeiture**

Corp	Account	Description	Debit	Credit
<b>Cinergy Services Entry (Manual Journal Entry)</b>				
500	253280	Phantom Shares Liability	\$750	
500	920010	Compensation Expense		\$750
<b>Cinergy Services Entry (Cost Assignment Process Entry)</b>				
500	457XXX	Service Company Revenue	\$750	
500	146XXX	Accounts Receivable from Client Company		\$750
<b>Client Companies (Cost Assignment Process Entry)</b>				
XXX	234500	Accounts Payable to Cinergy Services	\$750	
XXX	920000 or 920090 or 401696	Compensation Expense		\$750

This entry is to reverse the compensation cost previously recognized for phantom shares forfeited (i.e., Employee A leaves prior to vesting).

**Entry 3 - Compensation Cost Recorded - Year 2**

Corp	Account	Description	Debit	Credit
<b>Cinergy Services Entry (Manual Journal Entry)</b>				
500	920010	Compensation Expense	\$2,250	
500	253280	Phantom Shares Liability		\$2,250
<b>Cinergy Services Entry (Cost Assignment Process Entry)</b>				
500	146XXX	Accounts Receivable from Client Company	\$2,250	
500	457XXX	Service Company Revenue		\$2,250
<b>Client Companies (Cost Assignment Process Entry)</b>				
XXX	920000 or 920090 or 401696	Compensation Expense	\$2,250	
XXX	234500	Accounts Payable to Cinergy Services		\$2,250

This entry is to record the compensation cost recognized in year 2 associated with phantom shares. Compensation cost is calculated using the current market price over the exercise price attributed over the two-year vesting period. (750 shares \* \$4 appreciation in stock price = \$3,000 total compensation cost - \$750 cost previously recognized (year 1) = \$2,250 year 2 compensation cost.)

**Entry 3 - Compensation Cost Recorded - Year 3**

Corp	Account	Description	Debit	Credit
<b>Cinergy Services Entry (Manual Journal Entry)</b>				
500	920010	Compensation Expense	\$750	
500	253280	Phantom Shares Liability		\$750
<b>Cinergy Services Entry (Cost Assignment Process Entry)</b>				
500	146XXX	Accounts Receivable from Client Company	\$750	
500	457XXX	Service Company Revenue		\$750
<b>Client Companies (Cost Assignment Process Entry)</b>				
XXX	920000 or 920090 or 401696	Compensation Expense	\$750	
XXX	234500	Accounts Payable to Cinergy Services		\$750

This entry is to record compensation cost recognized in year 3 associated with phantom shares. The compensation cost is calculated using the current market price. (750 shares \* \$5 appreciation in stock price = \$3,750 total compensation cost - \$3,000 cost previously recognized (years 1 & 2) = \$750 year 3 compensation cost.)

**Entry 4 - Employee Exercises Phantom Shares - Year 4**

Corp	Account	Description	Debit	Credit
<b>Cinergy Services Entry (Manual Journal Entry)</b>				
500	253280	Phantom Shares Liability	\$3,750	
500	131XXX	Cash		\$3,750

This entry is to record the exercise of 750 phantom shares by Employee B (750 shares \* \$5).

**Example 2**

Assumptions: On January 1, 20XX, Cinergy awards 2 employees each 750 phantom shares. The phantom shares vests after 2 years and the employees have 8 years after the stock vests to exercise the phantom shares. The employees are employed by Cinergy Services.

- Phantom Shares Granted - 750 per employee

Long-term Incentive Compensation Plan - Phantom Stocks

- Vesting Period - 2 years
- Employee A resigns after 1 year
- Market Price - Year 1 - \$32
- Market Price - Year 2 - \$34
- Market Price - Year 3 - \$35
- Exercise Price - Zero
- Employee exercises award - year 4
- Market Price at time of exercise - \$35

Tax and dividend equivalent effects, if any, are not reflected (see "Tax Procedures - Stock Based Compensation Plans").

**Entry 1 - Compensation Cost Recorded - Year 1**

Corp	Account	Description	Debit	Credit
<b>Cinergy Services Entry (Manual Journal Entry)</b>				
500	920010	Compensation Expense	\$24,000	
500	253280	Phantom Shares Liability		\$24,000
<b>Cinergy Services Entry (Cost Assignment Process Entry)</b>				
500	146XXX	Accounts Receivable from Client Company	\$24,000	
500	457XXX	Service Company Revenue		\$24,000
<b>Client Companies (Cost Assignment Process Entry)</b>				
XXX	920000 or 920090 or 401696	Compensation Expense	\$24,000	
XXX	234500	Accounts Payable to Cinergy Services		\$24,000

This entry is to record the compensation cost recognized in year 1 associated with phantom stock. Compensation cost is calculated using the current market price over the exercise price attributed over the two-year vesting period. (750 shares \* 2 employees \* \$32 market price / 2 year vesting period = \$24,000 year 1 compensation cost.)

**Entry 2 - Reversal of Compensation Cost due to Forfeiture**

Corp	Account	Description	Debit	Credit
<b>Cinergy Services Entry (Manual Journal Entry)</b>				
500	253280	Phantom Shares Liability	\$12,000	
500	920010	Compensation Expense		\$12,000

Long-term Incentive Compensation Plan - Phantom Stocks

Cinergy Services Entry (Cost Assignment Process Entry)				
500	457XXX	Service Company Revenue	\$12,000	
500	146XXX	Accounts Receivable from Client Company		\$12,000
Client Companies (Cost Assignment Process Entry)				
XXX	234500	Accounts Payable to Cinergy Services	\$12,000	
XXX	920000 or 920090 or 401696	Compensation Expense		\$12,000

This entry is to reverse the compensation cost previously recognized for phantom shares forfeited (i.e., Employee A leaves prior to vesting). (750 shares \* \$32 / 2 years = \$12,000 compensation cost previously recognized)

**Entry 3 - Compensation Cost Recorded - Year 2**

Corp	Account	Description	Debit	Credit
Cinergy Services Entry (Manual Journal Entry)				
500	920010	Compensation Expense	\$13,500	
500	253280	Phantom Shares Liability		\$13,500
Cinergy Services Entry (Cost Assignment Process Entry)				
500	146XXX	Accounts Receivable from Client Company	\$13,500	
500	457XXX	Service Company Revenue		\$13,500
Client Companies (Cost Assignment Process Entry)				
XXX	920000 or 920090 or 401696	Compensation Expense	\$13,500	
XXX	234500	Accounts Payable to Cinergy Services		\$13,500

This entry is to record the compensation cost recognized in year 2 associated with phantom shares. Compensation cost is calculated using the current market price over the exercise price attributed over the two-year vesting period. (750 shares \* \$34 market price = \$25,500 total compensation cost - \$12,000 cost previously recognized (year 1) = \$13,500 year 2 compensation cost.)

**Entry 3 - Compensation Cost Recorded - Year 3**

Corp	Account	Description	Debit	Credit
<b>Cinergy Services Entry (Manual Journal Entry)</b>				
			\$750	
500	920010	Compensation Expense		\$750
500	253280	Phantom Shares Liability		
<b>Cinergy Services Entry (Cost Assignment Process Entry)</b>				
500	146XXX	Accounts Receivable from Client Company	\$750	
500	457XXX	Service Company Revenue		\$750
<b>Client Companies (Cost Assignment Process Entry)</b>				
XXX	920000 or 920090 or 401696	Compensation Expense	\$750	
XXX	234500	Accounts Payable to Cinergy Services		\$750

This entry is to compensation cost recognized in year 3 associated with phantom shares. The compensation cost is calculated using the current market price. (750 shares \* \$35 market price = \$26,250 total compensation cost - \$25,500 cost previously recognized (years 1 & 2) = \$750 year 3 compensation cost.)

**Entry 4 - Employee Exercises Phantom Shares - Year 4**

Corp	Account	Description	Debit	Credit
<b>Cinergy Services Entry (Manual Journal Entry)</b>				
			\$26,250	
500	253280	Phantom Shares Liability		\$26,250
500	131XXX	Cash		

This entry is to record the exercise of 750 phantom shares by Employee B (750 shares \* \$35 per share)

**Procedure**

- Capture information on business transactions (CoA.1)
- Classify transactions for journalizing (CoA.2)
- Cutoff transactions (CoA.5)
- Identify error(s) in source documents and pushback for correction (CoA.3)
- Correct error(s) in source documents (CoA.4)

DEPARTMENT	RESPONSIBILITY	ACTION
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Long-term Incentive Compensation Plan – Phantom Stocks

Compensation Committee - Board of Directors		1. Approves phantom shares award.
Legal/Secretarial	Frank Ramundo/David Lloyd	2. Distribute Compensation Committee resolutions to Human Resources.
Plan Participant	Plan Participant	3. Notify Julie McGehee of vested awards to be exercised.
Human Resources	Julie McGehee	4. Prepare Confirmation of Exercise form and cover letter and distribute to Payroll.
Human Resources	Julie McGehee	5. Update Equity Edge for phantom share awards, forfeitures, and exercises.
Human Resources	Julie McGehee	6. Provide Lisa Carver award, forfeiture, and exercise information.
Human Resources	Lisa Carver	7. Update Phantom Shares award Excel file to determine compensation expense.

Prepare journal entries (CO A.6)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll & Benefits Accounting	Caryl West	1. Extract compensation cost from supporting workpapers and input into JE Tool. This transaction is booked monthly. Extract exercise information from exercise letter from Julie McGehee and input into JE Tool. This transaction is booked as applicable. <i>Note: this process should be complete by Day 3, EOD.</i>

Identify error in prepared journal entries (CoA.7a)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll & Benefits Accounting	Lisa Carver	1. Verify a copy of the journal entry against the source documents to ensure data entry accuracy. <i>Note: this process should be complete by Day 3, EOD.</i>

Correct error in prepared journal entries (CoA.7b)

DEPARTMENT	RESPONSIBILITY	ACTION
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Payroll & Benefits Accounting	Caryl West	1. Correct data entry errors in JE Tool. <i>Note: this process should be complete by Day 3, EOD.</i>
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Post journal entries to BDMS 2.0 (CoA.8)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll & Benefits Accounting	Lisa Carver	1. Approve journal entry for posting.
Corporate Accounting	BDMS Coordinator / John Linton	2. BDMS will post all journal entries approved for posting. <i>Note: this process should be complete by Day 3, EOD.</i>

Create and post accruals (CoA.10)

Create and post reserves (CoA.11)

DEPARTMENT	RESPONSIBILITY	ACTION
N/A	N/A	All accruals and reserves are included in the above processes.

## Training and Documents

Training:

Additional Documents:

- Cinergy Corp. 1996 Long-term Incentive Compensation Plan Prospectus
- FASB Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation*
- Tax Procedures – Stock Based Compensation Plans

## Who Should Know

- Controller
- Assistant Controllers
- Corporate Accounting
- External Reporting
- Accounting Research
- Tax
- Payroll & Benefits Accounting

The following revisions are effective 01/01/05:

**Revisions**

EOD - End of Day

GAAP - Generally Accepted Accounting Principles

**Definitions**

NAME	ROLE	DEPARTMENT
Amy Sheppard	Manager	Accounting Research
Erica Glenn	Senior Analyst	Accounting Research
Julie McGehee	Manager	Human Resources
Gwen Pate	Manager	Corporate Accounting

**Contacts**

- Stock-Based Employee Compensation - Employee Plans Reconciliation & Analysis Policy
- Exercise of Stock Options Policy
- Stock Option Plan Policy
- Employee Stock Purchase and Savings Plan Policy
- Long-term Incentive Compensation Plan - Restricted Stock Policy
- Long-term Incentive Compensation Plan - Deferred Shares Policy
- Long-term Incentive Compensation Plan - Performance-Based Awards Policy
- Long-term Incentive Compensation Plan - Stock Options Policy
- Stock-Based Employee Compensation Plans Policy

**Related Information**

Long-term Incentive Compensation Plan - Phantom Stocks

- Update policy for new manual ownership
- Update policy to reflect reorganization of manual



## Long-term Incentive Compensation Plan - Restricted Stock

Functional Area: HR, Payroll & Benefits Accounting  
Sarbanes-Oxley Category: Stock Purchase and Compensation  
Plans  
Process Owner: Lisa Carver  
Effective Date: 11/01/03  
Revised Date: 01/01/05

All accounting policies and procedures can be found on the Accounting Policies and Procedures community within iPower as follows:

- Launch iPower
- Select "Accounting Policies and Procedures" under the "Communities" heading at the top of the page

### Policy Statement

Cinergy will record all transactions associated with the Cinergy Corp. 1996 Long-term Incentive Compensation Plan.

### Reason for Policy

To record transactions associated with the Cinergy Corp. 1996 Long-term Incentive Compensation Plan in the Company financial statements in adherence with GAAP and regulatory requirements

### Process Flows

### Process Description/Narrative

## **Frequently Asked Questions**

### **Q1. What is the Cinergy Corp. 1996 Long-term Incentive Compensation Plan?**

A. Cinergy adopted the Cinergy Corp. 1996 Long-term Incentive Compensation on January 25, 1996, as an incentive compensation plan for eligible employees of Cinergy and its subsidiaries. The plan is a stock and cash based plan under which eligible employees may be granted awards payable in either Cinergy common stock or cash. Award may consist of grants of incentive or non-qualified stock options, cash amounts in connection with certain options, stock appreciation rights, restricted stock, performance awards payable in cash or shares of common stock, dividend equivalents, or other stock-based awards. Each award is evidenced by an Award Agreement approved by the Compensation Committee of the Board of Directors (for Section 16 employees) or the CEO (for non-Section 16 employees) setting forth the terms and conditions of the award.

### **Q2. Who is an eligible employee under the plan?**

A. Eligible employees are (1) officers of Cinergy or its subsidiaries, (2) employees who are employed in a significant capacity by Cinergy or its subsidiaries, or (3) employees who have the potential to contribute to the future success of Cinergy or its subsidiaries. Non-employee directors are also eligible to participate in the plan.

### **Q3. What types of awards has Cinergy historically granted under the Cinergy Corp. 1996 Long-term Incentive Compensation Plan?**

A. Historically, Cinergy has granted the following types of awards under this plan:

- Long-term Incentive Compensation Plan - Stock Policy
- Long-term Incentive Compensation Plan - Performance-Based Awards Policy
- Long-term Incentive Compensation Plan - Phantom Stocks
- Long-term Incentive Compensation Plan - Deferred Stock
- Long-term Incentive Compensation Plan - Restricted Policy

**Q4. What is restricted stock?**

A. SFAS 123 refers to restricted stock as "nonvested stock" and defines it as "shares of stock that cannot currently be sold because the employee to whom the shares were granted has not yet satisfied the vesting requirements necessary to earn the right to the shares. The restriction on sale of nonvested stock is due to the forfeitability of the shares. A share of nonvested stock also can be described as a nonvested employee stock option with a cash exercise price of zero-- employee services are the only consideration the employer has received for the stock when the option is "exercised," and the employer issues vested, unrestricted shares to the employee."

**Q5. How is the fair value of a share of restricted stock measured?**

A. SFAS 123 indicates that the fair value of a share of restricted (i.e., nonvested) stock awarded to an employee is measured at the market price of a share of the same stock as if it were vested and issued on the grant date.

**Q6. What compensation cost is recognized for restricted stock?**

A. The total amount of compensation cost recognized for an award of restricted stock is based on the number of instruments that eventually vests. No compensation cost is recognized for awards that employees forfeit because they fail to satisfy a service requirement for vesting.

**Q7. What is the period over which compensation cost is recognized?**

A. The compensation cost for restricted stock is recognized over the period(s) in which the related employee services are rendered by a charge to compensation cost and a corresponding credit to equity (paid in capital) if the award is for future service. If the service period is not defined as an earlier or shorter period, the service period is presumed to be the period from the grant date to the date that the award is vested and its exercisability does not depend on continued employee service.

**Q8. What is the accounting for dividends on restricted stock?**

A. Under FAS 123, dividends or dividend equivalents paid to employees on restricted stock that vests are charged to retained earnings. Nonforfeitable dividends or dividend equivalents paid on shares of stock that do not vest are recognized as additional compensation cost. If employees receive only the dividends declared on the class of stock granted to them after the stock becomes

Long-term Incentive Compensation Plan - Restricted Stock

vested, the value of the award at the grant date is reduced by the present value of dividends expected to be paid on the stock during the vesting period, discounted at the appropriate risk-free interest rate. For any award granted under APB 25, dividends or dividend equivalents are recognized as additional compensation cost.

**Q9. How should Cinergy account for restricted stock?**

A. Cinergy should record the following entries associated with restricted stock:

Assumptions: Cinergy awards 2 employees each 750 shares of restricted stock. The restriction is removed if the employee is still employed by Cinergy in 3 years. The stock is issued to the employee with restriction and Shareholder Services retains the Stock Certificates. Employees A and B are employees of Cinergy Services.

- Shares Award - 750 per employee
- Market Price at Grant Date - \$33
- Vesting Period - 3 years
- Employee A resigns after 1 year
- Employee B meets service requirement
- Dividends - Paid quarterly - \$.45 per share. Employee forfeits dividends on unvested shares

Income tax effects, if any, are not reflected (see "Tax Procedures - Stock Based Compensation Plans").

**Entry 1 - Issuance of Restricted Stock to Employee**

Corp	Account	Description	Debit	Credit
<b>Cinergy Corp. Entry (Manual Journal Entry)</b>				
800	211200	Miscellaneous Paid in Capital - Restricted Stock	\$49,500	
800	201000	Common Stock		\$15
800	207000	Premium on Capital Stock		49,485

This entry is to record the issuance of new issue Cinergy stock (with restriction) in the employee's name. National City Bank retains the Stock Certificates. Account 211 would have been credited if the shares had been obtained on the open market. (750 awards \* 2 employees \* \$33 market price at grant date = \$49,500 issuance price.)

**Entry 2 - Compensation Cost Recorded - Year 1**

Long-term Incentive Compensation Plan - Restricted Stock

Corp	Account	Description	Debit	Credit
<b>Cinergy Corp. Entry (Manual Journal Entry)</b>				
800	146500	Accounts Receivable from Cinergy Services	\$16,500	
800	211200	Miscellaneous Paid in Capital - Restricted Stock		\$16,500
<b>Cinergy Services Entry (Manual Journal Entry)</b>				
500	920010	Compensation Expense	\$16,500	
500	234800	Payable to Cinergy Corp		\$16,500
<b>Cinergy Services Entry (Cost Assignment Process Entry)</b>				
500	146XXX	Accounts Receivable from Client Companies	\$16,500	
500	457XXX	Service Company Revenue		\$16,500
<b>Client Companies (Cost Assignment Process Entry)</b>				
XXX	920000 or 920090 or 401696	Compensation Expense	\$16,500	
XXX	234500	Accounts Payable to Cinergy Services		\$16,500

This entry is to record the compensation cost for restricted stock associated with year 1. Compensation cost is calculated using the market price at the date of grant and is attributed to the three year vesting period. (750 awards \* 2 employees \* \$33 market price at grant date / 3 year vesting period = \$16,500 annual compensation expense.)

**Entry 3 - Dividends Declared on Restricted Stock - Year 1**

Corp	Account	Description	Debit	Credit
<b>Cinergy Corp. Entry (Manual Journal Entry)</b>				
800	438000	Dividends Declared - Common Stock	\$2,700	
800	238010	Dividends Payable on Common Stock		\$2,700

This entry is to record the dividends declared on the restricted stock in year 1. The check is "suppressed" (e.g., not issued to the employee) by National City Bank.

**Entry 4 - Reversal of Compensation Cost due to Forfeiture**



Long-term Incentive Compensation Plan - Restricted Stock

Corp	Account	Description	Debit	Credit
<b>Cinergy Corp. Entry (Manual Journal Entry)</b>				
800	211200	Miscellaneous Paid in Capital - Restricted Stock	\$8,250	
800	146500	Accounts Receivable from Cinergy Services		\$8,250
<b>Cinergy Services Entry (Manual Journal Entry)</b>				
500	234800	Payable to Cinergy Corp	\$8,250	
500	920010	Compensation Expense		\$8,250
<b>Cinergy Services Entry (Cost Assignment Process Entry)</b>				
500	457XXX	Service Company Revenue	\$8,250	
500	146XXX	Accounts Receivable from Client Companies		\$8,250
<b>Client Companies (Cost Assignment Process Entry)</b>				
XXX	234500	Accounts Payable to Cinergy Services	\$8,250	
XXX	920000 or 920090 or 401696	Compensation Expense		\$8,250

This entry is to reverse the compensation cost previously recognized for shares forfeited (i.e., Employee A leaves prior to vesting).

**Entry 5 - Recognition of Treasury Stock Associated with Forfeited Shares**

Corp	Account	Description	Debit	Credit
<b>Cinergy Corp. Entry (Manual Journal Entry)</b>				
800	217XXX	Treasury Stock	\$24,750	
800	211200	Miscellaneous Paid in Capital - Restricted Stock		\$24,750

This entry is to reclassify the forfeited stock as Treasury Shares. If the stock had been cancelled, the debit would have been to accounts 201000 and 207000.

**Entry 6 - Reversal of Dividends on Forfeited Restricted Stock**

Corp	Account	Description	Debit	Credit
<b>Cinergy Corp. Entry (Manual Journal Entry)</b>				
800	238010	Dividends Payable on Common Stock	\$1,350	
800	438000	Dividends Declared - Common		\$1,350

Long-term Incentive Compensation Plan - Restricted Stock

		Stock		
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This entry is to reverse the dividends declared previously recognized on the forfeited restricted stock during Year 1. (Note: If the employee has remained entitled to the dividends on the forfeited shares, the debit would have been to compensation cost, and the payable would be relieved when the dividends are paid to the employee.)

**Entry 7 - Compensation Cost Recorded - Years 2 and 3**

Corp	Account	Description	Debit	Credit
<b>Cinergy Corp. Entry (Manual Journal Entry)</b>				
800	146500	Accounts Receivable from Cinergy Services	\$8,250	
800	211200	Miscellaneous Paid in Capital - Restricted Stock		\$8,250
<b>Cinergy Services Entry (Manual Journal Entry)</b>				
500	920010	Compensation Expense	\$8,250	
500	234800	Payable to Cinergy Corp		\$8,250
<b>Cinergy Services Entry (Cost Assignment Process Entry)</b>				
500	146XXX	Accounts Receivable from Client Companies	\$8,250	
500	457XXX	Service Company Revenue		\$8,250
<b>Client Companies (Cost Assignment Process Entry)</b>				
XXX	920000 or 920090 or 401696	Compensation Expense	\$8,250	
XXX	234500	Accounts Payable to Cinergy Services		\$8,250

This entry is to record the compensation cost associated with restricted shares recognized in each of the years 2 and 3. Compensation cost is calculated using the market price at the date of grant and is attributed to the three year vesting period. (750 awards \* 1 employee \* \$33 market price at grant date / 3 year vesting period = \$8,250 annual compensation expense.)

**Entry 8 - Dividends Declared on Restricted Stock - Years 2 & 3**

Corp	Account	Description	Debit	Credit
<b>Cinergy Corp. Entry (Manual Journal Entry)</b>				
800	438000	Dividends Declared - Common	\$1,350	

Long-term Incentive Compensation Plan - Restricted Stock

		Stock		
800	238010	Dividends Payable on Common Stock		\$1,350

This entry is to record the dividends declared on restricted stock of each of the years 2 and 3. The check is "suppressed" (e.g., not issued to the employee) by Shareholder Services.

**Entry 9 - Payment of Dividends at Vest Date**

Corp	Account	Description	Debit	Credit
<b>Cinergy Corp. Entry</b>				
800	238010	Dividends Payable on Common Stock	\$4,050	
800	131000	Cash		\$4,050

This entry is to record payment of dividends to employee at vest date.

**Procedure**

- Capture information on business transactions (CoA.1)
- Classify transactions for journalizing (CoA.2)
- Cutoff transactions (CoA.5)
- Identify error(s) in Source Documents and pushback for correction (CoA.3)
- Correct error(s) in source documents (CoA.4)

DEPARTMENT	RESPONSIBILITY	ACTION
Compensation Committee - Board of Directors		1. Approves award of restricted shares.
Legal Secretarial	Frank Ramundo David Lloyd	2. Distribute Compensation Committee resolutions to Payroll & Benefits Accounting.
Secretarial	Teri O'Neal	3. Distribute Board dividend resolutions to Payroll & Benefits Accounting.
Human Resources	Julie McGehee	4. Update Equity Edge for restricted shares awarded, forfeited, and exercised.
Human Resources	Julie McGehee	5. Notify Lisa Carver of restricted shares awarded, forfeited, and exercised.
Payroll & Benefits	Lisa Carver	6. Update Restricted Shares Excel

Accounting		worksheet to determine compensation cost.
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Prepare journal entries (CO A.6)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll & Benefits Accounting	Caryl West	1. Extract compensation cost from supporting workpapers and input into JE Tool. This transaction is booked monthly. <i>Note: this process should be complete by day 3, EOD.</i>
Corporate Accounting	Chrissy Dyer	1b. Extract restricted shares issued data from Common Stock Issued on the Open Market report or Common Stock Issued Report and input into JE Tool. This transaction is booked as necessary. <i>Note: this process should be complete by day 3, EOD.</i>

Identify error in prepared journal entries (CoA.7a)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll & Benefits Accounting Corporate Accounting	Lisa Carver Benita Ross	1. Verify a copy of the journal entry against the source documents to ensure data entry accuracy. <i>Note: this process should be complete by Day 3, EOD.</i>

Correct error in prepared journal entries (CoA.7b)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll & Benefits Accounting Corporate Accounting	Caryl West Chrissy Dyer	1. Correct data entry errors in JE Tool. <i>Note: this process should be complete by Day 3, EOD.</i>

Post journal entries to BDMS 2.0 (CoA.8)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll & Benefits Accounting Corporate Accounting	Lisa Carver Benita Ross	1. Approve journal entry for posting.
Corporate Accounting	BDMS Coordinator/John Linton	2. BDMS will post all journal entries approved for posting. <i>Note: this process should be complete by Day 3,</i>

		EOD.
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Create and post accruals (CoA.10)  
 Create and post reserves (CoA.11)

DEPARTMENT	RESPONSIBILITY	ACTION
N/A	N/A	All accruals and reserves are included in the above processes.

## Training and Documents

Training:

Additional Documents:

- Cinergy Corp. 1996 Long-term Incentive Compensation Plan Prospectus
- FASB Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation*
- Tax Procedures – Stock Based Compensation Plans

## Who Should Know

- Controller
- Assistant Controllers
- Corporate Accounting
- External Reporting
- Accounting Research
- Tax
- Payroll & Benefits Accounting

## Related Information

Stock-Based Employee Compensation Plans Policy

Long-term Incentive Compensation Plan – Stock Options Policy

Long-term Incentive Compensation Plan – Performance-Based Awards Policy

Long-term Incentive Compensation Plan – Phantom Stock Policy

Long-term Incentive Compensation Plan - Deferred Shares Policy

Employee Stock Purchase and Savings Plan Policy

Stock Option Plan Policy

Exercise of Stock Options Policy

Stock-Based Compensation - Employee Plans Reconciliation & Analysis Policy

**Contacts**

NAME	ROLE	DEPARTMENT
Lisa Carver	Manager	Payroll
Gwen Pate	Manager	Corporate Accounting
Julie McGehee	Manager	Human Resources
Erica Glenn	Senior Analyst	Accounting Research
Amy Sheppard	Manager	Accounting Research

**Definitions**

SFAS 123 - FASB Statement of Financial Accounting Standards No. 123,  
*Accounting for Stock-Based Compensation*

GAAP - Generally Accepted Accounting Principles

EOD - End of Day

**Revisions**

The following revisions are effective 01/01/05:

- Update policy for new manual ownership
- Update policy to reflect reorganization of manual



## Long-term Incentive Compensation Plan – Stock Options

Functional Area: HR, Payroll & Benefits Accounting  
Sarbanes-Oxley Category: Stock Purchase and Compensation  
Plans  
Process Owner: Lisa Carver  
Effective Date: 11/01/03  
Revised Date: 01/01/05

All accounting policies and procedures can be found on the Accounting Policies and Procedures community within iPower as follows:

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### Policy Statement

Cinergy will record all transactions associated with the Cinergy Corp. 1996 Long-term Incentive Compensation Plan.

### Reason for Policy

To record transactions associated with the Cinergy Corp. 1996 Long-term Incentive Compensation Plan in the Company financial statements in adherence with GAAP and regulatory requirements

### Process Flows

### Process Description/Narrative

## **Frequently Asked Questions**

### **Q1. What is the Cinergy Corp. 1996 Long-term Incentive Compensation Plan?**

A. Cinergy adopted the Cinergy Corp. 1996 Long-term Incentive Compensation on January 25, 1996, as an incentive compensation plan for eligible employees of Cinergy and its subsidiaries. The plan is a stock and cash based plan under which eligible employees may be granted awards payable in either Cinergy common stock or cash. Awards may consist of grants of incentive or non-qualified stock options, cash amounts in connection with certain options, stock appreciation rights, restricted stock, performance awards payable in cash or shares of common stock, dividend equivalents, or other stock-based awards. Each award is evidenced by an Award Agreement approved by the Compensation Committee of the Board of Directors (for Section 16 employees) or the CEO (for non-Section 16 employees) setting forth the terms and conditions of the award.

### **Q2. Who is an eligible employee under the plan?**

A. Eligible employees are (1) officers of Cinergy or its subsidiaries, (2) employees who are employed in a significant capacity by Cinergy or its subsidiaries, or (3) employees who have the potential to contribute to the future success of Cinergy or its subsidiaries. Non-employee directors are also eligible to participate in the plan.

### **Q3. What types of awards has Cinergy historically granted under the Cinergy Corp. 1996 Long-term Incentive Compensation Plan?**

A. Historically, Cinergy has granted the following types of awards under this plan:

- Long-term Incentive Compensation Plan - Stock Policy
- Long-term Incentive Compensation Plan - Performance-Based Awards Policy
- Long-term Incentive Compensation Plan - Phantom Stocks
- Long-term Incentive Compensation Plan - Deferred Stock
- Long-term Incentive Compensation Plan - Restricted Policy

### **Q4. How is the fair value of a stock option measured?**



A. SFAS 123 indicates that the fair value of a stock option granted is estimated using an option-pricing model (e.g., Black Scholes) that takes into account as of the grant date the following assumptions:

- Exercise price of the option;
- Expected life of the option;
- Current price of the underlying stock;
- Expected volatility of the underlying stock;
- Expected dividends on the underlying stock; and
- The risk-free interest rate.

SFAS 123 indicates that in selecting the above assumptions, expectations about the future are generally based on past experience, modified to reflect ways in which current available information indicates that the future is reasonably expected to differ from the past.

Additionally, SFAS 123 states that the fair value of an option estimated at the grant date is not subsequently adjusted for changes in the above assumptions.

Cinergy uses Equity Edge, a Black Scholes model, to value its stock options.

**Q5. How is expected life determined?**

A. SFAS 123 indicates that the objective in estimating the expected lives of employee stock options is to approximate the expectations that an outside party with access to detailed information about employees' exercise behavior likely would develop based on information available at the grant date. If there is a range of reasonable expectations about option life, with no amount within the range as a better estimate than any other amount, an estimate at the low end of the range should be used.

SFAS 123 states that the value of an award of a stock option may be based either on an appropriately weighted average expected life for the entire award or on appropriately weighted lives for subgroups of the award based on more detailed data about employees' exercise behavior. The expected life must at least include the vesting period.

Factors to consider in estimating the expected life of a stock option include:

- The vesting period of the grant
- The average lengths of time similar grants have remained outstanding in the past.
- Expected volatility of the underlying stock.

Cinergy determines expected life using historical stock option exercise data from Equity Edge.

**Q6. What is expected volatility and how is it determined?**

A. Volatility is a measure of the amount by which a price has fluctuated or is expected to fluctuate during a period. In estimating the expected volatility of Cinergy stock, the objective is to approximate the expectations that likely would be reflected in a current market or negotiated exchange price for the option. If there is a range of reasonable expectations about future volatility, with no amount within the range as a better estimate than any other amount, an estimate at the low end of the range should be used.

Factors to consider in estimating expected volatility include:

- The historical volatility of the stock over the most recent period that is generally commensurate with the expected option life.
- The length of time the stock has been publicly traded
- Appropriate and regular intervals for price observations

Cinergy determines expected volatility using Cinergy's historical price volatility from Bloomberg Professional.

**Q7. How are expected dividends determined?**

A. In estimating expected dividends on Cinergy's stock, the objective is to approximate the expectations that likely would be reflected in a current market or negotiated exchange price for the option. Generally, the assumption should be based on publicly available information. If there is a range of reasonable expectations about future dividends, with no amount within the range as a better estimate than any other amount, an estimate at the high end of the range should be used.

Cinergy determines expected dividends using Cinergy's historical dividend yield (annualized dividends/closing price of Cinergy's stock on date of grant). Cinergy's closing price is obtained from Bloomberg Professional.

**Q8. How is the risk-free interest rate determined?**

A. SFAS 123 indicates that the risk-free interest rate is the implied yield currently available on zero-coupon U.S. government issues with a remaining term equal to the expected life of the option that is being valued.

Cinergy obtains the risk-free interest rate (historical yield curve for government issues) from Bloomberg Professional.

**Q9. What compensation cost is recognized for a stock option?**

A. The total amount of compensation cost recognized for a stock option award is based on the number of instruments that eventually vests. No compensation cost is recognized for awards that employees forfeit because they fail to satisfy a service requirement for vesting. Previously recognized compensation cost is not reversed if a vested employee stock option expires unexercised.

**Q10. What is the period over which compensation expense associated with a stock option is recognized?**

A. The compensation cost for a stock option is recognized over the period(s) in which the related employee services are rendered by a charge to compensation cost and a corresponding credit to equity (paid in capital) if the award is for future service. If the service period is not defined as an earlier or shorter period, the service period is presumed to be the period from the grant date to the date that the award is vested and its exercisability does not depend on continued employee service.

**Q11. How should Cinergy account for stock options under SFAS 123?**

A. Cinergy should record the following entries associated with stock options awarded after the adoption of SFAS 123 on January 1, 2003:

Assumptions: On January 1, 20XX, Cinergy awards 2 employees each 750 stock options. The options vests after 3 years and the employees have 7 years after the option vests to exercise the options. Employees A & B are employees of Cinergy Services.

- Options Granted - 750 per employee
- Fair Value per Option Pricing Model - \$4.48 per option
- Vesting Period - 3 years
- Employee A resigns after 1 year
- Exercise Price - \$35 per share
- Market Price at time of exercise - \$50 per share
- Employee B stock vests and employee exercises 500 options in year 5.
- Employee B does not exercise 250 options, which expire in year 10.
- Income tax effects, if any, are not reflected (see "Tax Procedures - Stock Based Compensation Plans")

**Entry 1 - Monthly Compensation Expense Recorded - Year 1**

Corp	Account	Description	Debit	Credit
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Long-term Incentive Compensation Plan - Stock Options

<b>Cinergy Corp. Entry (Manual Journal Entry)</b>				
800	146500	Accounts Receivable from Cinergy Services	\$186.67	
800	211113	Miscellaneous Paid in Capital - LTIP Stock Options		\$186.67
<b>Cinergy Services Entry (Manual Journal Entry)</b>				
500	920010	Compensation Expense	\$186.67	
500	234800	Payable to Cinergy Corp		\$186.67
<b>Cinergy Services Entry (Cost Assignment Process Entry)</b>				
500	146XXX	Accounts Receivable from Client Company	\$186.67	
500	457XXX	Service Company Revenue		\$186.67
<b>Client Companies (Cost Assignment Process Entry)</b>				
XXX	920000 or 920090 or 401696	Compensation Expense	\$186.67	
XXX	234500	Accounts Payable to Cinergy Services		\$186.67

This entry is to record the monthly compensation cost associated with stock options. Compensation cost is calculated using the fair value per the option-pricing model calculated at the date of grant and is attributed to the three-year vesting period. (Compensation cost calculated as follows: 1,500 stock options \* \$4.48 fair value per option / 36 month vest period = \$186.67 expense per month)

**Entry 2 - Reversal of Compensation Cost Due to Forfeitures**

Corp	Account	Description	Debit	Credit
<b>Cinergy Corp. Entry (Manual Journal Entry)</b>				
800	211113	Miscellaneous Paid in Capital - LTIP Stock Options	\$1,120.00	
800	146500	Accounts Receivable from Cinergy Services		\$1,120.00
<b>Cinergy Services Entry (Manual Journal Entry)</b>				
500	234800	Payable to Cinergy Corp	\$1,120.00	
500	920010	Compensation Expense		\$1,120.00
<b>Cinergy Services Entry (Cost Assignment Process Entry)</b>				
500	457XXX	Service Company Revenue	\$1,120.00	
500	146XXX	Accounts Receivable from Client Company		\$1,120.00
<b>Client Companies (Cost Assignment Process Entry)</b>				

Long-term Incentive Compensation Plan - Stock Options

XXX	234500	Accounts Payable to Cinergy Services	\$1,120.00	
XXX	920000 or 920090 or 401696	Compensation Expense		\$1,120.00

This entry is to reverse the compensation cost previously recognized for stock options forfeited (i.e., Employee A leaves 12 months after award granted but prior to vesting). (Reversal calculated as follows: \$93.33 \* 12 months = \$1,120 expense previously recognized)

**Entry 3 - Monthly Compensation Expense Recorded - Years 2 and 3**

Corp	Account	Description	Debit	Credit
<b>Cinergy Corp. Entry (Manual Journal Entry)</b>				
800	146500	Accounts Receivable from Cinergy Services	\$93.33	
800	211113	Miscellaneous Paid in Capital - LTIP Stock Options		\$93.33
<b>Cinergy Services Entry (Manual Journal Entry)</b>				
500	920010	Compensation Expense	93.33	
500	234800	Payable to Cinergy Corp		93.33
<b>Cinergy Services Entry (Cost Assignment Process Entry)</b>				
500	146XXX	Accounts Receivable from Client Company	\$93.33	
500	457XXX	Service Company Revenue		\$93.33
<b>Client Companies (Cost Assignment Process Entry)</b>				
XXX	920000 or 920090 or 401696	Compensation Expense	\$93.33	
XXX	234500	Accounts Payable to Cinergy Services		\$93.33

This entry is to record the monthly compensation cost associated with stock options. Compensation cost is calculated using the fair value determine at the date of grant using an option pricing model. (Compensation cost calculated as follows: 750 stock options \* \$4.48 fair value / 36 month vest period = \$93.33 expense per month)

**Entry 4 - Employee Exercises Options in Year 5**

Long-term Incentive Compensation Plan – Stock Options

Corp	Account	Description	Debit	Credit
<b>Cinergy Corp. Entry (Manual Journal Entry)</b>				
800	131XXX	Cash	\$17,500	
800	211113	Miscellaneous Paid in Capital - LTIP Stock Options	2,240	
800	201000	Common Stock		\$5
800	207000	Premium on Common Stock		19,735

This entry is to record the exercise of 500 stock options by Employee B assuming issuance of new shares. If Cinergy shares had been obtained through open market purchases the credit would have been to Account 211. (Debit to Account 211113 calculated as follows: 500 stock options \$4.48 per share fair value). (Debit to cash calculated as follows: 500 stock options \$35 per share exercise price)

See the Exercise of Stock Options Policy for further guidance on accounting for the exercise of stock options.

**Entry 5 - Expiration of Unexercised Stock Options End of Year 10**

Corp	Account	Description	Debit	Credit
<b>Cinergy Corp. Entry (Manual Journal Entry)</b>				
800	211113	Miscellaneous Paid in Capital - LTIP Stock Options	\$1,120	
800	211000	Paid in Capital		\$1,120

This entry is to record the expiration of unexercised stock options. (Entry calculated as follows: 250 expired stock options \$4.48 per share fair value)

*Note: Stock options awarded prior to the adoption of SFAS 123 on January 1, 2003 will continue to be accounted for in accordance with the provisions of APB 25.*

**Procedure**

- Capture information on business transactions (CoA.1)
- Classify transactions for journalizing (CoA.2)
- Cutoff transactions (CoA.5)
- Identify error(s) in source documents and pushback for correction (CoA.3)
- Correct error(s) in source documents (CoA.4)

DEPARTMENT	RESPONSIBILITY	ACTION
Compensation Committee		1. Approve award of stock options.

of the Board of Directors (Section 16 employees) or CEO (non-section 16 employees)		
Legal/Secretarial	Frank Ramundo David Lloyd	2. Distribute Award Agreements and Compensation Committee resolutions or CEO approval to Payroll & Benefits Accounting and External Reporting.
Secretarial	Teri O'Neal	3. Distribute Cinergy's Board of Directors dividend resolutions to Payroll & Benefits Accounting.
Payroll & Benefits Accounting	Julie McGehee	4. Input stock option awards into Equity Edge.
Payroll & Benefits Accounting	Lisa Carver	5. Determine expected option life associated with awards granted using historical option exercise data from Equity Edge.
Payroll & Benefits Accounting	Lisa Carver	6. Request following information from Treasury Department: <ul style="list-style-type: none"> <li>• Cinergy closing stock prices at stock option grant date;</li> <li>• Volatility at grant date;</li> <li>• Risk-free interest rate (historical yield curve on zero-coupon U.S. government issues) at grant date.</li> </ul>
Treasury	Mary Ann Nally	7. Obtain the following information from <u>Bloomberg Professional</u> : <ul style="list-style-type: none"> <li>• Cinergy closing stock prices at stock option grant date;</li> <li>• Volatility at stock option grant date;</li> <li>• Risk-free interest rate (historical yield curve on zero-coupon U.S. government issues) at stock option grant date.</li> </ul> Provide data to Payroll & Benefits Accounting.
Payroll & Benefits Accounting	Lisa Carver	8. Interpolate risk-free interest rate to reflect expected option life. Provide fair value assumptions to Julie McGehee.
Payroll & Benefits	Julie McGehee	9. Input fair value assumptions into

Accounting		Equity Edge and calculate fair value.
Payroll & Benefits Accounting	Julie McGehee	10. Input forfeitures and retirements in Equity Edge.
Payroll & Benefits Accounting	Julie McGehee	11. Generate SFAS 123 reports from Equity Edge. Verify accuracy and completeness of reports and provide to Lisa Carver and External Reporting.

Prepare journal entries (CO A.6)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll & Benefits Accounting	Caryl West	1. Extract compensation cost from supporting workpapers and input into JE Tool. <i>Note: this process should be complete by day 3, EOD.</i>

Identify error in prepared journal entries (CoA.7a)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll & Benefits Accounting	Lisa Carver	1. Verify a copy of the journal entry against the source documents to ensure data entry accuracy. <i>Note: this process should be complete by Day 3, EOD.</i>

Correct error in prepared journal entries (CoA.7b)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll & Benefits Accounting	Caryl West	1. Correct data entry errors in JE Tool. <i>Note: this process should be complete by Day 3, EOD.</i>

Post journal entries to BDMS 2.0 (CoA.8)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll & Benefits Accounting	Lisa Carver	1. Approve journal entry for posting
Corporate Accounting	BDMS Coordinator / John Linton	2. BDMS will post all journal entries approved for posting. <i>Note: this process should be complete by Day 3, EOD.</i>



- Create and post accruals (CoA.10)
- Create and post reserves (CoA.11)

DEPARTMENT	RESPONSIBILITY	ACTION
N/A	N/A	All accruals and reserves are included in the above processes.

## Training and Documents

Training:

Additional Documents:

- Cinergy Corp. 1996 Long-term Incentive Compensation Plan
- APB Opinion No. 25, *Accounting for Stock Issued to Employees*
- FASB Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation*
- Tax Procedures - Stock Based Compensation Plans

## Who Should Know

- Controller
- Assistant Controllers
- Corporate Accounting
- External Reporting
- Accounting Research
- Tax
- Payroll & Benefits Accounting

## Related Information

Stock-Based Employee Compensation Plans Policy

Long-term Incentive Compensation Plan - Performance-Based Awards Policy

Long-term Incentive Compensation Plan - Phantom Stock Policy

Long-term Incentive Compensation Plan - Deferred Shares Policy

Long-term Incentive Compensation Plan - Restricted Stock Policy

Employee Stock Purchase and Savings Plan Policy

Stock Option Plan Policy

Exercise of Stock Options Policy

Stock-Based Compensation - Employee Plans Reconciliation & Analysis Policy

**Contacts**

NAME	ROLE	DEPARTMENT
Lisa Carver	Manager	Payroll
Gwen Page	Manager	Corporate Accounting
Julie McGehee	Manager	Human Resources
Erica Glenn	Senior Analyst	Accounting Research
Amy Sheppard	Manager	Accounting Research

**Definitions**

APB 25 - APB Opinion No. 25, *Accounting for Stock Issued to Employees*

SFAS 123 - FASB Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation*

GAAP - Generally Accepted Accounting Principles

EOD - End of Day

**Revisions**

The following revisions are effective 01/01/05:

- Update policy for new manual ownership
- Update policy to reflect reorganization of manual



## Long-Term Disability Benefits

Functional Area: General Accounting  
Sarbanes-Oxley Category: Payroll/Human Resources  
Process Owner: Gwen Pate  
Effective Date: 01/01/03  
Revised Date: 01/01/05

All accounting policies and procedures can be found on the Accounting Policies and Procedures community within iPower as follows:

- Launch iPower
- Select "Accounting Policies and Procedures" under the "Communities" heading at the top of the page

### Policy Statement

Cinergy will record all transactions associated with long-term disability benefits in accordance with Company policy.

### Reason for Policy

To record transactions associated with long-term disability benefits in the Company financial statements in adherence with GAAP and regulatory requirements.

### Process Flows

### Process Description/Narrative

## **Frequently Asked Questions**

### **Q1. What long-term disability benefits does Cinergy provide to its employees?**

A. Under the Long-term Disability Plan, Cinergy provides long-term disability benefits coverage equal to 50% of an employee's annual base pay, subject to reduction by deductible sources of income or disability payments. Cinergy pays the full cost of this base coverage. Employees can elect 16 2/3% of additional coverage. The employee pays the cost of the additional coverage, except certain employees at the General Manager level and above.

In addition, an employee who becomes disabled may continue coverage under Cinergy's Medical and Dental Plans for as long as the employee is disabled. Premiums are at the active employee rate.

### **Q2. How is annual base pay determined?**

A. For nonexempt employees, annual base pay is the employee's hourly base rate of pay multiplied by 2,080 hours. For exempt employees, annual base pay is the employee's monthly base salary multiplied by 12 months.

### **Q3. What are the deductible sources of income?**

A. The benefit from the Long-term Disability Plan is reduced by benefits received from other sources, such as:

- Family benefits from social security;
- Any state or federal government disability or retirement plan;
- Salary paid by the company;
- Any workers' compensation or similar source; and
- Disability payments from any group insurance policy.

### **Q4. When does the Long-term Disability Plan pay benefits?**

A. The Long-term Disability Plan pays benefits when an employee is disabled. Disabled means that during the elimination period (i.e., the later of 180 days or the end of the maximum period payable under short-term disability) and the following twelve months, the employee has an illness or injury that prevents the employee from doing the employee's own occupation (internally or externally). After twelve months, disabled means that the employee has an illness or injury that prevents the employee from doing any job (internally or externally) that they are able to do, based on education, training, or experience.

In addition, an employee may be considered disabled, if the employee has an illness or injury of such degree of severity that the employee is unable to earn more than 80% of the employee's monthly earnings in any occupation that they are able to do, based on education, training and experience.

**Q5. Who administers Cinergy's Long-term Disability Plan?**

A. Cinergy's Long-term Disability Plan is administered by CNA. However, UNUM-Provident and AUL continue to administer claims for disabilities incurred while they were the LTD administrators.

**Q6. What are the accounting requirements associated with long-term disability benefits?**

A. FAS 112 establishes the financial accounting and reporting for the estimated costs of benefits provided by an employer to former or inactive employees after employment but before retirement. Post employment benefits are all types of benefits provided to former or inactive employees, their beneficiaries, and covered dependents, including severance, layoff, leave of absence, temporary or permanent disability, or death. Former employees include both those who have permanently ended their employment, for example, because of severance or permanent disability, and those who may return to employment at a future date, for example, when they recover from a short-term disability. FAS 112 covers both cash benefits and benefits in kind. Cash benefits include severance pay, salary continuation, layoff benefits, supplemental unemployment compensation, and disability payments. Benefits in kind include health care, life insurance, training, rehabilitation, outplacement, and COBRA.

Post employment benefits that meet the conditions of paragraph 6 of FAS 43 are accounted for in accordance with FAS 43. Paragraph 6 of FAS 43 states:

"An employer shall accrue a liability for employees' compensation for future absences if *all* of the following conditions are met:

- a. The employer's obligation relating to employees' rights to receive compensation for future absences is attributable to employees' services already rendered,
- b. The obligation relates to rights that vest or accumulate,
- c. Payment of the compensation is probable, and
- d. The amount can be reasonably estimated."

Post employment benefits that are within the scope of FAS 112 that do not meet the requirements of FAS 43 are accounted for in accordance with FAS 5. Paragraph 5 of FAS 5 states:

"An estimated loss from a loss contingency ... shall be accrued by a charge to income if *both* of the following conditions are met:

Long-Term Disability Benefits

- a. Information available prior to the issuance of the financial statements indicates that it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements. It is implicit in this condition that it must be probable that one or more future events will occur confirming the fact of the loss.
- b. The amount of loss can be reasonably estimated."

Since Cinergy's long-term disability benefits do not vest or accumulate, accounting in accordance with FAS 5 has been applied.

Long-term Disability Benefits Reserve Policy for additional information on Cinergy's long-term disability reserve.

**Q7. How are Cinergy's long-term disability benefits liabilities determined?**

A. Cinergy employs an actuary, Hewitt Associates LLC (Hewitt), to determine its long-term disability benefits liabilities (reserve).

Long-term Disability Benefits Reserve Policy for additional information on Cinergy's long-term disability reserve.

**Q8. What are the disclosure requirements under FAS 112 for post employment benefits?**

A. FAS 112 requires disclosure if an obligation for post employment benefits is not accrued due to the fact that the amount cannot be reasonably estimated. If post employment benefits can be reasonably estimated and are accrued, no disclosures are required under FAS 112.

**Procedure**

**Monthly Premium Payments - Basic Plan**

- Capture information on business transactions (CoA.1)
- Classify transactions (CoA.2)
- Identify error(s) in Source Documents and pushback for correction (CoA.3)
- Correct error in source documents (CoA.4)

DEPARTMENT	RESPONSIBILITY	ACTION
Benefits Service Center	Lisa Gregory	1. On weekly basis, provide automatic feed to Hewitt providing any employee status changes.
Hewitt - Outside Vendor		2. On a monthly basis, provide "Long-

DEPARTMENT	RESPONSIBILITY	ACTION
		term Disability Premium Total Report" to Kathy Walker, HR.
Payroll & Benefits Accounting	Kathy Walker	3. On a monthly basis, prepare Request for Pay to pay CNA premium payment for Basic Plan. Premiums are charged to the Fringe Benefits Cost Pool.
Payroll & Benefits Accounting	Lisa Carver	4. Review and approve Request for Payment. Forward Request for Pay to AP.
Accounts Payable	Accounts Payable Staff	5. Process Request for Payment in Passport and generate check to CNA.

### Monthly Premium Payments - Supplemental Coverage

DEPARTMENT	RESPONSIBILITY	ACTION
Any Active Employee (not available to those on disability)		1. During open enrollment period, elect supplemental coverage.
Payroll & Benefits Accounting		2. Withhold from employee's pay premium for supplemental coverage. Withholdings are credited to account 232374.
Benefits Service Center	Lisa Gregory	3. On weekly basis, provide automatic feed to Hewitt.
Hewitt - Outside Vendor		4. On a monthly basis, provide "Long-term Disability Premium Total Report" to Kathy Walker, Human Resources.
Payroll & Benefits Accounting	Kathy Walker	5. On a monthly basis, prepare Request for Pay to pay CNA premium payment for supplement coverage. Premium payments are debited to account 232374.
Payroll & Benefits Accounting	Lisa Carver	6. Review and approve Request for Payment. Forward Request for Pay to AP.
Accounts Payable	Accounts Payable staff	7. Process Request for Payment in Passport and generate check to CNA.

### Premium Payments for Health Care

DEPARTMENT	RESPONSIBILITY	ACTION
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DEPARTMENT	RESPONSIBILITY	ACTION
Benefit Concepts - Outside Vendor		1. Provide employee on long-term disability with payment coupons for health care premiums.
Employee on LTD		2. Remit health care premium payments to Benefit Concepts.
Benefit Concepts - Outside Vendor		3. On a monthly basis, remit health care premium payments made by employees on LTD to HR, Paula Freeman.
Payroll & Benefits Accounting	Paula Freeman	4. Prepare "Invoice Preparation Form" and remit payments to Miscellaneous Accounts Receivable.
Miscellaneous Accounts Receivable		5. Process Invoice Preparation form in Miscellaneous Accounts Receivable system and deposit funds.

Payments for Self-Insured Claims

DEPARTMENT	RESPONSIBILITY	ACTION
CNA - Outside Vendor		1. On a monthly basis, provide "Self Insured LTD Reimbursement Report, Take Over Claims Report and CCC Disability Claims (Bank Reconciliation) Report to Kathy Walker, HR.
Payroll & Benefits Accounting	Kathy Walker	2. Prepare Request for Payment to CNA for self-insured claims.
Payroll & Benefits Accounting	Lisa Carver	3. Review and approve Request for Payment.
Accounts Payable	Accounts Payable staff	4. Process Request for Payment in Passport and generate check to CNA.

Prepare journal entries (CoA.6)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll & Benefits Accounting	Kathy Walker Paula Freeman	1. Extract data from Excel worksheets or other source documents and enter in Journal Entry Tool (Journal Entries PY161 and PB167). <i>Note: this process should be complete by Day 3.</i>

Identify errors in prepared journal entries (CoA.7a)



DEPARTMENT	RESPONSIBILITY	ACTION
Payroll & Benefits Accounting	Caryl West	1. Verify copy of journal entry to source documents to ensure data entry accuracy. Notify preparer to correct journal entry. <i>Note: this process should be complete by Day 3.</i>

Correct error in prepared journal entries (CoA.7b)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll & Benefits Accounting	Kathy Walker Paula Freeman	1. Correct data entry errors in JE Tool. <i>Note: this process should be complete by Day 3 EOD.</i>

Post journal entries to BDMS 2.0 (CoA.8)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll & Benefits Accounting	Caryl West	1. Approve journal entries for posting. <i>Note: this process should be complete by Day 3 EOD.</i>
Corporate Accounting	BDMS Coordinator/John Linton	2. BDMS will post all journal entries approved for posting. <i>Note: this process should be complete by Day 3, EOD.</i>

Create and post accruals (CoA.10)

Create and post reserves (CoA.11)

DEPARTMENT	RESPONSIBILITY	ACTION
N/A	N/A	1. All accruals and reserves related to this process have been included in the above procedures.

## Training and Documents

Training:

Documents:

- Statement of Financial Accounting Standards No. 112 *Employers' Accounting for Post employment Benefits*
- Statement of Financial Accounting Standards No. 43 *Accounting for Compensated Absences*
- Statement of Financial Accounting Standards No. 5 *Accounting for Contingencies*
- CNA Group Life Assurance Company Certificate of Insurance, Group Policy No. SR-83141139

**Who Should Know**

- Corporate Accounting
- External Reporting
- Payroll & Benefits Accounting

**Related Information**

Long-term Disability Benefits Reserve Policy  
 Long-term Disability Related Accounts - Reconciliation & Analysis Policy  
 Fringe Benefits Cost Pool - Annual & Periodic Studies Policy

**Contacts**

NAME	ROLE	DEPARTMENT
Lisa Carver	Manager	Payroll & Benefits Accounting
Caryl West	Senior Analyst	Payroll & Benefits Accounting
Erica Glenn	Coordinator	Accounting Research
Amy Sheppard	Manager	Accounting Research

**Definitions**

GAAP - Generally Accepted Accounting Principles  
 FRT - Financial Reporting Tool  
 FAS 112 - Statement of Financial Accounting Standards No. 112 *Employers' Accounting for Post employment Benefits*

FAS 43 - Statement of Financial Accounting Standards No. 43 *Accounting for Compensated Absences*

FAS 5 - Statement of Financial Accounting Standards No. 5 *Accounting for Contingencies*

P&BA - Payroll & Benefits Accounting

## **Revisions**

The following revisions are effective 01/01/05:

- Update policy for new manual ownership
- Update policy to reflect reorganization of manual



## Contract Pension

Functional Area: General Accounting  
Sarbanes-Oxley Category: Payroll/Human Resources  
Process Owner: Gwen Pate  
Effective Date: 09/01/98  
Revised Date: 01/01/05

All accounting policies and procedures can be found on the Accounting Policies and Procedures community within iPower as follows:

- Launch iPower
- Select "Accounting Policies and Procedures" under the "Communities" heading at the top of the page

### Policy Statement

Cinergy will record all transactions relating to Contract Pensions in the Company financial statements.

### Reason for Policy

To record employee benefit activity in the Company financial statements in adherence with GAAP and regulatory requirements

### Process Flows

### Process Description/Narrative

### Frequently Asked Questions

**Procedure**

Capture information on business transactions (CoA.1)  
 Classify transactions for journalizing (CoA.2)  
 Cutoff transactions (CoA.5)

DEPARTMENT	RESPONSIBILITY	ACTION
Human Resources Department	Compensation Manager	1. Distribute a copy of all new retirement contracts to Human Resources Department. <i>Note: this process should be completed daily.</i>

Identify error(s) in source documents and pushback for correction (CoA.3)  
 Correct error(s) in source documents (CoA.4)

DEPARTMENT	RESPONSIBILITY	ACTION
Human Resources Department	Compensation Manager	1. Verification of source documents for accuracy occurs within the originating organization. Human Resources processes the documents as received.

Prepare journal entries (CoA.6)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll & Benefits Accounting	Lou Ann Funk	1. Update the Excel spreadsheet which tracks retirement contracts for newly created contract information received. <i>Note: this process should be complete by Day 2, EOD.</i>
Payroll & Benefits Accounting	Lou Ann Funk	2. Extract data from Excel spreadsheet and enter into a predefined journal entry in the JE Tool. <i>Note: this process should be complete by Day 2, EOD.</i>

Identify errors in prepared journal entries (CoA.7a)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll & Benefits Accounting	Lou Ann Funk	1. Verify a copy of the journal entry against the source document to

		ensure data entry accuracy. If an error is located, notify the preparer and provide a copy of source doc's & JE's. <i>Note: this process should be complete by Day 2, EOD.</i>
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Correct errors in prepared journal entries (CoA.7b)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll & Benefits Accounting	Lou Ann Funk	1. Correct data entry errors in JE Tool. <i>Note: this process should be complete by Day 2, EOD.</i>

Post journal entries to BDMS 2.0 (CoA.8)

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll & Benefits Accounting	Lisa Carver	1. Approve journal entries for posting.
Corporate Accounting	BDMS Coordinator/John Linton	2. BDMS will post all journal entries approved for posting. <i>Note: this process should be complete by Day 2, EOD.</i>

Create and post accruals (CoA.10)

Create and post reserves (CoA.11)

DEPARTMENT	RESPONSIBILITY	ACTION
N/A	N/A	All accruals and reserves are included in the above processes.

**Training and Documents**

Training:

Additional Documents:

**Who Should Know**

- Controller
- Assistant Controllers

- Corporate Accounting
- Human Resources

**Related Information**

- FAS106 Post Retirement Benefits Policy
- Supplemental Retirement Plan (SERP) Policy
- Health Insurance Reallocation of Flexible Benefit Deductions Policy
- Health Insurance Employee Contribution Policy
- Health Insurance Employee/Employer Allocations Policy
- Health Insurance Claims Incurred But Not Reported (BNR) Policy
- 401k Employer Expense Policy
- UK Sharesaver Plan Policy
- Pension Expense Policy
- Voluntary Workforce Reduction Policy
- Employee Benefit Accounts- Reconciliation & Analysis Policy
- Workers' Compensation Benefits Policy
- Workers' Compensation Reserve
- Workers' Compensation Supplemental Benefits Policy

**Contacts**

NAME	ROLE	DEPARTMENT
Julie McGehee	Compensation Manager	Human Resources
Lou Ann Funk	Sr. Accounting Assistant	Payroll & Benefits Accounting
Lisa Carver	Manager	Payroll & Benefits Accounting
Erica Glenn	Senior Analyst	Accounting Research

Amy Sheppard	Manager	Accounting Research
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## Definitions

EOD: End of Day

## Revisions

The following revision is effective 08/01/00:

- Update procedure for personnel changes

The following revision is effective 12/01/02:

- Update procedure for personnel changes

The following revisions are effective 01/01/05:

- Update policy for new manual ownership
- Update policy to reflect reorganization of manual





## Passport: XXXX Coded Transactions

Functional Area: Office Services: Accounts Payable,  
Sarbanes-Oxley Category: ~~Exp~~penditures  
Process Owner: Dale Butler  
Effective Date: 01/01/03  
Revised Date: 01/01/05

All accounting policies and procedures can be found on the Accounting Policies and Procedures community within iPower as follows:

- Launch iPower
- Select "Accounting Policies and Procedures" under the "Communities" heading at the top of the page

### Policy Statement

All transactions coded as XXXX in the "Trans\_Target\_Sys" field by Passport shall be identified, reviewed, and resolved in a timely manner.

### Reason for Policy

To ensure that all Cinergy business transactions are appropriately and timely extracted from Passport to BDMS 2.0 and the General Ledger

### Process Flows

### Process Description/Narrative

## Frequently Asked Questions

### Q1. What are XXXX Coded Transactions?

A. Passport codes transaction as XXXX in the "Trans\_Target\_Sys" field when problems prevent the transaction from being extracted to BDMS and posted to the General Ledger. In order for these transactions to be extracted to BDMS the Passport problem must be identified and resolved.

## Procedure

### Identification of XXXX Coded Transactions (CoA.1)

DEPARTMENT	RESPONSIBILITY	ACTION
System Administration	Tara Lee Kathy Urban	1. After each extract to BDMS 2.0, generate from Passport a listing of all transactions coded as XXXX in the "Trans_Target_Sys" field. This listing should be provided to System Administration Management, AP, and Material Services.
Accounts Payable Material Services	Dale Butler Mike Snyder	2. Review transactions to determine if manual correction journal entry is required to record transaction(s) to BDMS 2.0 pending resolution of Passport problem.
System Administration	Tara Lee Kathy Urban	3. Determine reason(s) that Passport did not extract transaction(s) to BDMS 2.0. Develop Passport correction(s), review change with appropriate business process owners and implement in next change process. Create listing of transactions to be corrected in next change process and provide to AP, Material Services, and owners of impacted Responsibility Centers, as applicable.
Accounts Payable Material Services	Dale Butler Mike Snyder	4. Review listing of transactions to be corrected in next change process (and thus extracted to BDMS 2.0 through either the AP or Inventory feeder systems) and determine need for any reversal journal entry for transactions previously recorded to BDMS 2.0 via

		a correction journal entry.
System Administration	Tara Lee Kathy Urban	5. Prepare monthly report of status of all outstanding XXXX Coded Transactions, including summary of efforts to resolve and projected timing of resolution. Provide monthly report to AP, Material Service and System Administration Management.
AP Material Services System Administration	Dale Butler Mike Snyder Conny Toler	6. Review listing of all outstanding XXXX Coded Transactions. Follow-up with System Administration staff on any transaction not resolved within two months.

Prepare journal entries (CoA.6)

DEPARTMENT	RESPONSIBILITY	ACTION
Accounts Payable Accounts Payable Material Services	Rick Colvin Bill Rothan Mike Snyder	1. Determine work codes and amounts for correction or reversal entry and enter into journal entry tool. <i>Note: This process should be complete by Day 3, EOD.</i>
Accounts Payable Accounts Payable Material Services	Rick Colvin Bill Rothan Mike Snyder	2. Notify business unit personnel, as applicable, of journal entry.

Identify error in prepared journal entries (COA.7a)

DEPARTMENT	RESPONSIBILITY	ACTION
Accounts Payable Material Services	Dale Butler Mike Snyder	1. Verify a copy of the journal entry against the source document to ensure data entry accuracy. <i>Note: This process should be complete by Day 3, EOD.</i>

Correct error in prepared journal entries (COA.7b)

DEPARTMENT	RESPONSIBILITY	ACTION
Accounts Payable Accounts Payable Material Services	Rick Colvin Bill Rothan Mike Snyder	1. Correct data entry in JE Tool. <i>Note: This process should be complete by Day 3, EOD.</i>

Post journal entries to BDMS 2.0 (COA.8)

DEPARTMENT	RESPONSIBILITY	ACTION
Accounts Payable AP Material Services	Dale Butler Mike Snyder	1. Approve journal entries for posting. <i>Note: This process should be complete by Day 3, EOD.</i>
Corporate Accounting	BDMS Coordinator/John Linton	2. BDMS will post all journal entries approved for posting. <i>Note: This process should be complete by Day 3, EOD.</i>

## Training and Documents

Training:

Additional Documents:

## Who Should Know

- Controller
- Assistant Controllers
- Corporate Accounting
- Accounts Payable
- Material Services
- System Administration Management

## Related Information

## Contacts

Name	Role	Dept
Tara Lee	System Administrator	System Administration
Kathy Urban	System Administrator	System Administration
Gary Patterson	Manager	System Administration
Conny Toler	Supervisor	System Administration
Mike Snyder	Supervisor	Material Services
Dale Butler	Manager	Accounts Payable

Erica Glenn	Senior Analyst	Accounting Research
Amy Sheppard	Manager	Accounting Research

## Definitions

EOD - End of Day

## Revisions

The following revisions are effective 01/01/05:

- Update policy for new manual ownership
- Update policy to reflect reorganization of manual



# Payroll - Incentive Plan Accrual

Functional Area: SS Financial Operations  
Sarbanes-Oxley Category: Human Resources  
Process Owner: Holli Hansen  
Effective Date: 08/01/98  
Revised Date: 05/03/05

All accounting policies and procedures can be found on the Accounting Policies and Procedures community within iPower as follows:

- Launch iPower
- Select "Accounting Policies and Procedures" under the "Communities" heading at the top of the page

## Policy Statement

The Cinergy SS Financial Operations Department will record all transactions relating to Corporate Incentive Plan accruals, such as AIP, UEIP, and CBU. The Business Units will record transactions relating to other miscellaneous business unit specific incentive plans. Corporate Accounting will record the LTIP.

## Reason for Policy

To record activity in the Company financial statements in adherence with GAAP

## Process Flows

1. Obtain documentation from Compensation and CBU Financial Operations that supports the annual estimated incentive payout budgeted for the year.
2. Prepare monthly journal entries based on annual amount for each plan.
3. Compare projected accrual amount for reasonableness with updated data provided by Compensation and in conjunction with earnings estimates provided

by Corporate Accounting. Review and update to be performed at a minimum before closing 2<sup>nd</sup> and 3<sup>rd</sup> quarters and just before year-end in November.

## Process Description/Narrative

Shared Services obtains the annual budget amount based on expected payout from Compensation for AIP and UEIP plans and CBU Financial Operations for the CBU plan. The total annual budget is provided by these two groups. The amount to be capitalized is based on Capitalization rates provided by Brad Clayton of Cost Accounting. These rates are used to determine the capital portion of the budget for the AIP and UEIP plans. CBU determines its own capitalization rate to determine the portion of the budget that will be allocated to Capital.

Compensation and CBU also provide which Corporations and LOBs that will be charged for the monthly accruals.

The annual amount is used to determine a straight-line monthly amount to be booked for the O&M and Capital portions based on the information provided by Compensation and CBU Financial Operations.

Any shortfall or overage of the incentive bonuses actually paid out is booked after all payments for each plan has been made each March. This will either increase or decrease the expense based on the total amount that was accrued for the plan year.

A detailed file is requested from Compensation for the 2<sup>nd</sup> and 3<sup>rd</sup> quarters and in November or on an as needed basis given changes in the plan designs. This file details each employee by name, employee number, incentive plan, corporation, and business unit, salary, target incentive bonus percentage, and time in the plan to determine the estimated payout for each employee for the plan year. This is reviewed and compared to the projected accrual to assess reasonableness and to determine if any adjustments should be made to the remainder of the amount to be accrued for the year.

## Frequently Asked Questions

Nothing to report

## Procedure

Capture information on business transactions (CoA.1)  
 Classify transactions for journalizing (CoA.2)  
 Cutoff transactions (CoA.5)

DEPARTMENT	RESPONSIBILITY	ACTION
Compensation	Elizabeth Fryman or Carin Stacy	1. Create annually a spreadsheet query with employee, incentive plan, targeted payout amount by various levels, salary and OT, by company by business unit for AIP and UEIP.
Corporate Accounting	Gwen Pate	2. Calculate the proper accrual for LTIP.
SS Financial Operations	Christina Johnson	3. Once payout level is determined by management, prepare monthly journal entries for each plan to record the O&M expense portion and Capital portion of the annual amount provided by Compensation and CBU Financial Operations.

Identify error(s) in Source Documents and pushback for correction (CoA.3)

DEPARTMENT	RESPONSIBILITY	ACTION
SS Financial Operations	Christina Johnson	1. A review is made in the 2 <sup>nd</sup> and 3 <sup>rd</sup> quarters and November, or more often as needed, comparing the projected amount to be accrued with the estimated payout per the updated file provided by Compensation. A determination is made whether adjustments should be made to the remaining amount to be accrued for the year.

Correct error(s) in source documents (CoA.4)

DEPARTMENT	RESPONSIBILITY	ACTION
SS Financial Operations	Christina Johnson	Review at least quarterly for any adjustments needed for significant change in projected accrual.

Prepare journal entries (CoA.6)

DEPARTMENT	RESPONSIBILITY	ACTION
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Payroll - Incentive Plan Accrual

SS Financial Operations	Christina Johnson	Annual budgeted amount for each plan is used as a basis to determine the straight-line monthly amount and is entered into a Predefined journal entry in the JE Tool. This entry is developed annually.
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Identify errors in prepared journal entries (CoA.7a)

DEPARTMENT	RESPONSIBILITY	ACTION
SS Financial Operations	Christina Johnson	1. Verify a copy of the journal entry against the annual amounts provided by Compensation and CBU Financial Operations to ensure accuracy.

Correct errors in prepared journal entries (CoA.7b)

DEPARTMENT	RESPONSIBILITY	ACTION
SS Financial Operations	Christina Johnson	1. Correct data entry errors in JE Tool.

Post journal entries to BDMS 3.0 (CoA.8)

DEPARTMENT	RESPONSIBILITY	ACTION
SS Financial Operations	Brian Callahan	1. Approve journal entries for posting.
Corporate Accounting	BDMS Coordinator/John Linton	2. BDMS will post all journal entries approved for posting.

Create and post accruals (CoA.10)

Create and post reserves (CoA.11)

DEPARTMENT	RESPONSIBILITY	ACTION
N/A	N/A	All accruals for AIP, UEIP, and CBU are included in the above processes.

**Training and Documents**

**Who Should Know**

Payroll - Incentive Plan Accrual

- Corporate Accounting
- Business Unit Accounting Departments

## Related Information

Payroll - Accrual and Expense Policy

Payroll - Disbursements Policy

Payroll - Reconciliation & Analysis Policy

## Contacts

NAME	ROLE	DEPARTMENT
Dennis Sunberg	Manager	SS, Financial Operations
Gwen Pate	Manager	Corporate Accounting
Christina Johnson	Senior Finance Specialist	SS, Financial Operations
Elizabeth Fryman	Manager	Compensation
Steve Lee	Director	Finance Analysis, CBU Financial Ops
Erica Glenn	Coordinator	Accounting Research
Amy Sheppard	Manager	Accounting Research

## Definitions

AIP - Annual Incentive Plan

LTIP - Long-term Incentive Plan

CBU - Commercial Business Unit Plan

UEIP - Union Employee Incentive Plan

HR - Human Resources Department

JE - Journal Entry

OT - Overtime

EOD - End of Day

MOD - Middle of Day

## Revisions

The following revision is effective 08/01/99:

- Update procedure for personnel changes

The following revision is effective 11/01/00:

- Update procedure for personnel changes

The following revisions are effective 06/01/02:

- Update procedure for personnel changes
- Update procedure for process changes

The following revisions are effective 01/01/05:

- Update policy for new manual ownership
- Update policy to reflect reorganization of manual
- Update procedure for personnel changes

The following revision is effective 05/01/05:

- Update policy with Process Description/Narrative



## New Corporation Set-up - Payroll

Functional Area: HR, Payroll & Benefits Accounting  
Sarbanes-Oxley Category: High Level Controls  
Process Owner: Lisa Carver  
Effective Date: 09/01/98  
Revised Date: 01/01/05

All accounting policies and procedures can be found on the Accounting Policies and Procedures community within iPower as follows:

- Launch iPower
- Select "Accounting Policies and Procedures" under the "Communities" heading at the top of the page

### Policy Statement

All proposed and accepted new Cinergy corporations shall follow the following prescribed procedure to ensure a successful foundation to record business transactions and comply with all regulatory bodies.

### Reason for Policy

To provide guidance in the creation and set-up of new Cinergy corporations, thus ensuring a thorough and successful foundation for the corporation to start from

### Process Flows

### Process Description/Narrative

## Frequently Asked Questions

## Procedure

DEPARTMENT	RESPONSIBILITY	ACTION
Payroll	Lisa Carver	1. Verifies the following: <ul style="list-style-type: none"> <li>• Name of Corporation</li> <li>• Taxpayer Identification Number</li> <li>• Corporation Codes in BDMS</li> </ul>
Payroll	Cathy Hargrave	2. Set up all fields related to new Pay Corp in PS.
Accounting/BU Accounting	BU Contact and John Linton	3. Set up Corp Code in BDMS.
Tax	John Lechko	4. Request and set up new FEIN.
Payroll	Marian Felix	5. Register in different states where the new Paying Corporation has employees for the following: <ul style="list-style-type: none"> <li>• Unemployment</li> <li>• Withholding Taxes</li> </ul>
Treasury	Kim Sipes	6. Register with IRS for federal tax deposits (done electronically).
Payroll	Marian Felix	7. Create files for all Quarterly Payroll taxes.
Payroll	Jo Ann Morgan	8. Create file to move existing employees into new paying corporation.
Payroll	Paula Freeman	9. Sends list of new Payroll Account codes to Corporate Accounting for set up.
Payroll	Debby Stout	10. Contacts Treasury to get Bank Account information for new Paying Corporation.

## Training and Documents

Training:

Additional Documents:

**Who Should Know**

- Controller
- Assistant Controllers
- Corporate Accounting
- Tax
- Payroll
- Accounts Payable
- Treasury

**Related Information**

New Corporation Set-up Policy

**Contacts**

Name	Role	Dept
Lisa Carver	Manager	Payroll
Marian Felix	Payroll Specialist	Payroll
Cathy Hargrave	HRIS Administrator	Payroll
Erica Glenn	Senior Analyst	Accounting Research
Amy Sheppard	Manager	Accounting Research

**Definitions**

Paying Corporation- Legal Entity or Corporation with employees for which payroll is paid and all payroll related earnings, deductions and withholding taxes are recorded and reported to Federal, State and Local taxing authorities.

HRIS - Human Resource Information System

**Revisions**

The following revision is effective 11/01/00:

- Update procedure for personnel changes

The following revisions are effective 12/01/02:

- Update procedure for personnel changes
- Update procedure for procedural changes
- Update procedure for system changes

The following revisions are effective 01/01/05:

- Update policy for new manual ownership
- Update policy to reflect reorganization of manual



## Trading & Wholesale Power

Functional Area: Commercial Power Accounting  
Sarbanes-Oxley Category: Revenue, Metering, Billing, Receipts, Collections  
Process Owner: Maria Birnbaum  
Effective Date: 09/01/98  
Revised Date: 01/01/05

All accounting policies and procedures can be found on the Accounting Policies and Procedures community within iPower as follows:

- Launch iPower.
- Select "Accounting Policies and Procedures" under the "Communities" heading at the top of the page.

### Policy Statement

The Cinergy Commercial Power Accounting Department (CPA) will record all revenue and expense transactions relating to Trading and Wholesale Power.

### Reason for Policy

To record Trading and Wholesale Power activity in the Company financial statements in adherence to GAAP

### Process Flows



Process Flow A  
Prelim. Estimate for T



Process Flow B Final  
Estimate for Trading ;



Process Flow C - CCT  
Mark Accounting Proc



Process Flow D -  
Unrealized

### Process Description/Narrative



## Frequently Asked Questions

## Procedure

- Capture information on business transactions. (CoA.1)
- Classify transactions for journalizing. (CoA.2)
- Cutoff transactions (CoA.5)

DEPARTMENT	RESPONSIBILITY	ACTION
Pace Data Analysis (PDA)	Jack Fortney Carla Evans	1. Capture sale and purchase of power activity and classify into the Schedules 4, 4a, 5, 5a, and 7 and distribute to CPA. Cutoff occurs on the last day of the month. <i>Note: this process should be complete by Day 3, MOD.</i>
Pace Data Analysis	Jack Fortney Carla Evans	2. Capture tieline and schedule activity and classify into the Billing Procedures report and distribute to CPA. Cutoff occurs on the last day of the month. <i>Note: this process should be complete by Day 3, MOD.</i>
Pace Data Analysis	Debbie Baynes Terri Leake	3. Identify and calculate sales and cost of sales for accrual contracts. Calculate intercompany transfers <i>Note: this process should be complete by Day 5, MOD.</i>
Back-Office	Mark Chastain Apu Agarwal Ed Bowen	4. Review and release Mark-to-Market Reports and Results to CPA. <i>Note: this process should be complete by Day 2, EOD.</i>

- Identify error(s) in Source Documents and pushback for correction (CoA.3)

DEPARTMENT	RESPONSIBILITY	ACTION
Commercial Power Accounting	Lee Ann Clark - CGE Michelle Dawson - PSI	1. Perform analysis of cost per MWH; tie out MWH to billing procedures; compare CGE/PSI inter-company. Also, for final estimate, tie schedules,

Trading & Wholesale Power

		invoices to RFPs. If errors are identified, make notations and provide along with source documents to PDA. <i>Note: this process should be complete by Day 5, MOD.</i>
Commercial Power Accounting	Connie Dilger	2. Review Mark-to-Market changes for reasonableness. Obtain explanation for material changes. <i>Note: this process should be complete by Day 2, EOD.</i>

Correct error(s) in source documents (CoA.4)

DEPARTMENT	RESPONSIBILITY	ACTION
Pace Data Analysis	Terri Leake	1. Update Schedules 4, 4a, 5, 5a, 7 and accrual contract spreadsheet and distribute to CPA. <i>Note: this process should be complete by Day 5, EOD.</i>
Back-Office	Mark Chastain Apu Agarwal Ed Bowen	2. Update and re-release Mark-to-Market reports and results to CPA. <i>Note: this process should be complete by Day 3.</i>

Prepare journal entries. (CoA.6)

DEPARTMENT	RESPONSIBILITY	ACTION
Commercial Power Accounting	Lee Ann Clark - CGE Michelle Dawson - PSI	1. Extract data from Rate Schedule reports and Accrual Contract Spreadsheet and create journal entries in the JE Tool. <i>Note: this process should be complete by Day 5, EOD.</i>
Commercial Power Accounting	Connie Dilger	2. Use mark-to-market reports and layer manual calculations to create journal entries in JE Tool. <i>Note: this process should be complete by Day 4.</i>

Identify errors in prepared journal entries. (CoA.7a)

DEPARTMENT	RESPONSIBILITY	ACTION
Commercial Power Accounting	Connie Dilger - PSI Michelle Dawson - CGE	1. Verify a copy of the journal entry against the source document to ensure data entry accuracy and perform a cursory review of account and transaction information. If an error is identified, return the JE and correcting note to preparer. <i>Note: this</i>

Trading & Wholesale Power

		<i>process should be complete by Day 5, noon.</i>
Commercial Power Accounting	Maria Birnbaum	2. Verify a copy of the journal entry against mark source documents to ensure data entry accuracy and perform reasonableness review of mark entry. If error is identified, return journal entry to preparer. <i>Note: this process should be complete by Day 4.</i>

Correct errors in prepared journal entries. (CoA.7b)

DEPARTMENT	RESPONSIBILITY	ACTION
Commercial Power Accounting	Lee Ann Clark - CGE Michelle Dawson - PSI	1. Correct data entry in JE Tool. <i>Note: this process should be complete by Day 6, MOD.</i>
Commercial Power Accounting	Connie Dilger	2. Correct mark-to-market entry in JE tool. <i>Note: this process should be complete by Day 4, MOD.</i>

Post journal entries to BDMS 2.0. (CoA.8)

DEPARTMENT	RESPONSIBILITY	ACTION
Commercial Power Accounting	Maria Birnbaum	1. Mark and reserve entries.
Commercial Power Accounting	Connie Dilger - PSI Michelle Dawson - CGE	2. Approve journal entries for posting.
Corporate Accounting	BDMS Coordinator / John Linton	3. BDMS will post all journal entries approved for posting. <i>Note: this process should be complete by Day 5, EOD.</i>

Create and post accruals (CoA.10)

DEPARTMENT	RESPONSIBILITY	ACTION
Back-Office	Susan Miller Frank Riley	1. Provide 3rd party transmission estimate. <i>Note: this process should be complete by Day 2, EOD.</i>
Commercial Power Accounting	Connie Dilger - CGE Michelle Dawson - PSI	2. Book estimate for 3rd party transmission activity for the month. <i>Note: this process should be complete by Day 3, MOD.</i>

Create and post reserves (CoA.11)

DEPARTMENT	RESPONSIBILITY	ACTION
Credit	John Gatto	1. Provide quarterly estimate for general credit reserves. <i>Note: this process should be complete by Day 3, MOD.</i>
Back-Office	Lisa Cullen	2. Provide update on specific credit reserves. <i>Note: this process should be complete by Day 3, MOD.</i>
Global Risk	Tony Ligeralde	3. Provide model reserve on a quarterly basis. <i>Note: this process should be complete by Day 3, MOD.</i>
Commercial Power Accounting	Connie Dilger	4. Create and post the journal entry for credit reserves and model reserves. <i>Note: this process should be complete by Day 3, EOD.</i>

## Training and Documents

Training:

Additional Documents:

## Who Should Know

- Controller
- Assistant Controllers
- Corporate Accounting
- PACE Data Analysis
- Commercial Power Accounting

## Related Information

Trading & Wholesale Power - Reconciliation & Analysis Policy

## Contacts

NAME	ROLE	DEPARTMENT
Connie Dilger	CPA	CPA
Maria Birnbaum	Manager	Commercial Power Accounting

Michelle Dawson	CPA	Commercial Power Accounting
Carla Evans	Pace Data Analysis	Pace Data Analysis
Terri Leake	Pace Data Analysis	Pace Data Analysis
Jack Fortney	Pace Data Analysis	Pace Data Analysis
Debbie Baynes	Pace Data Analysis	Pace Data Analysis
Lee Ann Clark	CPA	Commercial Power Accounting
Mark Chastain	CBA	CBA
Ed Bowen	GRM	GRM
Tony Ligeralde	GRM	GRM
Apu Agarwal	IT	IT
Susan Miller	Settlements	Settlements
Lisa Cullen	Settlements	Settlements
Frank Riley	Operations	Operations
Erica Glenn	Senior Analyst	Accounting Research
Amy Sheppard	Manager	Accounting Research

## Definitions

CPA - Commercial Power Accounting

GRM - Global Risk Management

CBA - Compliance & Business Analysis

MOD - Middle of Day

EOD - End of Day

## Revisions

The following revisions are effective 11/30/00:

- Change department name to Energy Trading Accounting
- Update "Responsibility" column for personnel changes
- Update "Action" column for process changes

The following revision is effective 11/01/01:

- Update procedure for personnel changes

The following revisions are effective 11/30/02:

- Update procedure for personnel changes
- Update procedure for process change

The following revisions are effective 02/01/04:

- Change department name from Energy Trading Accounting to Commercial Power Accounting
- Update procedure for personnel changes
- Update procedure for process change

The following revisions are effective 01/01/05:

- Update policy for new manual ownership
- Update policy to reflect reorganization of manual



## Trading & Wholesale Power Reconciliation & Analysis

Functional Area: Commercial Power Accounting  
Sarbanes-Oxley Category: Revenue, Metering, Billing, Receipts,  
Collections  
Process Owner: Maria Birnbaum  
Effective Date: 09/01/98  
Revised Date: 01/01/05

All accounting policies and procedures can be found on the Accounting Policies and Procedures community within iPower as follows:

- Launch iPower.
- Select "Accounting Policies and Procedures" under the "Communities" heading at the top of the page.

### **Policy Statement**

All Balance Sheet accounts for all corporations shall be reconciled using Reconciliation and Analysis Standards as outlined in Policy Reconciliation & Analysis of Accounts. The reconciliation shall be done on a timely basis, which is determined according to the account standards defined in Policy New Account Set-up & Definition (Account Standards).

### **Reason for Policy**

- To shift responsibility for accuracy of data within an account to those closest to the transactions
- To increase control of accounts
- To clearly define ownership of accounts providing a single source for information regarding the accounts

**Process Flows**

**Process Description/Narrative**

**Frequently Asked Questions**

**Procedure**

Reconcile Accounts (CoA.9)

DEPARTMENT	RESPONSIBILITY	ACTION
Commercial Power Accounting	Connie Dilger Lee Ann Clark	1. Generate and retain Subledger Report: G/L Reconciliation and Outstanding Items and distribute to reconciler. <i>Note: this should be complete by Day 12, EOD.</i>
Commercial Power Accounting	Connie Dilger Lee Ann Clark	2. Reconcile accounts 143750 - AR and 232900 - AP for PSI & CGE by completing the following steps: a. Remove paid invoices and corresponding receipts and actual/estimate journal entries b. Compare the balance of detail report to general ledger balance c. Reclass of cash to correct corporation
Commercial Power Accounting	Connie Dilger Michelle Dawson Lee Ann Clark	3. Reconcile all other trading balance sheet accounts.
Commercial Power Accounting	Connie Dilger Lee Ann Clark	4. Update "Last Reconciled Date" field in BDMS (PBR – Accounting Data Set-up) to reflect the last period for which the account balance was verified/reconciled.

Perform analysis of transactions. (CoA.12)



Trading & Wholesale Power - Reconciliation & Analysis

DEPARTMENT	RESPONSIBILITY	ACTION
Commercial Power Accounting	Lee Ann Clark Michelle Dawson	1. Generate FRT Reports per Account, Excel spreadsheet for variance analysis and General Ledger queries.
Commercial Power Accounting	Lee Ann Clark Michelle Dawson	2. Review Income Statement accounts for reasonableness and variance analysis. Provide a copy to Financial Operations.
Commercial Power Accounting	Lee Ann Clark Michelle Dawson	3. Review account transaction activity (\$ and source); variance analysis. Provide a copy to Financial Operations.
Commercial Power Accounting	Lee Ann Clark Michelle Dawson	4. Generate Report: Bulk Power P&L with backup documents and distribute to CBU Accounting & others. <i>Note: this must be completed as soon as possible after closing.</i>

Perform analysis of financial statements: business unit review (CoA.13a)

DEPARTMENT	RESPONSIBILITY	ACTION
CBU Financial Operations	Rebecca Reichart Sean O'Brien Jennifer Burns	1. Business Unit specific Financial Statement analysis is at the discretion of the Business Unit with the exception of minimum analysis required to support Legal Entity analysis.

Perform analysis of financial statements: legal review of regulatory entity (CoA.13b)

DEPARTMENT	RESPONSIBILITY	ACTION
Commercial Power Accounting	Maria Birnbaum	1. Review the Bulk Power P&L for reasonableness and review statistical pages.

**Training and Documents**

Training:

Additional Documents:

**Who Should Know**

- Controller
- Assistant Controllers
- Corporate Accounting
- CBU Accounting Manager
- Commercial Power Accounting

**Related Information**

Trading & Wholesale Power Policy

New Account Set-up & Definition (Account Standards) Policy

Reconciliation & Analysis of Accounts Policy

**Contacts**

NAME	ROLE	DEPARTMENT
Connie Dilger	Commercial Power Accounting	Commercial Power Accounting
Maria Birnbaum	Manager	Commercial Power Accounting
Michelle Dawson	Commercial Power Accounting	Commercial Power Accounting
Lee Ann Clark	Commercial Power Accounting	Commercial Power Accounting
Rebecca Reichart	Financial Operations	Financial Operations
Jennifer Burns	Sr. Analyst	Financial Operations
Sean O'Brien	Financial Operations	Financial Operations
Erica Glenn	Senior Analyst	Accounting Research
Amy Sheppard	Manager	Accounting Research

**Definitions**

EOD - End of Day

CPA - Commercial Power Accounting

## Revisions

The following revisions are effective 11/30/00:

- Update process for Account Reconciliation Database in PBR
- Change department name to Energy Trading Accounting
- Update "Responsibility" column for personnel changes
- Update "Action" column for process changes

The following revision is effective 11/01/01:

- Update procedure for personnel and department name changes

The following revision is effective 11/01/02:

- Update procedure for personnel changes

The following revisions are effective 02/01/04:

- Change department name From Energy Trading Accounting to Commercial Power Accounting
- Update procedure for personnel changes
- Update procedure for process changes

The following revisions are effective 01/01/05:

- Update policy for new manual ownership
- Update policy to reflect reorganization of manual



## Third-Party Coal Sales

Functional Area: Fuel & Joint Owner Accounting  
Sarbanes-Oxley Category: Inventory  
Process Owner: Diana Douglas  
Effective Date: 04/01/03  
Revised Date: 01/01/05

All accounting policies and procedures can be found on the Accounting Policies and Procedures community within iPower as follows:

- Launch iPower
- Select "Accounting Policies and Procedures" under the "Communities" heading at the top of the page

### Policy Statement

The Fuel and Joint Owner Accounting Department will record monthly revenue and expense accruals and revenues and accounts receivable for transactions resulting from Fuels Origination sales of coal to external Cinergy customers.

### Reason for Policy

To record coal sales activity in the Company's financial statements in adherence to GAAP and regulatory requirements

### Process Flows

### Process Description/Narrative

## Frequently Asked Questions

## Procedure

Capture information on business transactions (CoA.1)

Classify transactions (CoA.2)

Cutoff transactions (CoA.5)

DEPARTMENT	RESPONSIBILITY	ACTION
Settlements & Reporting	Dennis Hurtt	1. Prepare coal recaps including shipping number and tonnages for current month by Day 3.
Settlements & Reporting	Dennis Hurtt	2. Prepare invoices and mail or fax to customers.
Settlements & Reporting	Dennis Hurtt	3. Prepare Requests for Pay for coal purchase and send to A/P for processing.
Fuel & Joint Owner Accounting	Monica Kilpatrick	4. Review monthly postings via A/P feeder system (Passport).
Fuel & Joint Owner Accounting	Monica Kilpatrick	5. Review monthly recaps and invoices sent to customers.
Fuel & Joint Owner Accounting	Monica Kilpatrick	6. Calculate accruals for cost of goods sold and unbilled revenue.

Prepare journal entries (CoA.6)

Identify and correct errors (CoA.7)

Reconcile Accounts (CoA.9)

DEPARTMENT	RESPONSIBILITY	ACTION
Fuel & Joint Owner Accounting	Monica Kilpatrick	1. Prepare and submit journal entry for accrued revenues and expenses (FJ250) by noon of Day 6.
Fuel & Joint Owner Accounting	Monica Kilpatrick	2. Review and submit reversal of previous month's FJ250 for approval (FJ251) by noon of Day 6.
Fuel & Joint Owner Accounting	Monica Kilpatrick	3. Prepare and submit journal entry for accounts receivable (FJ255) by noon of Day 6.
Fuel & Joint Owner Accounting	Diana Douglas	4. Approve journal entries FJ250, FJ251, FJ255.
Corporate Accounting	Bob Hoffmann	5. Record cash receipts against

		Accounts Receivable (CA106).
Corporate Accounting	Bob Hoffmann	6. Record cash receipts against Accounts Receivable (CA106).

Post journal entries (CoA.8)

DEPARTMENT	RESPONSIBILITY	ACTION
Corporate Accounting	John Linton	1. BDMS will post all journal entries approved for posting. <i>Note: this process should be complete by Day 6.</i>

## Training and Documents

Training:

Additional Documents:

## Who Should Know

- Controller
- Assistant Controllers
- Corporate Accounting
- External Reporting
- Accounting Research
- Fuel & Joint Owner Accounting

## Related Information

## Contacts

NAME	ROLE	DEPARTMENT
Dennis Hurtt	Analyst	Settlements & Reporting
Monica Kilpatrick	Sr. Analyst	Fuel & Joint Owner Accounting
Art Buescher	Supervisor	Fuel & Joint Owner Accounting
Diana Douglas	Manager	Fuel & Joint Owner Accounting
Erica Glenn	Senior Analyst	Accounting Research

Amy Sheppard	Manager	Accounting Research
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## Definitions

## Revisions

The following revisions are effective 02/01/04:

- Update policy for personnel and department changes
- Change policy number from 7.4.1.15 to 7.4.1.14

The following revisions are effective 01/01/05:

- Update policy for new manual ownership
- Update policy to reflect reorganization of manual



## Fuel Coal Inventory - CG&E - Reconciliation & Analysis

Functional Area: Fuel & Joint Owner Accounting  
Sarbanes-Oxley Category: Inventory  
Process Owner: Diana Douglas  
Effective Date: 09/01/98  
Revised Date: 01/01/05

All accounting policies and procedures can be found on the Accounting Policies and Procedures community within iPower as follows:

- Launch iPower
- Select "Accounting Policies and Procedures" under the "Communities" heading at the top of the page

### Policy Statement

All Balance Sheet accounts for all corporations shall be reconciled using Reconciliation and Analysis Standards as outlined in the Reconciliation & Analysis of Accounts Policy. The reconciliation shall be done on a timely basis, which is determined according to the account standards defined in the New Account Set-up & Definition (Account Standards) Policy.

### Reason for Policy

- To ensure that responsibility for accuracy of data within an account is held by those closest to the transactions
- To increase control of accounts
- To clearly define ownership of accounts providing a single source for information regarding the accounts

### Process Flows



**Process Description/Narrative**

**Frequently Asked Questions**

**Procedure**

Reconcile Accounts (CoA.9)

DEPARTMENT	RESPONSIBILITY	ACTION
		<i>Note: The following process is performed to reconcile all Coal - CG&amp;E accounts.</i>
Fuel & Joint Owner Accounting	Richard Gallagher	1. Obtain supporting schedules, which contain detail account balances for Fuel Inventory and Payable accounts.
Fuel & Joint Owner Accounting	Anita Webb	2. Verify the GL balance (from FRT) to the supporting schedule balances.
Fuel & Joint Owner Accounting	Anita Webb	3. Investigate material balance variances and mis-posted transactions as necessary.
Fuel & Joint Owner Accounting	Anita Webb	4. Create adjustments, as necessary.
Fuel & Joint Owner Accounting	Anita Webb	5. Update "Last Reconciled Date" field in BDMS (PBR- Accounting Date Set-up) to reflect the last period for which the account balance was verified/reconciled.

Perform analysis of transactions (CoA.12)

DEPARTMENT	RESPONSIBILITY	ACTION
Fuel & Joint Owner Accounting	Anita Webb	1. Generate the Monthly Consumption Statistics report and review for reasonableness.
Fuel & Joint Owner Accounting	Anita Webb	2. Generate the Receipts Statistics report and review for reasonableness.

Fuel & Joint Owner Accounting	Anita Webb	3. Generate the Ending Inventory report and review for reasonableness.
Fuel & Joint Owner Accounting	Richard Gallagher	4. Perform a monthly price/ volume analysis on the consumption expense on a quarterly basis.
Fuel & Joint Owner Accounting	Anita Webb	5. Generate the 10Q information and review for reasonableness.

Perform analysis of financial statements: business unit review (CoA.13a)

DEPARTMENT	RESPONSIBILITY	ACTION
Fuel & Joint Owner Accounting	Art Buescher Diana Douglas	1. Business Unit specific Financial Statement analysis is at the discretion of the Business Unit with the exception of minimum analysis required to support Legal Entity analysis. The extent of Legal Entity analysis will be determined on a case by case basis, as required.

Perform analysis of financial statements: legal review of regulatory entity (CoA.13b)

DEPARTMENT	RESPONSIBILITY	ACTION
Fuel & Joint Owner Accounting	Art Buescher Diana Douglas	1. Provide general accounting information, as required, for their variance analysis.

## Training and Documents

Training:

Additional Documents:

## Who Should Know

- Controller
- Assistant Controllers
- Corporate Accounting
- Fuel & Joint Owner Accounting

## Related Information

New Account Set-up & Definition (Account Standards) Policy

Reconciliation & Analysis of Accounts Policy

Fuel Coal Inventory CG&E - General Journal Entries

Fuel Coal Inventory CG&E - Joint Owner Policy

## Contacts

NAME	ROLE	DEPARTMENT
Richard Gallagher	Analyst	Fuel & Joint Owner Accounting
Art Buescher	Supervisor	Fuel & Joint Owner Accounting
Diana Douglas	Manager	Fuel & Joint Owner Accounting
Erica Glenn	Senior Analyst	Accounting Research
Amy Sheppard	Manager	Accounting Research

## Definitions

## Revisions

The following revisions are effective 09/01/02:

- Update procedure for personnel and department name changes
- Update procedure for process change

The following revision is effective 02/01/04:

- Update procedure for personnel changes

The following revisions are effective 01/01/05:

- Update policy for new manual ownership
- Update policy to reflect reorganization of manual



## Fuel Coal Inventory CG&E - General Journal Entries

Functional Area: Fuel & Joint Owner Accounting  
Sarbanes-Oxley Category: Inventory  
Process Owner: Diana Douglas  
Effective Date: 09/01/98  
Revised Date: 01/01/05

All accounting policies and procedures can be found on the Accounting Policies and Procedures community within iPower as follows:

- Launch iPower
- Select "Accounting Policies and Procedures" under the "Communities" heading at the top of the page

### Policy Statement

The Fuel & Joint Owner Accounting Department will record all transactions relating to CG&E fuel inventory activities.

### Reason for Policy

To record fuel inventory activity in the Company financial statements in adherence to GAAP and regulatory requirements

### Process Flows

### Process Description/Narrative

## Frequently Asked Questions

## Procedure

- Capture information on business transactions (CoA.1)
- Classify transactions for journalizing (CoA.2)
- Cutoff transactions (CoA.5)

DEPARTMENT	RESPONSIBILITY	ACTION
Generating Stations	Various Stations	1. Capture generation station information in ComTrac. Month end close occurs on the last day of the month. Distribute to Fuel & Joint Owner Accounting. <i>Note: this process is to be complete by Day 3, MOD.</i>
Energy Accounting System	Terri Leake	2. Capture the generated power information and classify into the Generating Reports based upon Generating Station. Month end close occurs on the last day of the month. Distribute to Fuel & Joint Owner Accounting. <i>Note: This process is to be complete by Day 3, MOD.</i>

- Identify error(s) in Source Documents and pushback for correction (CoA.3)

DEPARTMENT	RESPONSIBILITY	ACTION
Fuel & Joint Owner Accounting	Anita Webb	1. Review, analyze and verify all input with the prior month's data for reasonableness. If there is an error, contact the originating organization. <i>Note: this process is to be complete by Day 4, EOD.</i>

- Correct error(s) in source documents (CoA.4)

DEPARTMENT	RESPONSIBILITY	ACTION
Fuel & Joint Owner Accounting	Various Stations	1. Correct errors in the accumulated coal payments for actuals. <i>Note: this process is to be complete by Day 4, EOD.</i>
Generating Stations	Various	2. Correct errors in the ComTrac

		Modules in the table. <i>Note: this process is to be complete by Day 4, MOD.</i>
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Prepare journal entries (CoA.6)

Identify errors in prepared journal entries (CoA.7a)

Correct errors in prepared journal entries (CoA.7b)

DEPARTMENT	RESPONSIBILITY	ACTION
Fuel & Joint Owner Accounting	Anita Webb	1. Generate receipt and consumption costs in ComTrac. <i>Note: this process is to be complete by Day 4, EOD.</i>
Fuel & Joint Owner Accounting	Anita Webb	2. Create and verify journal entries in ComTrac. <i>Note: this process should be complete by Day 5, EOD.</i>
Fuel & Joint Owner Accounting	Richard Gallagher	3. Create BDMS Post File. <i>Note: this process should be complete by Day 5, EOD.</i>
Fuel & Joint Owner Accounting	Richard Gallagher	4. Create and verify joint owner credit journal entries created in ComTrac.
Fuel & Joint Owner Accounting	Richard Gallagher	5. Review CCDs (fuel inventory and expense reports created by ComTrac).
Fuel & Joint Owner Accounting	Richard Gallagher	6. Distribute CCDs for billing to Joint Owners.
Fuel & Joint Owner Accounting	Richard Gallagher	7. Distribute CCDs to Fuel & JO Accounting for billing.
Fuel & Joint Owner Accounting	Lashyia Porter	8. Prepare Fuel & MLS invoice by noon on Day 4. Distribute invoice and CCD reports to DP&L and AEP contacts.

Post journal entries to BDMS 2.0 (CoA.8)

DEPARTMENT	RESPONSIBILITY	ACTION
Fuel & Joint Owner Accounting	Art Buescher	1. Approve journal entries for posting.
Corporate Accounting	John Linton Ron Cooley	2. BDMS will post all journal entries approved for posting. <i>Note: this process should be complete by Day 5, EOD.</i>

Create and post accruals (CoA.10)

Create and post reserves (CoA.11)

DEPARTMENT	RESPONSIBILITY	ACTION
N/A	N/A	1. No accruals or reserves are booked related to fuel inventory.

## Training and Documents

Training:

Additional Documents:

## Who Should Know

- Controller
- Assistant Controllers
- Corporate Accounting
- PACE Data Analysis
- Fuel & Joint Owner Accounting
- Generating Stations

## Related Information

Fuel Coal Inventory CG&E -Joint Owner Policy

Fuel Coal Inventory CG&E - Reconciliation & Analysis Policy

## Contacts

NAME	ROLE	DEPARTMENT
Terri Leake	Supervisor	PACE
Richard Gallagher	Analyst	Fuel & Joint Owner Accounting
Lashyia Porter	Analyst	Fuel & Joint Owner Accounting
Anita Webb	Accounting Assistant	Fuel & Joint Owner Accounting
Art Buescher	Supervisor	Fuel & Joint Owner Accounting
Diana Douglas	Manager	Fuel & Joint Owner Accounting
Erica Glenn	Senior Analyst	Accounting Research
Amy Sheppard	Manager	Accounting Research

## Definitions

MOD - Middle of Day

EOD - End of Day

## Revisions

The following revision is effective 09/01/02:

- Update procedure for personnel and department name changes

The following revision is effective 02/01/04:

- Update procedure to reflect automation of fuel JO credits, JE and reports in ComTrac
- Update procedure for personnel changes

The following revisions are effective 01/01/05:

- Update policy for new manual ownership
- Update policy to reflect reorganization of manual





## Misc. Fuel Coal Inventory - Emission Allowance

Functional Area: Fuel & Joint Owner Accounting  
Sarbanes-Oxley Category: Inventory  
Process Owner: Diana Douglas  
Effective Date: 09/01/98  
Revised Date: 01/01/05

All accounting policies and procedures can be found on the Accounting Policies and Procedures community within iPower as follows:

- Launch iPower
- Select "Accounting Policies and Procedures" under the "Communities" heading at the top of the page

### Policy Statement

Fuel & Joint Owner Accounting will record all transactions relating to emission allowance (sales, inventory, expense).

### Reason for Policy

To record emission allowance activity in the Company financial statements in adherence to GAAP and regulatory requirements

### Process Flows

### Process Description/Narrative

## Frequently Asked Questions

## Procedure

Capture information on business transactions (CoA.1)

Classify transactions for journalizing (CoA.2)

Cutoff transactions (CoA.5)

DEPARTMENT	RESPONSIBILITY	ACTION
Environmental	Pat Coughlin	1. Capture emission statistics and classify into the CG&E and PSI CEMS Reports based upon corporation. Month-end cutoff occurs on the last day of the month. The file is located on the All Public Folders in Outlook at Environmental Services / CEMS Monthly Emissions Report / email entitled Acid Rain Reports. <i>Note: this process should be complete by Day 20, EOD for last month's data.</i>
Asset Management	Laura Tranter	2. Capture emission allowance purchases and sales and classify into the EA purchase / sale log workbook - located on Assetmgmt on 'Florence 1' / Emissions Trading / NO <sub>x</sub> Trading Book.xls or SO <sub>2</sub> Trading Book.xls. Month-end cutoff occurs on the last day of the month. This is maintained on a shared drive with CBU Fuel & JO Accounting access. <i>Note: Units are considered transacted when they are recognized on the EPA website.</i>
PACE Data Analysis	Terri Leake	3. Provide Schedule 6 estimate of Non-Native Load EA Consumption related to sales. Month-end cutoff occurs on the last day of the month. Schedule is emailed to CBU Fuel & Joint Owner Accounting. <i>Note: this process should be completed by noon on Day 3.</i>
Fuel & Joint Owner Accounting	Monica Kilpatrick	4. Capture the Monthly Market Value Index. This is accomplished by Cantor Fitzgerald sending a daily email containing information

Misc. Fuel Coal Inventory - Emission Allowance

		concerning the market price of SO <sub>2</sub> and NO <sub>x</sub> units. An email was sent to Cantor Fitzgerald requesting the data be sent daily - the data is normally only utilized on the last business day of the month; however, daily gives us the opportunity to note market price swings. <i>Note: The market price on the last business day of the month is utilized.</i>
Air Quality	John Funke Mike Geers	5. Capture joint owner transactions and classify into the Intercompany / Joint Owner Transaction Report. <i>Note: This process is reviewed only a few times throughout the year - normally around compliance.</i>
Air Quality	John Funke Mike Geers	6. By 3 <sup>rd</sup> quarter and monthly for the remainder of the year, supply Fuel & Joint Owner Accounting with CEMS data by unit. This enables Fuel & Joint Owner Accounting to initiate EA unit transfers into the existing units for EPA Compliance. <i>Note: This is initiated and surrounded by compliance meetings to ensure that data is correct and completed timely.</i>
Fuel & Joint Owner Accounting	Monica Kilpatrick	7. Verify data from the EPA Website concerning Balance in accounts and Transactions that occurred during the month. The EPA Website is updated every business day around 3 PM. The website is located at <a href="http://www.epa.gov/airmarkets">www.epa.gov/airmarkets</a> . <i>Note: This procedure should be complete by the last day of the month (after 3 PM) or on the 1<sup>st</sup> day of the next month (before 3 PM).</i>

Identify error(s) in Source Documents and pushback for correction (CoA.3)

DEPARTMENT	RESPONSIBILITY	ACTION
Fuel & Joint Owner Accounting	Monica Kilpatrick	1. Compare the EA purchase and sale detail to supporting detail for accuracy. If there is an error, contact the originating organization. <i>Note: this process should be complete by Day 2, EOD.</i>

Correct error(s) in source documents (CoA.4)

DEPARTMENT	RESPONSIBILITY	ACTION
Originating Organization	Originating Organization	1. Correct data and redistribute to Fuel & Joint Owner Accounting. <i>Note: this process should be complete by noon, Day 3.</i>

Prepare journal entries. (CoA.6)

DEPARTMENT	RESPONSIBILITY	ACTION
Fuel & Joint Owner Accounting	Monica Kilpatrick	1. Determine the transactions that occurred during the month by accessing the EPA Website. Input into the proper Excel spreadsheet - located on Acct on 'Cincyfile1' / Accounting.Fuels / Fuel Data / EA Workbooks / current year / CGE - EPA Account Activity.xls or PSI - EPA Account Activity.xls. This will give you the customer or counterparty, # of EA units and EPA Event #.
Fuel & Joint Owner Accounting	Monica Kilpatrick	2. Retrieve the remaining information from Laura Tranter's trade books: Price per EPA unit, Name of Broker, Trading Tracking # and whether the units are for Native or Offsystem. The spreadsheet automatically calculates the # of units and \$ values to be addressed by other spreadsheets.
Fuel & Joint Owner Accounting	Monica Kilpatrick	3. The EPA account tab needs to be updated with the balance for CGE or PSI - located in column J. This will determine if everything has been recognized.

Fuel & Joint Owner Accounting	Monica Kilpatrick	<p>4. Generate Emission Allowance Consumption Expense Estimates from the CEMS report and Schedule 5. This is input in an Excel spreadsheet - located on Acct on 'Cincyfile1' / Accounting.Fuels / Fuel Data / EA Workbooks / current year / CGE - Usage Support.xls or PSI - Usage Support.xls on the "Input" tab</p> <ul style="list-style-type: none"> <li>a. CEMS report - Use the monthly budget number in row 5</li> <li>b. CEMS report - Use last month's actual emissions in row 7</li> <li>c. CEMS report - Use last month's YTD actual emissions in row 11</li> <li>d. Schedule 5 - Use the "CGE on system" tab and exclude any PSI usage</li> <li>e. PSI only - Market price should come from the last business day of the month email from Cantor Fitzgerald</li> </ul>
Fuel & Joint Owner Accounting	Monica Kilpatrick	5. Everything else in the schedule calculates from the "Input" tab and from the Account Activity spreadsheet.
Fuel & Joint Owner Accounting	Monica Kilpatrick	<p>6. A format of the JE is on an Excel spreadsheet located on Acct on 'Cincyfile1' / Accounting.Fuels / Staff Folders / M Kilpatrick /</p> <ul style="list-style-type: none"> <li>a. SO<sub>2</sub> is on SO<sub>2</sub> / 2003 EA monthly support / SO<sub>2</sub> JE.xls</li> <li>b. NO<sub>x</sub> is on NO<sub>x</sub> / 2003 / NO<sub>x</sub> Sales.xls</li> </ul> <p><i>Note: NO<sub>x</sub> compliance does not occur until 2004, procedures have not been finalized. In discussions with the NO<sub>x</sub> core compliance team, we have determined that procedures would be similar.</i></p>
Fuel & Joint Owner	Monica Kilpatrick	7. CGE Consumption = the total of the

Misc. Fuel Coal Inventory - Emission Allowance

Accounting		<p>consumption that can be found in the usage support xls file under the "158110 acct rollforward" tab. This is calculated by the consumption units multiplied by the weighted average cost (after monthly transactions). This total should be credited to workcode 15811</p> <ul style="list-style-type: none"> <li>a. Offsystem consumption is calculated &gt; Schedule 5 number divided by the total units consumed multiplied by the total dollar amount of consumption. This total should be debited to workcode 50911.</li> <li>b. Native consumption is calculated &gt; the total dollar amount of consumption subtracting the offsystem dollar amount of consumption. This total should be debited to workcode 50913.</li> </ul>
Fuel & Joint Owner Accounting	Monica Kilpatrick	<p>8. PSI Native Consumption = the consumption that can be found in the usage support xls file under the "158110 acct rollforward" tab. This is calculated by the consumption units multiplied by the weighted average cost (after monthly transactions). This total should be credited to workcode 15811 and debited to workcode 50911.</p>
Fuel & Joint Owner Accounting	Monica Kilpatrick	<p>9. PSI Offsystem Consumption = the consumption that can be found in the usage support xls file under the "acct 232350 rollforward" tab. This is calculated by backing into the consumption dollar amount. The beginning balance and monthly transactions and ending balance are known - the ending balance units are multiplied by the current market value from Cantor Fitzgerald. The consumption units are known - the consumption dollar amount is calculated by using the beginning balance plus any monthly transactions</p>

		subtracting the ending balance. This total should be credited to workcode 23235 and debited to 50913. <i>Note: In the offsystem account, PSI is in a liability status, if PSI ever becomes an asset status, the workcode needs to be 15811 / not the 23235 currently used. To determine if PSI is in an asset status, look at "Off-system physical" tab to determine if the balance has become positive.</i>
Fuel & Joint Owner Accounting	Monica Kilpatrick	10 Once the SO <sub>2</sub> JE.xls file has been filled out, print the "FX422" tabs for CGE and PSI for input into the JE Tool. <i>Note: this process should be completed by Day 3, EOD.</i>

Identify errors in prepared journal entries (CoA.7a)

DEPARTMENT	RESPONSIBILITY	ACTION
Fuel & Joint Owner Accounting	Diana Douglas	1. Verify a copy of the journal entry against the source document to ensure data entry accuracy. If an error is located, make notes on journal entry copy and distribute to Preparer. <i>Note: this process should be complete by Day 4, BOD.</i>

Correct errors in prepared journal entries (CoA.7b)

DEPARTMENT	RESPONSIBILITY	ACTION
Fuel & Joint Owner Accounting	Monica Kilpatrick	1. Correct data errors in JE Tool. <i>Note: this process should be complete by Day 4, before noon.</i>

Post journal entries to BDMS 2.0 (CoA.8)

DEPARTMENT	RESPONSIBILITY	ACTION
Fuel & Joint Owner Accounting	Diana Douglas	1. Approve journal entries for posting. <i>Note: this process should be complete by Day 4, at noon.</i>

Create and post accruals (CoA.10)

Create and post reserves (CoA.11)

DEPARTMENT	RESPONSIBILITY	ACTION
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N/A	N/A	No accruals or reserves are booked related to emission allowance.
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## Training and Documents

Training:

Documents:

- List of Reconciled Accounts

## Who Should Know

- Controller
- Assistant Controllers
- Corporate Accounting
- PACE Data Analysis
- Fuel Procurement
- Fuel & Joint Owner Accounting

## Related Information

Misc. Fuel Coal Inventory - Reconciliation & Analysis Policy

## Contacts

NAME	ROLE	DEPARTMENT
Monica Kilpatrick	Sr. Analyst	Fuel & Joint Owner Accounting
Laura Tranter	Manager	Asset Management
Terri Leake	Sr. Analyst	Commercial Power Acct.
John Funke	Sr. Envir. Scientist (SO <sub>2</sub> )	Air Quality
Mike Geers	Sr. Envir. Scientist (NO <sub>x</sub> )	Air Quality
Pat Coughlin	Assoc. Envir. Scientist	Environmental
Art Buescher	Supervisor	Fuel & Joint Owner Accounting
Diana Douglas	Manager	Fuel & Joint Owner Accounting
Erica Glenn	Senior Analyst	Accounting Research
Amy Sheppard	Manager	Accounting Research



## Definitions

CEMS - Continuous Emission Monitoring System

BOD - Beginning of Day

EOD - End of Day

MOD - Middle of Day

CBU - Commercial Business Unit

## Revisions

The following revisions are effective 09/01/02:

- Update procedure for personnel and department name changes
- Update procedure for some new processes
- Policy number changed from 7.4.1.12 to 7.4.1.11

The following revisions are effective 02/01/04:

- Update procedure for personnel changes
- Update procedure for process changes
- Added NO<sub>x</sub> known procedures (procedures have not been finalized - compliance will be mid-year 2004)
- Policy number changed from 7.4.1.11 to 7.4.1.10

The following revisions are effective 01/01/05:

- Update policy for new manual ownership
- Update policy to reflect reorganization of manual



## Misc. Fuel Coal Inventory - Reconciliation & Analysis

Functional Area: Fuel & Joint Owner Accounting  
Sarbanes-Oxley Category: Inventory  
Process Owner: Diana Douglas  
Effective Date: 09/01/98  
Revised Date: 01/01/05

All accounting policies and procedures can be found on the Accounting Policies and Procedures community within iPower as follows:

- Launch iPower
- Select "Accounting Policies and Procedures" under the "Communities" heading at the top of the page

### Policy Statement

All Balance Sheet accounts for all corporations shall be reconciled using Reconciliation and Analysis Standards as outlined in the Reconciliation & Analysis of Accounts Policy. The reconciliation shall be done on a timely basis, which is determined according to the account standards defined in the New Account Set-up & Definition (Account Standards) Policy.

### Reason for Policy

- To ensure that responsibility for accuracy of data within an account is held by those closest to the transactions
- To increase control of accounts
- To clearly define ownership of accounts providing a single source for information regarding the accounts

### Process Flows

**Process Description/Narrative**

**Frequently Asked Questions**

**Procedure**

Reconcile Accounts (CoA.9)

DEPARTMENT	RESPONSIBILITY	ACTION
		<i>Note: The following process is performed to reconcile all EA &amp; Fuel Related Misc. accounts on a monthly basis.</i>
Fuel & Joint Owner Accounting	Richard Gallagher Lashya Porter Monica Kilpatrick	1. Obtain supporting schedules, which contain detail account balances for Emission Allowance Inventory, Expense, A/P, and detail for other accounts.
Fuel & Joint Owner Accounting	Richard Gallagher Lashya Porter Monica Kilpatrick	2. Verify the GL balance (from FRT) to the supporting schedule balances.
Fuel & Joint Owner Accounting	Richard Gallagher Lashya Porter Monica Kilpatrick	3. Investigate material balance variances and mis-posted transactions as necessary.
Fuel & Joint Owner Accounting	Richard Gallagher Lashya Porter Monica Kilpatrick	4. Create adjustments, as necessary.
Fuel & Joint Owner Accounting	Richard Gallagher Lashya Porter Monica Kilpatrick	5. Send reconciliation to Rose Ann Amshoff and Wally Marko.
Fuel & Joint Owner Accounting	Richard Gallagher Lashya Porter Monica Kilpatrick	6. Update "Last Reconciled Date" field in BDMS (PBR- Accounting Date Set-up) to reflect the last period for which the account balance was verified/reconciled.

Perform analysis of transactions (CoA.12)

Misc. Fuel Coal Inventory - Reconciliation & Analysis

DEPARTMENT	RESPONSIBILITY	ACTION
Fuel & Joint Owner Accounting	Richard Gallagher Lashya Porter Monica Kilpatrick	1. Perform analysis relative to processing of invoices, journal entries, etc., as necessary

Perform analysis of financial statements: business unit review (CoA.13a)

DEPARTMENT	RESPONSIBILITY	ACTION
Fuel & Joint Owner Accounting	Art Buescher Monica Kilpatrick Diana Douglas	1. Business Unit specific Financial Statement analysis is at the discretion of the Business Unit with the exception of minimum analysis required to support Legal Entity analysis. The extent of Legal Entity analysis will be determined on a case-by-case basis, as required.

Perform analysis of financial statements: legal review of regulatory entity (CoA.13b)

DEPARTMENT	RESPONSIBILITY	ACTION
Fuel & Joint Owner Accounting	Art Buescher Diana Douglas	1. Provide general accounting information, as required, for their variance analysis.

## Training and Documents

Training:

Additional Documents:

## Who Should Know

- Controller
- Assistant Controllers
- Corporate Accounting
- Fuel & Joint Owner Accounting

## Related Information

New Account Set-up & Definition (Account Standards) Policy

Reconciliation & Analysis of Accounts Policy

Misc. Fuel Coal Inventory - Emission Allowance Policy

## Contacts

NAME	ROLE	DEPARTMENT
Richard Gallagher	Analyst	Fuel & Joint Owner Accounting
Lashyia Porter	Analyst	Fuel & Joint Owner Accounting
Monica Kilpatrick	Sr. Analyst	Fuel & Joint Owner Accounting
Art Buescher	Supervisor	Fuel & Joint Owner Accounting
Diana Douglas	Manager	Fuel & Joint Owner Accounting
Erica Glenn	Senior Analyst	Accounting Research
Amy Sheppard	Manager	Accounting Research

## Definitions

## Revisions

The following revisions are effective 09/01/02:

- Updated policy for personnel and department name changes
- Policy number changed from 7.4.1.17 to 7.4.1.12

The following revisions are effective 02/01/04:

- Updated policy for personnel changes
- Policy number changed from 7.4.1.12 to 7.4.1.11

The following revisions are effective 01/01/05:

- Update policy for new manual ownership
- Update policy to reflect reorganization of manual



## Misc. AR Reconciliation & Analysis

Functional Area: Regulated Business Accounting  
Sarbanes-Oxley Category: Revenue, Metering, Billing, Receipts, Collections  
Process Owner: Ben Flora  
Effective Date: 09/01/98  
Revised Date: 01/01/05

All accounting policies and procedures can be found on the Accounting Policies and Procedures community within iPower as follows:

- Launch iPower
- Select "Accounting Policies and Procedures" under the "Communities" heading at the top of the page

### Policy Statement

All Balance Sheet accounts for all corporations shall be reconciled using Reconciliation and Analysis Standards as outlined in the Reconciliation & Analysis of Accounts Policy. The reconciliation shall be done on a timely basis, which is determined according to the account standards defined in the New Account Set-up & Definition (Account Standards) Policy.

### Reason for Policy

- To ensure that responsibility for accuracy of data within an account is held by those closest to the transactions
- To increase control of accounts
- To clearly define ownership of accounts providing a single source for information regarding the accounts

### Process Flows

**Process Description/Narrative**

**Frequently Asked Questions**

**Procedure**

Reconcile Accounts (CoA.9)

DEPARTMENT	RESPONSIBILITY	ACTION
MAR	Mitch Martin	<i>Note: The following process is performed monthly to reconcile all Misc. A/R Pmt. accounts:</i>
MAR	Mitch Martin	1. Obtain supporting schedules for accounts 143100, 143220, 143400, 142800, 142820-830, 143200, 252xxx, 253070.
MAR	Mitch Martin	2. Verify GL balance to supporting schedule balance.
MAR	Mitch Martin	3. Compare and validate the transactions in the GL to those in the supporting schedules.
MAR	Mitch Martin	4. Create correcting adjustments as necessary.
MAR	Mitch Martin	5. Update "Last Reconciled Date" field in BDMS (PBR - Accounting Data Set-up) to reflect the last period for which the account balance was verified/reconciled.

Perform analysis of transactions (CoA.12)

DEPARTMENT	RESPONSIBILITY	ACTION
MAR	Elaine McConico Sean Kegley Mitch Martin	1. Perform variance analysis monthly on the GL account balances.

Perform analysis of financial statements: business unit review (CoA.13a)

Misc. AR Reconciliation & Analysis

DEPARTMENT	RESPONSIBILITY	ACTION
MAR	Mitch Martin	1. Business Unit specific Financial Statement analysis is at the discretion of the Business Unit with the exception of minimum analysis required to support Legal Entity analysis. The extent of Legal Entity analysis will be determined on a case-by-case basis, as required.

Perform analysis of financial statements: legal review of regulatory entity (CoA.13b)

DEPARTMENT	RESPONSIBILITY	ACTION
MAR	Mitch Martin	1. Provide Corporate Accounting with information, as requested, for variation analysis.

## Training and Documents

Training:

Additional Documents:

## Who Should Know

- Controller
- Assistant Controllers
- Miscellaneous Accounts Receivable
- RBU CFO
- RBU Finance Manager

## Related Information

New Account Set-up & Definition (Account Standards) Policy

Reconciliation & Analysis of Accounts Policy

Misc. AR - On-line System Generated Journal Entries Policy



Misc. AR - Manual Journal Entries Policy

Misc. AR - Trial Balance, Paid-out, & Charge-off Reports Policy

## Contacts

NAME	ROLE	DEPARTMENT
Mitch Martin	Supervisor	MAR
Ben Flora	Manager	MAR
Elaine McConico	Acct. Assistant	MAR
Sean Kegley	Sr. Analyst	MAR
Erica Glenn	Senior Analyst	Accounting Research
Amy Sheppard	Manager	Accounting Research

## Definition

MAR - Miscellaneous Accounts Receivable

## Revisions

The following revisions are effective 09/01/00:

- Update procedure for personnel changes
- Update process for Account Reconciliation Database in PBR

The following revisions are effective 02/01/02:

- Update procedure for process change
- Update procedure for department name change
- Policy number changed from 7.1.8.7 to 7.1.8.5

The following revisions are effective 11/01/03:

- Update procedure for process changes
- Update procedure for personnel changes

The following revisions are effective 12/01/03:

- Policy number changed from 7.1.8.5 to 7.1.8.4
- Updated Related Information

The following revisions are effective 01/01/05:

- Update policy for new manual ownership
- Update policy to reflect reorganization of manual



## Misc. AR - On-line System Generated Journal Entries

Functional Area: Regulated Business Accounting  
Sarbanes-Oxley Category: Revenue, Metering, Billing, Receipts, Collections  
Process Owner: Ben Flora  
Effective Date: 09/01/98  
Revised Date: 01/01/05

All accounting policies and procedures can be found on the Accounting Policies and Procedures community within iPower as follows:

- Launch iPower
- Select "Accounting Policies and Procedures" under the "Communities" heading at the top of the page

### Policy Statement

The Cinergy Miscellaneous Accounts Receivable Group will record all transactions related to miscellaneous accounts receivable.

### Reason for Policy

To record miscellaneous accounts receivable activity in the Company financial statements in adherence to GAAP and Regulatory Requirements

### Process Flows

### Process Description/Narrative

## Frequently Asked Questions

## Procedure

Capture information on business transactions (CoA.1)  
 Classify transactions for journalizing (CoA.2)  
 Cutoff transactions (CoA.5)

DEPARTMENT	RESPONSIBILITY	ACTION
Originating Organization	Originating Organization	1. Capture invoice information and classify from PassPort AR Interface, paper mail, e-mail, phone calls, etc. Month end cutoff occurs on the last business day of the month. Distribute to MAR. <i>Note: this process should be completed daily.</i>

Identify error(s) in source documents and pushback for correction (CoA.3)  
 Correct error(s) in source documents (CoA.4)  
 Prepare journal entries (CoA.6)

DEPARTMENT	RESPONSIBILITY	ACTION
MAR	Mitch Martin Tina Holland Sean Kegley	1. Extract data from invoices and keypunch into the Invoice System in ROSCOE or download data from PassPort AR Interface. <i>Note: this process should be completed daily.</i>
MAR	Mitch Martin Tina Holland Sean Kegley Elaine MConico	2. Validate data as it is entered via automatic validation on ROSCOE. If an error exists, the operator is notified by an error message on the screen. Contact the Originating Organization. <i>Note: this process should be completed daily.</i>
Originating Organization	Originating Organization	3. Correct data and notify MAR. <i>Note: this process should be completed daily.</i>
MAR	Mitch Martin Sean Kegley	4. Compile invoice data for the whole month into one data set and run a series of monthly closing programs. <i>Note: this process should be completed on the last business day of the month.</i>

MAR	Mitch Martin Sean Kegley	5. Run distribution program in ROSCOE to create auto feed to BDMS 2.0. <i>Note: this process should be complete by Day 2, EOD.</i>
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Identify errors in prepared journal entries (CoA.7a)

DEPARTMENT	RESPONSIBILITY	ACTION
MAR	Mitch Martin	1. Compare the auto feed control report to the supporting documentation for accuracy. <i>Note: this process should be complete by Day 2, EOD.</i>

Correct errors in prepared journal entries (CoA.7b)

DEPARTMENT	RESPONSIBILITY	ACTION
MAR	Mitch Martin Sean Kegley	1. Correct errors in ROSCOE and reprocess the auto feed. <i>Note: this process should be complete by Day 2, EOD.</i>

Post journal entries to BDMS 2.0 (CoA.8)

DEPARTMENT	RESPONSIBILITY	ACTION
MAR	Mitch Martin	1. Approve journal entries.
Corporate Accounting	BDMS Coordinator / John Linton	2. BDMS will post all journal entries approved for posting. <i>Note: this process should be complete in accordance with the monthly closing schedule</i>

Create and post accruals (CoA.10)

Create and post reserves (CoA.11)

DEPARTMENT	RESPONSIBILITY	ACTION
N/A	N/A	All accruals and reserves are included in the above processes.

## Training and Documents

Training:

Additional Documents:

**Who Should Know**

- Controller
- Assistant Controllers
- Corporate Accounting
- Miscellaneous Accounts Receivable
- Gas Department
- RBU CFO
- RBU Finance Manager

**Related Information**

Misc. AR - Manual Journal Entries Policy

Misc. AR - Trial Balance, Paid-out, & Charge-off Reports Policy

Misc. AR - Reconciliation & Analysis Policy

**Contacts**

NAME	ROLE	DEPARTMENT
Mitch Martin	Supervisor	MAR
Tina Holland	MAR	MAR
Elaine McConico	MAR	MAR
Sean Kegley	MAR	MAR
Ben Flora	Manager	RBBU
Erica Glenn	Senior Analyst	Accounting Research
Amy Sheppard	Manager	Accounting Research

**Definitions**

GAAP: Generally Accepted Accounting Principles

MAR: Miscellaneous Accounts Receivable

## Revisions

The following revisions are effective 09/01/00:

- Update procedure for personnel changes
- Update procedure for process changes

The following revisions are effective 02/01/02:

- Update procedure for department name change
- Update procedure for process changes

The following revisions are effective 11/01/03:

- Update procedure for process changes
- Update procedure for personnel changes

The following revision is effective 12/01/03:

- Update Related Information

The following revisions are effective 01/01/05:

- Update policy for new manual ownership
- Update policy to reflect reorganization of manual



## Misc. AR -Trial Balance, Paid-out, & Charge-off Reports

Functional Area: Regulated Business Accounting  
Sarbanes-Oxley Category: Revenue, Metering, Billing, Receipts, Collections  
Process Owner: Ben Flora  
Effective Date: 09/01/98  
Revised Date: 01/01/05

All accounting policies and procedures can be found on the Accounting Policies and Procedures community within iPower as follows:

- Launch iPower
- Select "Accounting Policies and Procedures" under the "Communities" heading at the top of the page

### Policy Statement

The Cinergy Miscellaneous Accounts Receivable Department (MAR) will report all transactions related to miscellaneous invoicing activity.

### Reason for Policy

To create point-in-time reports reflecting invoicing activity in the MAR System

### Process Flows

### Process Description/Narrative



## Frequently Asked Questions

## Procedure

### Balance Cash for Month (CoA.12)

DEPARTMENT	RESPONSIBILITY	ACTION
MAR	Elaine McConico	1. Balance last day of cash (happens on first business day of following month).
MAR	Elaine McConico	2. Compare Cash Spreadsheets to Cash Receipts 100-1 report generated out of CMS.
MAR	Elaine McConico	3. Record corrections to 100-1 on journal entry AR565 - Mis-Applied Cash Payments Corrections.
MAR	Elaine McConico	4. Fetch and submit PAYMENT1 which creates a report used to verify all Charge Offs were captured and provides accounting for journal entry AR111 - Recoveries.

### Remove Charge Off Invoices and Zero Balance Invoices (GA0004) (CoA.2)

DEPARTMENT	RESPONSIBILITY	ACTION
MAR	Elaine McConico	1. Record current generation of master file and number of records.
MAR	Elaine McConico	2. Fetch and submit GA0004 which will remove all invoices charged off and all zero balance invoices from the Master file.
MAR	Elaine McConico	3. Record Paid Out and Charge Off tape numbers as well as new generation of master file and number of records (which must be a lower number than in first step)
MAR	Elaine McConico	4. Print Monthly Paid Out Accounts and Charged Off Accounts Reports.

### Update Charge Off File (GA0004A) (CoA.2)

DEPARTMENT	RESPONSIBILITY	ACTION
MAR	Elaine McConico	1. Fetch and submit GA0004A which will update the Charge Off Master File with invoices that were charged off and removed from the master file during the month.
MAR	Elaine McConico	2. Verify tape number that was used for update was same tape number created by GA0004.
MAR	Elaine McConico	3. Record the new tape number of the Charge Off Master File.

Update Paid Out File and Print Paid Out Trial Balance (PDOUT) (CoA.2)

DEPARTMENT	RESPONSIBILITY	ACTION
MAR	Elaine McConico	1. Fetch and submit PDOUT which updates the Paid Out File and creates a Trial Balance of all Zero Balance invoices.
MAR	Elaine McConico	2. Verify tape number that was used for update was same tape number created by GA0004.
MAR	Elaine McConico	3. Verify that the Payout Master tape number that was used to create the new tape was the tape output from last month.
MAR	Elaine McConico	4. Print Paid Out Trial Balance Report.

Print Trial Balance (GA0005) (CoA.2)

DEPARTMENT	RESPONSIBILITY	ACTION
MAR	Elaine McConico	1. Fetch and submit GA0005.
MAR	Elaine McConico	2. Print Trial Balance Report.

Print Charge Off Trial Balance (COA) (CoA.2)

DEPARTMENT	RESPONSIBILITY	ACTION
MAR	Elaine McConico	1. Fetch and submit COA.
MAR	Elaine McConico	2. Verify that the tape used was the tape created by GA0004A.
MAR	Elaine McConico	3. Print Charge Off Trial Balance Report.

Misc. AR - Trial Balance, Paid-out, & Charge-off Reports

Print listing of all payments during month with Credit Date (CRPAY) (CoA.2)

DEPARTMENT	RESPONSIBILITY	ACTION
MAR	Elaine McConico	1. Fetch and submit CRPAY.
MAR	Elaine McConico	2. Print job and give printout to Misc. A/R Collections.

Print listing of all payments during month with Agency or Legal Date (AGENCY) (CoA.2)

DEPARTMENT	RESPONSIBILITY	ACTION
MAR	Elaine McConico	1. Fetch and submit AGENCY.
MAR	Elaine McConico	2. Print job and give printout to Misc. A/R Collections.

Print listing of all invoices with a credit date that were cancelled during month (CRCANCEL) (CoA.2)

DEPARTMENT	RESPONSIBILITY	ACTION
MAR	Elaine McConico	1. Fetch and submit CRCANCEL.
MAR	Elaine McConico	2. Print job and give printout to Misc. A/R Collections.

## Training and Documents

Training:

Additional Documents:

## Who Should Know

- Controller
- Assistant Controllers
- Corporate Accounting
- Miscellaneous Accounts Receivable
- RBU CFO
- RBU Finance Manager

## Related Information

Misc. AR - On-line System Generated Journal Entries Policy

Misc. AR - Manual Journal Entries Policy

Misc. AR - Reconciliation & Analysis Policy

## Contacts

NAME	ROLE	DEPARTMENT
Mitch Martin	Supervisor	MAR
Sean Kegley	MAR	MAR
Elaine McConico	MAR	MAR
Debbie Linneman	Collections	MAR
Erica Glenn	Senior Analyst	Accounting Research
Amy Sheppard	Manager	Accounting Research

## Definitions

MAR - Miscellaneous Accounts Receivable

## Revisions

The following revision is effective 09/01/00:

- Update procedure for personnel changes

The following revisions are effective 02/01/02:

- Update procedure for personnel changes
- Update procedure for department name change

The following revision is effective 12/01/03:

- Other policies combined to create this policy

The following revisions are effective 01/01/05:

- Update policy for new manual ownership
- Update policy to reflect reorganization of manual



## Misc. AR - Manual Journal Entries

Functional Area: Regulated Business Accounting  
Sarbanes-Oxley Category: Revenue, Metering, Billing, Receipts, Collections  
Process Owner: Ben Flora  
Effective Date: 09/01/98  
Revised Date: 01/01/05

All accounting policies and procedures can be found on the Accounting Policies and Procedures community within iPower as follows:

- Launch iPower
- Select "Accounting Policies and Procedures" under the "Communities" heading at the top of the page

### Policy Statement

The Miscellaneous Accounts Receivable Department (MAR) will record manual journal entries related to miscellaneous accounts receivable transactions that were not recorded to the General Ledger as a System Generated Journal Entry transaction.

### Reason for Policy

To record Miscellaneous Accounts Receivable activity in the company financial statements in adherence to GAAP and Regulatory Requirements

### Process Flows

### Process Description/Narrative

## Frequently Asked Questions

## Procedure

Capture information on business transactions (CoA. 1)  
Collect source data and input into Journal Entry (CoA. 6)  
Input into Journal Entry

DEPARTMENT	RESPONSIBILITY	ACTION
MAR	Tina Holland Sean Kegley	1. Run GA0006 Report run against invoices coded for Charge Off. Input into Journal entry AR109 - A/R Charge Offs.
MAR	Elaine McConico Sean Kegley	2. Run Payment 1 which generates Payments Received on Charge Offs Report AR111 - Recoveries.
MAR	Sean Kegley	3. Run account 143990 Sub-ledger reports using FRT and input inter-company adjustments into AR401-Fitness Center Adjustments.
MAR	Sean Kegley Mitch Martin	4. Accounting information related to Invoicing that did not make deadline for monthly closing of MAR system is input into AR451 - Entries Not Recorded SGJ and reverse following month on AR452 - Reversal of Previous Month AR451.
MAR	Elaine McConico Sean Kegley Mitch Martin	5. Input cash transfers related to month-end closing using the Mis-applied payment spreadsheets from the AR Cash spreadsheets onto AR565 - Mis-Applied Cash Pmts Correction.
MAR	Elaine McConico Sean Kegley	6. Input Expired Gas Main Agreements to be transferred to Construction that are found on the Gas Main Extension - Final Review Letter from Gas Department into AR575 - Cust Gas Advance Reclass.
MAR	Elaine McConico Sean Kegley Mitch Martin	7. Input corrections to Balancing items and other adjustments related to transactions in MAR system into

		AR9xx - Corrections Journal Entry.
--	--	------------------------------------

Identify and correct error(s) in prepared journal entries (CoA.3) (CoA.4)

DEPARTMENT	RESPONSIBILITY	ACTION
MAR	Elaine McConico Sean Kegley Mitch Martin	1. Verify accounting on journal entry against the source document. Contact originator of source document for correct accounting if error is not related to mis-key.
MAR	Elaine McConico Sean Kegley Mitch Martin	2. Correct data entry errors in JE Tool and re-validate accounting to verify accounting correction.

Post journal entries to BDMS 2.0. (CoA.8)

DEPARTMENT	RESPONSIBILITY	ACTION
MAR	Sean Kegley Mitch Martin	1. Approve Journal entries per deadline schedule issued by BDMS Coordinator/Corporate Accounting.
Corporate Accounting	BDMS Coordinator / John Linton	2. BDMS will post all journal entries approved for posting.

Create and post accruals (CoA.10)

Create and post reserves (CoA.11)

DEPARTMENT	RESPONSIBILITY	ACTION
N/A	N/A	1. No accruals or reserves are booked related to Misc. AR.

## Training and Documents

Training:

Additional Documents:

- Support documents for procedures may be found in MAR

## Who Should Know



- Controller
- Assistant Controllers
- Corporate Accounting
- Miscellaneous Accounts Receivable
- RBU CFO
- RBU Finance Manager

**Related Information**

Misc. AR - On-line System Generated Journal Entries Policy

Misc. AR - Trial Balance, Paid-out, & Charge-off Reports Policy

Misc. AR - Reconciliation & Analysis Policy

**Contacts**

NAME	ROLE	DEPARTMENT
Mitch Martin	Supervisor	MAR
Tina Holland	MAR	MAR
Elaine McConico	MAR	MAR
Sean Kegley	MAR	MAR
Erica Glenn	Senior Analyst	Accounting Research
Amy Sheppard	Manager	Accounting Research

**Definitions**

MAR - Miscellaneous Accounts Receivable

**Revisions**

The following revisions are effective 09/01/00:

- Update procedure for personnel changes
- Update procedure for process changes

The following revisions are effective 02/01/02:

- Update procedure for personnel changes
- Update procedure for department name change

The following revisions are effective 12/01/03:

- Update procedure for personnel changes
- Update procedure for process changes

The following revisions are effective 01/01/05:

- Update policy for new manual ownership
- Update policy to reflect reorganization of manual



# Misc. Accounts Receivable Invoice Preparation

Functional Area: Regulated Business Accounting

Sarbanes-Oxley Category:

Process Owner: Ben Flora

Effective Date: 12/01/03

Revised Date: 01/01/05

All accounting policies and procedures can be found on the Accounting Policies and Procedures community within iPower as follows:

- Launch iPower
- Select "Accounting Policies and Procedures" under the "Communities" heading at the top of the page

## Policy Statement

The Miscellaneous Accounts Receivable Department (MAR) will create invoices and record transactions to be posted to the companies' books.

## Reason for Policy

To record receivables not recorded by CMS

## Process Flows

## Process Description/Narrative

## Frequently Asked Questions

### Q1. Where do I get an Invoice Preparation Form?

A. You can find the Invoice Preparation Form in Public Folders under the Accounts Receivable Folder. Choose the appropriate form and fill out information according to instructions on the form.

### Q2. Where do I send the Invoice Preparation Form?

A. You can fill it out and inter-company mail the form to MAR - 1146 Main or you can email the form to MiscAR@Cinergy.com. Please attach the checks directly to the form so they will not be separated.

## Procedure

### Create Invoices (CoA.1)

DEPARTMENT	RESPONSIBILITY	ACTION
Source Department	Originator	1. Complete Invoice Preparation Form and send to MAR at 1146M or email to MiscAR@Cinergy.com.
Misc. Accounts Receivable	Tina Holland	2. Determine appropriate Corporation, receivable account, customer reference, excise tax code, service code, and billing type for each Invoice Prep. Form.
Misc. Accounts Receivable	Tina Holland	3. Type information from Invoice Prep. Form into a dataset in the MAR System.
Misc. Accounts Receivable	Tina Holland	4. Submit dataset into the MAR System to verify accounting. If incorrect, give to Sean Kegley or Mitch Martin to correct accounting. If correct, post dataset to MAR System.
Misc. Accounts Receivable	Sean Kegley Mitch Martin	5. Correct information in dataset and return to Tina Holland.
Misc. Accounts Receivable	Tina Holland	6. Re-submit dataset into MAR System.
Misc. Accounts Receivable	Tina Holland	7. Post dataset to Open Master File in the MAR System.

DEPARTMENT	RESPONSIBILITY	ACTION
Misc. Accounts Receivable	Tina Holland	8. Receive invoices from Computer Room and perform instructions on Invoice Prep. Form (e.g. mail to customer, mail to Company representative, do not mail invoice).

Post to G/L (7.1.8.1) (CoA.5) (CoA.6) (CoA.10)

DEPARTMENT	RESPONSIBILITY	ACTION
Misc. Accounts Receivable	Sean Kegley	1. Cutoff processing of Invoice Prep. Forms for the month on the last business day of month.
Misc. Accounts Receivable	Sean Kegley	2. Collect transactions and validate accounting.
Misc. Accounts Receivable	Sean Kegley	3. Create file for posting to General Ledger and give file to Data Warehouse by Day 2, EOD.
Data Warehouse	John Linton	4. Post File to General Ledger

## Training and Documents

Training:

Additional Documents:

## Who Should Know

- Controller
- Assistant Controllers
- Corporate Accounting
- RBU CFO
- RBU Financial Manager
- Miscellaneous Accounts Receivable

## Related Information

Misc. AR - On-line System Generated Journal Entries Policy

## Contacts

NAME	ROLE	DEPARTMENT
Mitch Martin	Supervisor	Misc. Accounts Receivable
Sean Kegley	Sr. Analyst	MAR
Tina Holland	Typist/Clerk	MAR
Erica Glenn	Senior Analyst	Accounting Research
Amy Sheppard	Manager	Accounting Research

## Definitions

MAR - Miscellaneous Accounts Receivable

## Revisions

The following revisions are effective 01/01/05:

- Update policy for new manual ownership
- Update policy to reflect reorganization of manual



## Unbilled Revenue

Functional Area: Regulated Business Accounting  
Sarbanes-Oxley Category: Revenue, Metering, Billing, Receipts, Collections  
Process Owner: Ben Flora  
Effective Date: 10/01/01  
Revised Date: 01/01/05

All accounting policies and procedures can be found on the Accounting Policies and Procedures community within iPower as follows:

- Launch iPower
- Select "Accounting Policies and Procedures" under the "Communities" heading at the top of the page

### Policy Statement

On a monthly basis, Cinergy will calculate the estimated retail revenue incurred, but not yet billed, which is called "unbilled revenue." The unbilled revenue will be recorded by company, service line and major revenue classification combinations, and be included in the Company's financial statements.

### Reason for Policy

To include unbilled revenue recognition in the financial statements to be in compliance with the matching principle of accrual based accounting.

### Process Flows

### Process Description/Narrative

## Frequently Asked Questions

## Procedure

### Unbilled Revenue Procedure for Monthly Closing Routine

DEPARTMENT	RESPONSIBILITY	ACTION
Billing	Tim Quillen Debbie Quiroz	1. Verify completion of all billing data input into CSS, Special Ledger, CIS and LPS.
Billing	Tim Quillen Debbie Quiroz	2. Review billing data to verify accuracy.
Billing	Tim Quillen Debbie Quiroz	3. Initiate closing routines for billing systems. <i>Note: must be done by end of Day 4.</i>
IT	Automated	4. Mainframe summarizes and formats data to a file format. <i>Note: must be done morning of Day 5.</i>
Load Forecasting	Tim Phillips	5. Gather weather statistics and format for HELM software. <i>Note: must be done by Day 5.</i>
Load Forecasting	Tim Phillips	6. Gather billing data and load into appropriate directories. <i>Note: must be done by middle of Day 5.</i>
Load Forecasting	Tim Phillips	7. Run HELM software to produce the unbilled sales estimates by Company, by service, by revenue class and rate class (for CG&E and PSI electric). <i>Note: must be done by Day 5.</i>
Load Forecasting	Tim Phillips	8. Generate unbilled kwh/mcf reports/file. <i>Note: must be done by Day 5.</i>
Load Forecasting	Tim Phillips	9. Review the unbilled kwh/mcf sales data generated in Step 8. <i>Note: must be done by Day 5.</i>
Load Forecasting	Tim Phillips	10. Distribute kwh/mcf reports/file to Regulated Businesses (RB) Financial Operations.
RBBU Financial Operations	RBBU Staff	11. Receive kwh/mcf reports/file.
RBBU Financial Operations	RBBU Staff	12. Derive revenue by Company, by



## Unbilled Revenue

		service line, by major revenue class utilizing the approved revenue pricing methodology.
RBBU Financial Operations	RBBU Staff	13. Perform analysis and verify that results (both usage and revenue) are in line with expectations. <i>Note: must be done by noon of Day 6.</i>
RBBU Financial Operations	RBBU Staff	14. Create journal entries for unbilled revenue. <i>Note: must be done by noon of Day 6.</i>
RBBU Financial Operations	RBBU Staff	15. Conduct detailed analysis on all input data to verify and understand drivers for the current month unbilled revenue. Conduct comparative analysis to establish and understand potential trends, problems or issues. <i>Note: to be conducted after current month closing.</i>

## Unbilled Revenue Tasks to be Done Periodically

DEPARTMENT	RESPONSIBILITY	ACTION
Load Forecasting	Tim Phillips Jim Riddle	1. Evaluate validity of load shapes and weather response functions. (Annually)
Billing	Tim Quillen Debbie Quiroz	2. Create billing cycle meter read files for the next calendar year. (Annually)
Load Forecasting	Tim Phillips Jim Riddle	3. Create new weather response functions in the event that some are considered invalid. (As necessary)
Load Forecasting	Tim Phillips Jim Riddle	4. Create new load shapes in the event that some are considered invalid. (As necessary)

## Training and Documents

Training:

Additional Documents:

- Unbilled Revenue Instructions

## Who Should Know

- Controller
- Assistant Controllers
- Corporate Accounting
- Tax
- Billing Manager
- RB Financial Operations
- Load Forecasting Supervisor

**Related Information**

**Contacts**

NAME	ROLE	DEPARTMENT
Tim Phillips	HELM Software	Load Forecasting
Debbie Quiroz	CGE Billing	Billing
Tim Quillen	PSI Billing	Billing
Amy Dlugokecki	Supervisor	RBBU
Don Storck	Manager	RBBU
Erica Glenn	Senior Analyst	Accounting Research
Amy Sheppard	Manager	Accounting Research

**Definitions**

CIS - Customer Information System - A PSI billing system

CSS - Customer Service System - A CG&E companies billing system

HELM - Hourly Electric Load Model - Software utilized for estimating the unbilled sales

Kwh - Kilowatt hours - unit of measure for electricity

Load Shapes - Profile of "typical usage patterns" based on actual research

LPS - Large Power System - A PSI billing system

Major Revenue Classification - Revenue Classifications of Residential, Commercial, Industrial, and Other

Mcf - Thousand Cubic Feet - unit of measure for gas

Special Ledger - A CG&E companies billing system

Weather Response Function - A usage to temperature/weather sensitivity factor based on research

## Revisions

The following revisions are effective 11/01/03:

- Update procedure for process changes
- Update procedure for personnel changes

The following revisions are effective 01/01/05:

- Update policy for new manual ownership
- Update policy to reflect reorganization of manual



## Utility Revenue - East - Chargeoffs

Functional Area: Regulated Business Accounting  
Sarbanes-Oxley Category: Revenue, Metering, Billing, Receipts, Collections  
Process Owner: Ben Flora  
Effective Date: 09/01/98  
Revised Date: 01/01/05

All accounting policies and procedures can be found on the Accounting Policies and Procedures community within iPower as follows:

- Launch iPower
- Select "Accounting Policies and Procedures" under the "Communities" heading at the top of the page

### Policy Statement

Cinergy will chargeoff all uncollectible accounts in the Company financial statements.

### Reason for Policy

To chargeoff all uncollectible accounts in the Company financial statements in adherence to GAAP and regulatory requirements

### Process Flows

### Process Description/Narrative

**Frequently Asked Questions**

**Procedure**

Capture information on business transactions (CoA.1)  
 Classify transactions for journalizing (CoA.2)  
 Cutoff transactions (CoA.5)

DEPARTMENT	RESPONSIBILITY	ACTION
Billing Services	Billing Clerks	1. Capture gas & electric revenue activity and classify into the CMS system. Month end cutoff occurs based upon the monthly closing calendar set at the beginning of each year. <i>Note: this process should be completed daily.</i>

Identify error(s) in source documents and pushback for correction (CoA.3)

DEPARTMENT	RESPONSIBILITY	ACTION
Billing Services	Martha Elrod	1. Verify daily CMS processing activity. Notify Debbie Quiroz of any errors identified. <i>Note: this process should be completed daily.</i>

Correct error(s) in source documents (CoA.4)

DEPARTMENT	RESPONSIBILITY	ACTION
Billing Services	Debbie Quiroz	1. Determine the cause of any errors identified and notify IT regarding correction requests.
IT	Tom Susman	2. Correct errors identified.

Prepare journal entries (CoA.6)

DEPARTMENT	RESPONSIBILITY	ACTION
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Utility Revenue - East - Chargeoffs

Billing Services	CMS System	1. Generate Report: Report: p35ca064 - od35301 (Account Distribution - Customer Utility Chargeoffs) and CMS Chargeoff Report. <i>Note: this process should be complete by Day 3, EOD.</i>
Billing Services	Martha Elrod	2. Summarize the reports (p35ca064 - od35301 and CMS Chargeoff Report) and forward to RBBU. <i>Note: this process should be complete by Day 4, MOD.</i>
Billing Services	FACT Team	3. Generate BDMS interface file.
RBBU	Joyce Wimmers	4. Direct feed to BDMS and run reports to verify.

Identify errors in prepared journal entries (CoA.7a)

DEPARTMENT	RESPONSIBILITY	ACTION
RBBU	RBBU Staff	1. Verify a copy of the journal entry against the source document to ensure data entry accuracy. If an error is identified, return the JE and correcting note to preparer. <i>Note: this process should be complete by Day 5, EOD.</i>
Billing Services	FACT Team	2. Review system generated error report.

Correct errors in prepared journal entries (CoA.7b)

DEPARTMENT	RESPONSIBILITY	ACTION
RBBU	Joyce Wimmers	1. Correct data entry in JE Tool. <i>Note: this process should be complete by Day 5, EOD.</i>
Billing Services	FACT Team	2. Correct BDMS interface file.

Post journal entries to BDMS 2.0 (CoA.8)

DEPARTMENT	RESPONSIBILITY	ACTION
RBBU	RBBU Staff	1. Approve journal entries for posting.

Billing Services	FACT Team	2. Notify Corporate Accounting to grab and post file.
Corporate Accounting	BDMS Coordinator / John Linton	3. BDMS will post all journal entries approved for posting. <i>Note: this process should be complete by Day 5, EOD.</i>

Create and post accruals (CoA.10)  
 Create and post reserves (CoA.11)

DEPARTMENT	RESPONSIBILITY	ACTION
N/A	N/A	All accruals and reserves are included in the above process.

## Training and Documents

Training:

Additional Documents:

## Who Should Know

- Controller
- Assistant Controllers
- Corporate Accounting
- Billing Services
- RBBU Financial Operations

## Related Information

Utility Revenue - East & West Policy

Utility Revenue - East - Provision for Uncollectable Policy

Utility Revenue - East - Percentage of Income Plan Policy

Utility Revenue - East - Customer Cash Receipts Policy

Utility Revenue - East & West - Reconciliation & Analysis Policy

**Contacts**

NAME	ROLE	DEPARTMENT
Patti Kinney	Billing Services	Billing Services
Martha Elrod	Billing Services	Billing Services
FACT Team	Billing Services	Billing Services
Debbie Quiroz	Billing Services	Billing Services
Joyce Wimmers	RBBU	RBBU
Tom Susman	IT	IT
Ben Flora	Manager	RBBU
Erica Glenn	Senior Analyst	Accounting Research
Amy Sheppard	Manager	Accounting Research

**Definitions**

GAAP: Generally Accepted Accounting Policies

MOD: Middle of Day

EOD: End of Day

RBBU: Regulated Businesses Business Unit

**Revisions**

The following revisions are effective 02/01/01:

- Update procedure for personnel changes
- Update procedure for process changes

The following revisions are effective 05/01/02:

- Update procedure for personnel changes
- Business Unit name changed from EDBU to RBBU
- Update procedure for process timing change



The following revisions are effective 11/01/03:

- Update procedure for process changes
- Update procedure for personnel changes

The following revisions are effective 01/01/05:

- Update policy for new manual ownership
- Update policy to reflect reorganization of manual



## Misc. Transmission Payments - Wheeling Expense for EKP

Functional Area: Regulated Business Accounting  
Sarbanes-Oxley Category: Revenue, Metering, Billing, Receipts,  
Collections  
Process Owner: Ben Flora  
Effective Date: 09/01/98  
Revised Date: 01/01/05

All accounting policies and procedures can be found on the Accounting Policies and Procedures community within iPower as follows:

- Launch iPower
- Select "Accounting Policies and Procedures" under the "Communities" heading at the top of the page

### Policy Statement

Regulated Businesses Financial Operations will record all transactions related to the Wheeling Expense for EKP.

### Reason for Policy

To record Misc. Transmission Payments activity in the Company financial statements in adherence to GAAP and Regulatory Requirements

### Process Flows

### Process Description/Narrative

## Frequently Asked Questions

## Procedure

Capture information on business transactions (CoA.1)  
 Classify transactions for journalizing (CoA.2)

DEPARTMENT	RESPONSIBILITY	ACTION
EKP	Laura Wilson	1. Capture concurrent energy and classify into an invoice from EKP. Send invoice periodically to RBBU Financial Operations.

Identify error(s) in source documents and push back for correction (CoA.3)

DEPARTMENT	RESPONSIBILITY	ACTION
RBBU Financial Operations	RBBU Staff	1. Verify the megawatt hours and rates on the invoice.
RBBU Financial Operations	RBBU Staff	2. Call EKP for notification and resolution of error.

Correct error(s) in source documents (CoA.4)

DEPARTMENT	RESPONSIBILITY	ACTION
EKP	Laura Wilson	1. Correct the invoice and send a new invoice to RBBU Financial Operations.

Cutoff transactions (CoA.5)

DEPARTMENT	RESPONSIBILITY	ACTION
N/A		1. There is no cut-off related to miscellaneous transmission payment, since an invoice is only received periodically and processed when received.

Prepare journal entries (CoA.6)

DEPARTMENT	RESPONSIBILITY	ACTION
RBBU Financial Operations	RBBU Staff	1. Prepare and send a request for payment to Accounts Payable.
RBBU Financial Operations	RBBU Staff	2. Prepare wheeling expense for Hoosier and enter journal entry ED 100 into the Journal Entry Tool. <i>Note: Prepare by Day 3, EOD.</i>

Identify errors in prepared journal entries (CoA.7a)

DEPARTMENT	RESPONSIBILITY	ACTION
RBBU Financial Operations	RBBU Staff	1. Verify a copy of the journal entry against the source document to ensure data entry accuracy. <i>Note: Identify errors by Day 3, EOD.</i>

Correct errors in prepared journal entries (CoA.7b)

DEPARTMENT	RESPONSIBILITY	ACTION
RBBU Financial Operations	RBBU Staff	1. Research error and reenter correct journal entry into the Journal Entry Tool. <i>Note: Correct errors by Day 3, EOD.</i>

Post journal entries to BDMS 2.0 (CoA.8)

DEPARTMENT	RESPONSIBILITY	ACTION
RBBU Financial Operations	RBBU Staff	1. Approve journal entries for posting.
Corporate Accounting	BDMS Coordinator / John Linton	2. BDMS will post all journal entries approved for posting.

Create and post accruals (CoA.10)

Create and post reserves (CoA.11)

DEPARTMENT	RESPONSIBILITY	ACTION
N/A	N/A	All accruals and reserves are included in the above processes.

**Training and Documents**

Training:

Additional Documents:

**Who Should Know**

- Controller
- Assistant Controllers
- Corporate Accounting
- RBBU Financial Operations

**Related Information**

Misc. Transmission Payments - Wheeling Expense & A/R for Hoosier Energy Policy

Misc. Transmission Payments - Reconciliation & Analysis Policy

**Contacts**

NAME	ROLE	DEPARTMENT
Laura Wilson	EKP	EKP
Amy Dlugokecki	Supervisor	RBBU
Ben Flora	Manager	RBBU
Tom Heath	Lead Analyst	Accounting Research
Amy Sheppard	Manager	Accounting Research

**Definitions**

EKP: Eastern Kentucky Power

GAAP: Generally Accepted Accounting Principles

EOD: End of Day

RBBU: Regulated Businesses Business Unit

## Revisions

The following revision is effective 08/01/99:

- Update procedure for personnel changes

The following revision is effective 02/01/01:

- Update procedure for personnel changes

The following revisions are effective 05/01/02:

- Update procedure for personnel changes
- Business Unit name changed from EDBU to RBBU

The following revision IS effective 11/01/03:

- Update procedure for personnel changes

The following revisions are effective 01/01/05:

- Update policy for new manual ownership
- Update policy to reflect reorganization of manual



## Utility Revenue - East - Customer Cash Receipts

Functional Area: Regulated Business Accounting  
Sarbanes-Oxley Category: Revenue, Metering, Billing, Receipts,  
Collections  
Process Owner: Ben Flora  
Effective Date: 09/01/98  
Revised Date: 01/01/05

All accounting policies and procedures can be found on the Accounting Policies and Procedures community within iPower as follows:

- Launch iPower
- Select "Accounting Policies and Procedures" under the "Communities" heading at the top of the page

### Policy Statement

Cinergy will record all cash receipt transactions relating to Utility Revenue in the Company financial statements.

### Reason for Policy

To record cash receipts related to Utility Revenue in the Company financial statements in adherence to GAAP and regulatory requirements

### Process Flows

### Process Description/Narrative

**frequently Asked Questions**

**Procedure**

Capture information on business transactions (CoA.1)  
 Classify transactions for journalizing (CoA.2)  
 Cutoff transactions (CoA.5)

DEPARTMENT	RESPONSIBILITY	ACTION
Billing Services	Billing Clerks	1. Capture customer cash receipts activity and classify into the CMS system. Month end cutoff occurs based upon the monthly closing calendar set at the beginning of each year. <i>Note: this process should be completed daily.</i>

Identify error(s) in Source Documents and pushback for correction (CoA.3)

DEPARTMENT	RESPONSIBILITY	ACTION
Billing Services	Martha Elrod	1. Verify daily CMS processing activity. Notify Debbie Quiroz of any errors identified. <i>Note: this process should be completed daily.</i>

Correct error(s) in source documents (CoA.4)

DEPARTMENT	RESPONSIBILITY	ACTION
Billing Services	Debbie Quiroz	1. Determine the cause of any errors identified and notify IT regarding correction requests.
IT	Tom Susman	2. Correct errors identified.

Prepare journal entries. (CoA.6)

DEPARTMENT	RESPONSIBILITY	ACTION
Billing Services	CMS System	1. Generate Report: p35ca062 - d35278



		(Cash Receipts General) and provide to RBBU. <i>Note: this process should be complete by Day 1, EOD.</i>
Billing Services	CMS System	2. Generate BDMS interface file.
RBBU	Joyce Wimmers	3. Direct feed to BDMS run reports to verify. <i>Note: this process should be complete by Day 5, EOD.</i>

Identify error(s) in prepared journal entries (CoA.7a)

DEPARTMENT	RESPONSIBILITY	ACTION
RBBU	RBBU Staff	1. Verify a copy of the journal entry against the source document to ensure data entry accuracy. If an error is identified, return the JE and correcting note to preparer. <i>Note: this process should be complete by Day 5, EOD.</i>
Billing Services	FACT Team	2. Review system generated error report.

Correct error(s) in prepared journal entries (CoA.7b)

DEPARTMENT	RESPONSIBILITY	ACTION
RBBU	Joyce Wimmers	1. Correct data entry in JE Tool. <i>Note: this process should be complete by Day 5, EOD.</i>
Billing Services	FACT Team	2. Correct BDMS interface file.

Post journal entries to BDMS 2.0 (CoA.8)

DEPARTMENT	RESPONSIBILITY	ACTION
RBBU	RBBU Staff	1. Approve journal entries for posting.
Billing Services	FACT Team	2. Notify Corporate Accounting to grab and post file.
Corporate Accounting	BDMS Coordinator / John Linton	3. BDMS will post all journal entries approved for posting. <i>Note: this process should be complete by Day 5, EOD.</i>

Create and post accruals (CoA.10)

Create and post reserves (CoA.11)

Utility Revenue - East - Customer Cash Receipts

DEPARTMENT	RESPONSIBILITY	ACTION
N/A	N/A	All accruals and reserves are included in the above processes.

**Training and Documents**

Training:

Additional Documents:

**Who Should Know**

- Controller
- Assistant Controllers
- Corporate Accounting
- Billing Services
- RBBU Financial Operations

**Related Information**

Utility Revenue - East & West Policy

Utility Revenue - East - Provision for Uncollectable Policy

Utility Revenue - East - Percentage of Income Plan Policy

Utility Revenue -East - Chargeoffs Policy

Utility Revenue - East & West - Reconciliation & Analysis Policy

**Contacts**

NAME	ROLE	DEPARTMENT
Patti Kinney	Billing Services	Billing Services
Martha Elrod	Billing Services	Billing Services
FACT Team	Billing Services	Billing Services
Debbie Quiroz	Billing Services	Billing Services
Joyce Wimmers	RBBU	RBBU

Tom Susman	IT	IT
Ben Flora	Manager	RBBU
Erica Glenn	Senior Analyst	Accounting Research
Amy Sheppard	Manager	Accounting Research

## Definitions

GAAP: Generally Accepted Accounting Principles

EOD: End of Day

RBBU: Regulated Businesses Business Unit

## Revisions

The following revisions are effective 02/01/01:

- Update procedure for personnel changes
- Update procedure for process changes

The following revisions are effective 05/01/02:

- Update procedure for personnel changes
- Business Unit name changed from EDBU to RBBU
- Update procedure for process timing change

The following revisions are effective 11/01/03:

- Update procedure for process changes
- Update procedure for personnel changes

The following revisions are effective 01/01/05:

- Update policy for new manual ownership
- Update policy to reflect reorganization of manual



## Utility Revenue - East - Percentage of Income Plan

Functional Area: Regulated Business Accounting  
Sarbanes-Oxley Category: Revenue, Metering, Billing, Receipts,  
Collections  
Process Owner: Ben Flora  
Effective Date: 09/01/98  
Revised Date: 01/01/05

All accounting policies and procedures can be found on the Accounting Policies and Procedures community within iPower as follows:

- Launch iPower
- Select "Accounting Policies and Procedures" under the "Communities" heading at the top of the page

### Reason for Policy

Cinergy will record a provision for Percentage of Income (PIP) accounts in the Company financial statements.

### Reason for Policy

To record a provision for Percentage of Income (PIP) accounts in the Company financial statements in adherence to GAAP and regulatory requirements

### Process Flows

### Process Description/Narrative

## Frequently Asked Questions

## Procedure

Capture information on business transactions (CoA.1)

Classify transactions for journalizing (CoA.2)

Cutoff transactions (CoA.5)

DEPARTMENT	RESPONSIBILITY	ACTION
Billing Services	Billing Clerks	1. Capture gas & electric revenue activity and classify into the CMS system. Month end cutoff occurs based upon the monthly closing calendar set at the beginning of each year. <i>Note: this process should be completed daily.</i>

Identify error(s) in source documents and pushback for correction (CoA.3)

DEPARTMENT	RESPONSIBILITY	ACTION
Billing Services	Martha Elrod	1. Verify daily CMS processing activity. Notify Debbie Quiroz of any errors identified. <i>Note: this process should be completed daily.</i>

Correct error(s) in source documents (CoA.4)

DEPARTMENT	RESPONSIBILITY	ACTION
Billing Services	Debbie Quiroz	1. Determine the cause of any errors identified and notify IT regarding correction requests.
IT	Tom Susman	2. Correct errors identified.

Prepare journal entries (CoA.6)

DEPARTMENT	RESPONSIBILITY	ACTION
Billing Services	CMS System	1. Generate Reports: p35ca063 - od35300, od35302, od35304 (Account Distribution of the Provision for

		<i>process should be complete by Day 5, EOD.</i>
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Create and post accruals (CoA.10)  
 Create and post reserves (CoA.11)

DEPARTMENT	RESPONSIBILITY	ACTION
N/A	N/A	All accruals and reserves are included in the above processes.

## Training and Documents

Training:

Additional Documents:

## Who Should Know

- Controller
- Assistant Controllers
- Corporate Accounting
- Billing Services
- RBBU Financial Operations

## Related Information

Utility Revenue - East & West Policy

Utility Revenue - East - Provision for Uncollectable Policy

Utility Revenue - East - Customer Cash Receipts Policy

Utility Revenue -East - Chargeoffs Policy

Utility Revenue - East & West - Reconciliation & Analysis Policy

Contacts		
NAME	ROLE	DEPARTMENT

Patti Kinney	Billing Services	Billing Services
Martha Elrod	Billing Analyst	Billing Services
Debbie Quiroz	Billing Services	Billing Services
Joyce Wimmers	RBBU	RBBU
Tom Susman	IT	IT
Don Storck	Manager	RBBU
Erica Glenn	Senior Analyst	Accounting Research
Amy Sheppard	Manager	Accounting Research

## Definitions

GAAP: Generally Accepted Accounting Principles

EOD: End of Day

RBBU: Regulated Businesses Business Unit

## Revisions

The following revisions are effective 02/01/01:

- Update procedure for personnel changes
- Update procedure for process changes

The following revisions are effective 05/01/02:

- Update procedure for personnel changes
- Business Unit name changed from EDBU to RBBU

The following revisions are effective 11/01/03:

- Update procedure for process changes
- Update procedure for personnel changes

The following revisions are effective 01/01/05:

- Update policy for new manual ownership
- Update policy to reflect reorganization of manual



## Utility Revenue - East & West

Functional Area: Regulated Business Accounting  
Sarbanes-Oxley Category: Revenue, Metering, Billing, Receipts, Collections  
Process Owner: Ben Flora  
Effective Date: 09/01/98  
Revised Date: 01/01/05

All accounting policies and procedures can be found on the Accounting Policies and Procedures community within iPower as follows:

- Launch iPower
- Select "Accounting Policies and Procedures" under the "Communities" heading at the top of the page

### Policy Statement

Cinergy will record all transactions relating to Utility Revenue in the Company financial statements.

### Reason for Policy

To record Utility Revenue activity in the Company financial statements in adherence to GAAP and regulatory requirements

### Process Flows

### Process Description/Narrative



## Frequently Asked Questions

## Procedure

Capture information on business transactions (CoA.1)

Classify transactions for journalizing (CoA.2)

Cutoff transactions (CoA.5)

DEPARTMENT	RESPONSIBILITY	ACTION
Billing Services	Billing Clerks	1. Capture gas & electric revenue activity and classify into the CMS system. Month end cutoff occurs based upon the monthly closing calendar set at the beginning of each year. <i>Note: this process should be completed daily.</i>

Identify error(s) in source documents and pushback for correction (CoA.3)

Correct error(s) in source documents (CoA.4)

Prepare journal entries (CoA.6)

DEPARTMENT	RESPONSIBILITY	ACTION
Billing Services	Martha Elrod	1. Print the CMS Consolidated Report - Account Distribution Gross Gas & Electric Revenue and distribute to RBBU. <i>Note: this process should be complete by Day 5, EOD.</i>
Billing Services	Martha Elrod	2. Verify that the system consolidation total is correct (\$ and utilization). <i>Note: this process should be complete by Day 5, EOD.</i>
Billing Services	Martha Elrod	3. Reprocess the system consolidation if errors are identified. <i>Note: this process should be complete by Day 5, EOD.</i>
RBBU	Joyce Wimmers	4. Direct feed to BDMS Run report to verify. <i>Note: this process should be complete by Day 5, EOD.</i>

Identify error(s) in prepared journal entries (CoA.7a)

DEPARTMENT	RESPONSIBILITY	ACTION
RBBU	RBBU Staff	1. Verify a copy of the journal entry against the source document to ensure data entry accuracy. If an error is identified, return the JE and correcting note to preparer. <i>Note: this process should be complete by Day 5, EOD.</i>
Billing Services	FACT Team	2. Review system generated error report.

Correct error(s) in prepared journal entries (CoA.7b)

DEPARTMENT	RESPONSIBILITY	ACTION
RBBU	Joyce Wimmers	1. Correct data entry in JE Tool. <i>Note: this process should be complete by Day 5, EOD.</i>
Billing Services	FACT Team	2. Correct BDMS interface file.

Post journal entries to BDMS 2.0 (CoA.8)

DEPARTMENT	RESPONSIBILITY	ACTION
RBBU	RBBU Staff	1. Approve journal entries for posting.
Billing Services	FACT Team	2. Notify Corporate Accounting to grab and post file.
Corporate Accounting	BDMS Coordinator/John Linton	3. BDMS will post all journal entries approved for posting. <i>Note: this process should be complete by Day 5, EOD.</i>

Create and post accruals (CoA.10)

Create and post reserves (CoA.11)

DEPARTMENT	RESPONSIBILITY	ACTION
N/A	N/A	All accruals and reserves are included in the above processes.

**Training and Documents**

Training:

Additional Documents:

**Who Should Know**

- Controller
- Assistant Controllers
- Corporate Accounting
- Billing Services
- RBBU Financial Operations

**Related Information**

Utility Revenue - East & West Policy

Utility Revenue - East - Provision for Uncollectable Policy

Utility Revenue - East - Percentage of Income Plan Policy

Utility Revenue - East - Customer Cash Receipts Policy

Utility Revenue -East - Chargeoffs Policy

Utility Revenue - East & West - Reconciliation & Analysis Policy

**Contacts**

Name	Role	Dept
Patti Kinney	Billing Services	Billing Services
FACT Team	Billing Services	Billing Services
Joyce Wimmers	RBBU	RBBU
Don Storck	Manager	RBBU
Amy Dlugokecki	Supervisor	RBBU
Martha Elrod	Billing Analyst	Billing Services
Erica Glenn	Senior Analyst	Accounting Research
Amy Sheppard	Manager	Accounting Research

## Definitions

GAAP: Generally Accepted Accounting Principles

EOD: End of Day

RBBU: Regulated Businesses Business Unit

## Revisions

The following revisions are effective 02/01/01:

- Update procedure for personnel changes
- Update procedure for process changes

The following revisions are effective 05/01/02:

- Update procedure for personnel changes
- Business Unit name changed from EDBU to RBBU

The following revisions are effective 11/01/03:

- Update procedure for process changes
- Update procedure for personnel changes

The following revisions are effective 01/01/05:

- Update policy for new manual ownership
- Update policy to reflect reorganization of manual



## Postretirement Benefits Other Than Pensions Contributions

Functional Area: HR, Payroll & Benefits Accounting  
Sarbanes-Oxley Category: Payroll/Human Resources  
Process Owner: Rick Floyd  
Effective Date: 11/01/98  
Revised Date: 01/01/05

All accounting policies and procedures can be found on the Accounting Policies and Procedures community within iPower as follows:

- Launch iPower
- Select "Accounting Policies and Procedures" under the "Communities" heading at the top of the page

### Policy Statement

Cinergy Corp. will externally fund its PSI Energy, Inc. postretirement benefits other than pensions obligations (including Cinergy Services, Inc. postretirement benefits other than pensions costs allocated to PSI Energy, Inc.) in accordance with regulatory requirements.

### Reason for Policy

To ensure PSI Energy, Inc. is in compliance with its regulatory requirements to externally fund its postretirement benefits other than pensions obligations

### Process Flows

### Process Description/Narrative

## **Frequently Asked Questions**

### **Q1. Why is PSI Energy, Inc. required to externally fund its postretirement benefits other than pensions obligation?**

A. In the Settlement Agreement in IURC Cause Nos. 39584 and 39584-S2, PSI Energy, Inc. agreed to externally fund the retail jurisdictional portion of its postretirement benefits other than pensions obligations. In the FERC Docket ER95-626-000, PSI Energy, Inc. agreed to externally fund the wholesale jurisdictional portion of its postretirement benefits other than pensions obligations.

### **Q2. Does any Cinergy Corp. utility subsidiary other than PSI Energy, Inc. have an external funding requirement for postretirement benefits other than pensions?**

A. No. At the current time, PSI Energy, Inc. is the only utility subsidiary that has an external-funding requirement associated with its postretirement benefits other than pensions. Since The Cincinnati Gas & Electric Company recovers its wholesale jurisdictional portion of postretirement benefits other than pensions on the "pay-as-you-go" method it does not have a FERC funding requirement. Further, the PUCO in The Cincinnati Gas & Electric Company gas rate case authorized "internal" funding for the gas jurisdictional portion of postretirement benefits other than pensions.

### **Q3. What are the funding vehicles that PSI Energy, Inc. is authorized to use to externally fund its postretirement benefits other than pensions?**

A. The IURC in Cause No. 40388 authorized the following optional funding vehicles: (1) medical accounts pursuant to Section 401(h) of the Internal Revenue Code of 1986, as amended, (2) a Voluntary Employee Beneficiary Association, (3) a grantor trust, and/or (4) any other funding method agreed to by The Office of the Utility Consumer Counselor or, if refused, approved by the IURC.

### **Q4. How much is PSI Energy, Inc. required to externally fund each year?**

A. The FERC requires PSI Energy, Inc. to externally fund, on a net of tax basis, its annual wholesale jurisdictional test period allowance for the costs of postretirement benefits other than pensions.

The IURC requires PSI Energy, Inc. to externally fund, on a net of tax basis, its annual test period retail jurisdictional portion of postretirement benefits other than pensions expense as authorized by the IURC in PSI Energy's most recent retail electric rate proceeding. At PSI Energy's option, this funding requirement may be reduced by the retail jurisdictional portion of (1) administrative expenses, net of taxes (2) actual or estimated taxes on income earned by the trust assets, and (3) actual or estimated benefit payments, net of taxes or these amounts may be paid directly out of fund assets.

Additionally, PSI Energy, Inc. has a supplementary funding requirement associated with its retail jurisdiction. Under certain circumstances, PSI Energy, Inc. may be required to fund an amount that is intended to reflect the amount by which PSI Energy's retail electric kilowatt hour growth exceeds the retail jurisdictionalized growth in PSI Energy's postretirement benefits other than pensions expense.

**Q5. Does PSI Energy, Inc. have any reporting requirements to the IURC associated with its external funding?**

A. Yes. Within ninety days following the close of each calendar year and at the time PSI Energy, Inc. pre-files its case-in-chief in each retail IURC electric rate case, PSI Energy is required to submit to The Office of the Utility Consumer Counselor and the IURC a written account of the administration of the Cinergy Corp. Grantor Trust.

**Q6. How frequently must PSI Energy, Inc. make contributions to the external funding vehicles?**

A. PSI Energy, Inc. is required to make contributions no less frequently than quarterly for the FERC funding requirements and within 45 days of quarter end for the IURC funding requirements. To the extent quarterly contributions were made based upon estimates, PSI Energy, Inc. is required to make a final "clean-up" contribution (or withdrawal) based upon actual amounts within ninety days following the close of each calendar year. Additionally, the supplemental funding requirement, if any, must also be contributed within ninety days of the close of the calendar year.

**Procedure**

Quarterly Funding Contribution

DEPARTMENT	RESPONSIBILITY	ACTION
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## Postretirement Benefits Other Than Pensions Contributions

Rates	Roger Flick	1. Calculate and provide to Treasury the annual test period retail jurisdictional portion of PBOP expense authorized by the IURC in PSI Energy's most recent retail electric rate proceedings, the annual test period wholesale jurisdictional portion of PBOP expense authorized by the FERC in PSI Energy's most recent wholesale electric rate proceedings, and the annual joint owners portion of actual PBOP expense.
Payroll & Benefits Accounting	Lisa Carver	2. At the end of each quarter, provide Treasury the amount of actual payments made by PSI Energy, Inc. and Cinergy Services, Inc. (PSI Energy allocated portion only) for PBOPs.
Tax	John Lechko	3. Provide Treasury the amount, if any, of taxes associated with the funding of PBOPs paid by PSI Energy, Inc and Cinergy Services, Inc.
Treasury	Rick Floyd	4. Determine the amount, if any, of administrative expenses associated with the funding of PBOPs paid by PSI Energy, Inc and Cinergy Services, Inc.
Treasury	Rick Floyd	5. Determine PSI Energy's and Cinergy Services' total quarterly PBOP funding requirement.
Treasury	Rick Floyd	6. Determine allocation of funding requirement to each funding vehicle (i.e., 401(h) account, VEBA or Grantor Trust).
Treasury	Rick Floyd	7. Within 45 days of the end of each quarter remit quarterly contribution amount to applicable funding vehicles.

## Annual Funding Reconciliation

DEPARTMENT	RESPONSIBILITY	ACTION
Treasury	Rick Floyd	1. Within ninety days of the close of year end reconcile estimated contributions made to actual annual contributions required and increase or decrease current year estimated funding by over/under funding in



Postretirement Benefits Other Than Pensions Contributions

	previous year.
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Annual Supplemental Funding Contribution

DEPARTMENT	RESPONSIBILITY	ACTION
Rates	Roger Flick	1. Within 70 days of the close of PSI Energy's year-end, calculate the amount, if any, to be funded in accordance with the supplementary funding formula. Notify Treasury of the amount to be funded.
Treasury	Rick Floyd	2. Determine allocation of supplementary funding amount to each funding vehicle (i.e., 401(h) account, VEBA or Grantor Trust).
Treasury	Rick Floyd	3. Within 90 days of the year-end, remit the supplementary funding amount to applicable funding vehicle(s).

**Training and Documents**

Training:

Additional Documents:

- Cinergy Corp. Grantor Trust Agreement
- Cinergy Corp. Grantor Trust Investment Policy Statement
- Joint Stipulation and Settlement Agreement of PSI Energy, Inc. and The Office of the Utility Consumer Counselor
- Indiana Utility Regulatory Commission Order in Cause No. 40388 - Petition of PSI Energy, Inc. for Approval of its External Funding Plan for Postretirement Benefits Other Than Pensions issued October 21, 1998
- The Federal Energy Regulatory Commission Docket No. PL93-1-000, Post-Employment Benefits Other Than Pensions Statement of Policy issued December 17, 1992
- The Federal Energy Regulatory Commission Docket No. ER95-626-000, Settlement Agreement

**Who Should Know**

- Controller

Postretirement Benefits Other Than Pensions Contributions

- Assistant Controllers
- Treasurer
- Assistant Treasurer
- Treasury
- Corporate Accounting
- Tax
- Payroll & Benefits Accounting
- Rates

**Related Information**

Grantor Trust Journal Entries Policy

Grantor Trust Journal Entries - Intercompany Policy

Grantor Trust Reconciliation & Analysis Policy

**Contacts**

NAME	ROLE	DEPARTMENT
Rick Floyd	Manager, Trusts & Investments	Treasury
Roger Flick	Rates	Rates
Erica Glenn	Senior Analyst	Accounting Research
Amy Sheppard	Manager	Accounting Research

**Definitions**

PBOP - Postretirement Benefits Other Than Pensions

IURC - Indiana Utility Regulatory Commission

FERC - Federal Energy Regulatory Commission

PUCO - Public Utilities Commission of Ohio

VEBA - Voluntary Employee Beneficiary Association

## Revisions

The following revision is effective 06/01/00:

- Update procedure for personnel changes

The following revisions are effective 10/01/01:

- Update procedure for personnel changes
- Update procedure for process change

The following revision is effective 09/01/02:

- Update procedure for personnel changes

The following revision is effective 11/01/03:

- Update procedure for department name change

The following revisions are effective 01/01/05:

- Update policy for new manual ownership
- Update policy to reflect reorganization of manual



# Fuel - Gas Reconciliation & Analysis

Functional Area: Regulated Business Accounting  
Sarbanes-Oxley Category: Inventory  
Process Owner: Ben Flora  
Effective Date: 09/01/98  
Revised Date: 01/01/05

All accounting policies and procedures can be found on the Accounting Policies and Procedures community within iPower as follows:

- Launch iPower
- Select "Accounting Policies and Procedures" under the "Communities" heading at the top of the page

## Policy Statement

All Balance Sheet accounts for all corporations shall be reconciled using Reconciliation and Analysis Standards as outlined in the Reconciliation & Analysis of Accounts Policy. The reconciliation shall be done on a timely basis, which is determined according to the account standards defined in the New Account Set-up & Definition (Account Standards) Policy.

## Reason for Policy

- To ensure that responsibility for accuracy of data within an account is held by those closest to the transaction
- To increase control of accounts
- To clearly define ownership of accounts providing a single source for information regarding the accounts

## Process Flows

**Process Description/Narrative**

**Frequently Asked Questions**

**Procedure**

Reconcile Accounts (CoA.9)

DEPARTMENT	RESPONSIBILITY	ACTION
		<i>Note: The following process is performed monthly to reconcile all storage accounts.</i>
Gas Commercial Operations	Cathy Knecht Al Hartkemeyer	1. Obtain supporting schedules, which contain detail account balances for account 164.
Gas Commercial Operations	Cathy Knecht Al Hartkemeyer	2. Verify the GL balance (FRT) to the supporting schedule balances.
Gas Commercial Operations	Cathy Knecht Al Hartkemeyer	3. Investigate balance variances and misposted transactions as necessary.
Gas Commercial Operations	Cathy Knecht Al Hartkemeyer	4. Create correcting adjustments, as necessary.
Gas Commercial Operations	Cathy Knecht Al Hartkemeyer	5. Update "Last Reconciled Date" field in BDMS (PBR - Accounting Data Set-up) to reflect the last period for which the account balance was verified/reconciled.

Perform analysis of transactions (CoA.12)

DEPARTMENT	RESPONSIBILITY	ACTION
Gas Commercial Operations	Cathy Knecht Al Hartkemeyer	1. Perform analysis of invoices.

Perform analysis of financial statements: business unit review (CoA.13a)

DEPARTMENT	RESPONSIBILITY	ACTION
Gas Commercial Operations RBBU	Cathy Knecht Al Hartkemeyer	1. Business Unit specific Financial Statement analysis is at the discretion

	Don Storck	of the Business Unit with the exception of minimum analysis required to support Legal Entity analysis. The extent of Legal Entity analysis will be determined on a case by case basis, as required.
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Perform analysis of financial statements: legal review of regulatory entity (CoA.13b)

DEPARTMENT	RESPONSIBILITY	ACTION
Gas Commercial Operations RBBU	Cathy Knecht Al Hartkemeyer Don Storck	1. Provide Corporate Accounting information, as required, for their variance analysis.

## Training and Documents

Training:

Additional Documents:

## Who Should Know

- Controller
- Assistant Controllers
- Corporate Accounting
- Gas Commercial Operations
- RBBU Financial Operations

## Related Information

New Account Set-up & Definition (Account Standards) Policy

Reconciliation & Analysis of Accounts

Fuel - Purchased Gas Current Month Estimate Policy

Fuel - Purchased Gas Prior Month Actual Policy

## Contacts

NAME	ROLE	DEPARTMENT
Don Storck	Manager	RBBU
Cathy Knecht	Specialist	Gas Commercial Operations
Al Hartkemeyer	Specialist	Gas Commercial Operations
Jim Henning	Manager	Gas Commercial Operations
Erica Glenn	Senior Analyst	Accounting Research
Amy Sheppard	Manager	Accounting Research

## Definitions

RBBU: Regulated Businesses Business Unit

## Revisions

The following revision is effective 09/01/99:

- Update process for Account Reconciliation Database in PBR

The following revision is effective 02/01/01:

- Update procedure for personnel changes

The following revision is effective 05/01/02:

- Business Unit name changed from EDBU to RBBU

The following revisions are effective 11/01/03:

- Update procedure for process changes
- Update procedure for personnel changes
- Update procedure for department name

The following revisions are effective 01/01/05:

- Update policy for new manual ownership
- Update policy to reflect reorganization of manual



## Fuel - Purchased Gas Current Month Estimate

Functional Area: Regulated Business Accounting  
Sarbanes-Oxley Category: Inventory  
Process Owner: Ben Flora  
Effective Date: 09/01/98  
Revised Date: 01/01/05

All accounting policies and procedures can be found on the Accounting Policies and Procedures community within iPower as follows:

- Launch iPower
- Select "Accounting Policies and Procedures" under the "Communities" heading at the top of the page

### Policy Statement

Cinergy will record all transactions relating to purchased gas in the financial statements.

### Reason for Policy

To record purchased gas activity in the Company financial statements in adherence with GAAP and regulatory requirements

### Process Flows

### Process Description/Narrative



**Frequently Asked Questions**

**Procedure**

- Capture information on business transactions (CoA.1)
- Classify transactions for journalizing (CoA.2)
- Cutoff transactions (CoA.5)

DEPARTMENT	RESPONSIBILITY	ACTION
Gas Commercial Operations	Laura Schmidt	1. Generate Excel spreadsheet containing a detailed list of all gas purchased with quantity, rate, pipeline and date. <i>Note: this process should be complete by Day 3, MOD.</i>
Gas Commercial Operations	Jeff Kern	2. Generate the Monthly Summary Report, which contains an estimate of gas received from the pipelines (end user and system supply). <i>Note: this process should be complete by Day 2, MOD.</i>
		<i>Note: Cutoff is measured on Day 1, at 10:00am.</i>
		<i>Note: Generation and use of several other reports to record month-end information have not been listed upon the advice of the Gas Commercial Operations Department. Only the required reports have been detailed here.</i>

- Identify error(s) in source documents and pushback for correction (CoA.3)

DEPARTMENT	RESPONSIBILITY	ACTION
Gas Commercial Operations	Cathy Knecht Al Hartkemeyer	1. Compare volume on Actual Flow spreadsheet to Monthly Summary and notify Laura Schmidt and Jeff Kern if significant differences are located. <i>Note: this process should be complete by Day 2, EOD.</i>

- Correct error(s) in source documents (CoA.4)

Fuel - Purchased Gas Current Month Estimate

DEPARTMENT	RESPONSIBILITY	ACTION
Gas Commercial Operations Resources	Laura Schmidt Jeff Kern	1. Receive correction requests and update the spreadsheet or report. <i>Note: this process should be complete by Day 2, EOD.</i>

Prepare journal entries (CoA.6)

DEPARTMENT	RESPONSIBILITY	ACTION
Gas Commercial Operations	Cathy Knecht Al Hartkemeyer	1. Import the Actual Flow spreadsheet into an Access database separating flow by company, type, pipeline and buy/sell. <i>Note: this process should be complete by Day 1, MOD.</i>
Gas Commercial Operations	Cathy Knecht Al Hartkemeyer	2. Convert decatherm (DTH) to thousands of cubic feet (MCF) in Excel spreadsheet. <i>Note: this process should be complete by Day 1, MOD.</i>
Gas Commercial Operations	Cathy Knecht Al Hartkemeyer	3. Extract storage injections/withdrawals and end user from the Monthly Summary Report for entry into an Excel spreadsheet used to support the Access database report. <i>Note: this process should be complete by Day 2, EOD.</i>
Gas Commercial Operations	Cathy Knecht Al Hartkemeyer	4. Generate Purchased Gas Statement - Estimate for Current Month from Access database and forward to RBBU Financial Operations. <i>Note: this process should be complete by Day 3, EOD.</i>
RBBU Financial Operations	Joyce Wimmers	5. Extract data from Purchased Gas Statement - Estimate for Current Month and keypunch into a journal entry in the JE Tool. <i>Note: this process should be complete by Day 5, MOD.</i>

Identify errors in prepared journal entries (CoA.7a)

DEPARTMENT	RESPONSIBILITY	ACTION
RBBU Financial Operations	RBBU Staff	1. Verify a copy of the journal entry against the source document to ensure data entry accuracy. If an error is located, contact the preparer and provide a copy of source docs & JE's. <i>Note: this process should be complete by</i>

Fuel - Purchased Gas Current Month Estimate

		<i>Day 5, EOD.</i>
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Correct errors in prepared journal entries (CoA.7b)

DEPARTMENT	RESPONSIBILITY	ACTION
RBBU Financial Operations	Joyce Wimmers	1. Correct data entry errors in JE Tool. <i>Note: this process should be complete by Day 5, EOD.</i>

Post journal entries to BDMS 2.0 (CoA.8)

DEPARTMENT	RESPONSIBILITY	ACTION
RBBU Financial Operations	RBBU Staff	1. Approve journal entries for posting.
Corporate Accounting	BDMS Coordinator / John Linton	2. BDMS will post all journal entries approved for posting. <i>Note: this process should be complete by Day 5, EOD.</i>

Create and post accruals (CoA.10)

Create and post reserves (CoA.11)

DEPARTMENT	RESPONSIBILITY	ACTION
N/A	N/A	All accruals and reserves are included in the above processes.

## Training and Documents

Training:

Additional Documents:

## Who Should Know

- Controller
- Assistant Controllers
- Corporate Accounting
- Gas Commercial Operations
- RBBU Financial Operations

## Related Information

Fuel - Purchased Gas Prior Month Actual Policy

Fuel - Gas Reconciliation & Analysis Policy

## Contacts

NAME	ROLE	DEPARTMENT
Ben Flora	Manager	RBBU
Laura Schmidt	Gas Commercial Operations	Gas Commercial Operations
Jeff Kern	Gas Commercial Operations	Gas Commercial Operations
Cathy Knecht	Gas Commercial Operations	Gas Commercial Operations
Al Hartkemeyer	Gas Commercial Operations	Gas Commercial Operations
Joyce Wimmers	RBBU	RBBU
Erica Glenn	Senior Analyst	Accounting Research
Amy Sheppard	Manager	Accounting Research

## Definitions

GAAP: Generally Accepted Accounting Principles

RBBU: Regulated Businesses Business Unit

MOD: Middle of Day

EOD: End of Day

## Revisions

The following revision is effective 02/01/01:

- Update procedure for personnel changes

The following revisions are effective 05/01/02:

- Update procedure for personnel changes
- Update procedure for process timing change
- Business Unit name changed from EDBU to RBBU

The following revisions are effective 11/01/03:

- Update procedure for process changes
- Update procedure for personnel changes
- Update procedure for department name change

The following revisions are effective 01/01/05:

- Update policy for new manual ownership
- Update policy to reflect reorganization of manual



## Fuel - Purchased Gas Prior Month Actual

Functional Area: Regulated Business Accounting  
Sarbanes-Oxley Category: Inventory  
Process Owner: Ben Flora  
Effective Date: 09/01/98  
Revised Date: 01/01/05

All accounting policies and procedures can be found on the Accounting Policies and Procedures community within iPower as follows:

- Launch iPower
- Select "Accounting Policies and Procedures" under the "Communities" heading at the top of the page

### Policy Statement

Cinergy will record all transactions relating to purchased gas in the financial statements.

### Reason for Policy

To record purchased gas activity in the Company financial statements in adherence with GAAP and regulatory requirements

### Process Flows

### Process Description/Narrative

## Frequently Asked Questions

## Procedure

Capture information on business transactions (CoA.1)  
 Classify transactions for journalizing (CoA.2)  
 Cutoff transactions (CoA.5)

DEPARTMENT	RESPONSIBILITY	ACTION
Gas Commercial Operations	Cathy Knecht Al Hartkemeyer	1. Capture and verify volumes and changes on pipeline invoices and classify based upon workcodes. <i>Note: this process should be complete between the 11<sup>th</sup> and 15<sup>th</sup> of the current month.</i>
Gas Commercial Operations	Cathy Knecht Al Hartkemeyer	2. Capture and verify supplier invoices and classify based upon workcodes. <i>Note: this process should be complete between the 5<sup>th</sup> and 21<sup>st</sup> of the current month.</i>

Identify error(s) in source documents and pushback for correction (CoA.3)

DEPARTMENT	RESPONSIBILITY	ACTION
Gas Commercial Operations	Cathy Knecht Al Hartkemeyer	1. Compare the Monthly Summary Report to pipeline invoices and notify Jeff Kern and pipeline companies if significant differences are located. <i>Note: this process should be complete by the last week of the current month.</i>
Gas Commercial Operations	Cathy Knecht Al Hartkemeyer	2. Compare Actual Flow spreadsheet to supplier invoices and notify Laura Schmidt if significant differences are located. <i>Note: this process should be complete by the last week of the current month.</i>

Correct error(s) in source documents (CoA.4)

DEPARTMENT	RESPONSIBILITY	ACTION
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Gas Commercial Operations	Laura Schmidt Jeff Kern Pipeline Companies Supplier Companies	1. Receive correction requests and update the spreadsheet, report or invoice. <i>Note: this process should be complete by the last week of the current month.</i>
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Prepare journal entries (CoA.6)

DEPARTMENT	RESPONSIBILITY	ACTION
Gas Commercial Operations	Cathy Knecht Al Hartkemeyer	1. Generate the Changes for Gas Commercial Operations Department Report, which contains a list of previous month estimates. <i>Note: this process should be complete by the last day of the month.</i>
Gas Commercial Operations	Cathy Knecht Al Hartkemeyer	2. Update the Changes report to include actual figures. <i>Note: this process should be complete by the last day of the month.</i>
Gas Commercial Operations	Cathy Knecht Al Hartkemeyer	3. Enter the actual figures into the Access database. <i>Note: this process should be complete by the last day of the month.</i>
Gas Commercial Operations	Cathy Knecht Al Hartkemeyer	4. Generate the Differences of Estimate vs. Actual for Prior Month Report from Access database and forward to RBBU Financial Operations. <i>Note: this process should be complete by the last day of the month.</i>
RBBU Financial Operations	Joyce Wimmers	5. Extract data from Differences of Estimate vs. Actual for Prior Month Report and keypunch into a journal entry in the JE Tool. <i>Note: this process should be complete by Day 4, EOD.</i>

Identify errors in prepared journal entries (CoA.7a)

DEPARTMENT	RESPONSIBILITY	ACTION
RBBU Financial Operations	RBBU Staff	1. Verify a copy of the journal entry against the source document to ensure data entry accuracy. If an error is located, contact the preparer and provide a copy of source docs & JEs. <i>Note: this process should be complete by Day 5, MOD.</i>



Correct errors in prepared journal entries (CoA.7b)

DEPARTMENT	RESPONSIBILITY	ACTION
RBBU Financial Operations	Joyce Wimmers	1. Correct data entry errors in JE Tool. <i>Note: this process should be complete by Day 5, EOD.</i>

Post journal entries to BDMS 2.0 (CoA.8)

DEPARTMENT	RESPONSIBILITY	ACTION
RBBU Financial Operations	RBBU Staff	1. Approve journal entries for posting.
Corporate Accounting	BDMS Coordinator / John Linton	2. BDMS will post all journal entries approved for posting. <i>Note: this process should be complete by Day 5, EOD.</i>

Create and post accruals (CoA.10)

Create and post reserves (CoA.11)

DEPARTMENT	RESPONSIBILITY	ACTION
N/A	N/A	All accruals and reserves are included in the above processes.

## Training and Documents

Training:

Additional Documents:

## Who Should Know

- Controller
- Assistant Controllers
- Corporate Accounting
- Gas Commercial Operations
- RBBU Financial Operations

## Related Information

Fuel - Purchased Gas Current Month Estimate Policy

Fuel - Gas Reconciliation & Analysis Policy

**Contacts**

NAME	ROLE	DEPARTMENT
Ben Flora	Manager	RBBU
Laura Schmidt	Gas Commercial Operations	Gas Commercial Operations
Jeff Kern	Gas Commercial Operations	Gas Commercial Operations
Cathy Knecht	Gas Commercial Operations	Gas Commercial Operations
Al Hartkemeyer	Gas Commercial Operations	Gas Commercial Operations
Joyce Wimmers	RBBU	RBBU
Erica Glenn	Senior Analyst	Accounting Research
Amy Sheppard	Manager	Accounting Research

**Definitions**

GAAP: Generally Accepted Accounting Principles

RBBU: Regulated Businesses Business Unit

MOD: Middle of Day

EOD: End of Day

**Revisions**

The following revision is effective 02/01/01:

- Update procedure for personnel changes

The following revisions are effective 05/01/02:

- Update procedure for personnel changes

- Business Unit name changed from EDBU to RBBU

The following revisions are effective 11/01/03:

- Update procedure for process changes
- Update procedure for personnel changes
- Update procedure for department name change

The following revisions are effective 01/01/05:

- Update policy for new manual ownership
- Update policy to reflect reorganization of manual



## Misc. Claims - Reserve Accrual

Functional Area: Insurance  
Sarbanes-Oxley Category: Expenditures  
Process Owner: Dave Jones  
Effective Date: 09/01/98  
Revised Date: 01/01/05

All accounting policies and procedures can be found on the Accounting Policies and Procedures community within iPower as follows:

- Launch iPower
- Select "Accounting Policies and Procedures" under the "Communities" heading at the top of the page

### Policy Statement

Cinergy will establish a dollar reserve for claims against the Company on the financial statements.

### Reason for Policy

To record Claims activity in the Company financial statements in adherence to GAAP and regulatory requirements

### Process Flows

### Process Description/Narrative

### Frequently Asked Questions

**Procedure**

- Capture information on business transactions (CoA.1)
- Classify transactions for journalizing (CoA.2)
- Cutoff transactions (CoA.5)

DEPARTMENT	RESPONSIBILITY	ACTION
Claims	Dave Jones	1. Capture claim, reserve, and payment activity and classify into the Claims Management Information System (CMIS) based upon type of claim. Month end cutoff occurs on the last day of the month. <i>Note: this process should be completed daily.</i>
Claims	Dave Jones	2. Capture claim, reserve, and payment activity and classify into an Excel spreadsheet based upon type of claim. Month end cutoff occurs on the last day of the month. <i>Note: this process should be completed daily.</i>
Claims	Dave Jones	3. Review the status of all claims with the Legal Department and update the Liability Claim Report accordingly. <i>Note: this meeting is to be held near the end of the month.</i>

- Identify error(s) in Source Documents and pushback for correction (CoA.3)
- Correct error(s) in source documents (CoA.4)

DEPARTMENT	RESPONSIBILITY	ACTION
Claims	Dave Jones	1. Query the CMIS system for the total dollar reserve amount and compare to the Liability Claim Report and Excel spreadsheet. <i>Note: this process should be complete by Day 1, EOD.</i>
Claims	Dave Jones	2. Investigate and adjust differences located in the Liability Claim Report and Excel spreadsheet in the appropriate source system. <i>Note: this process should be complete by Day 1, EOD.</i>
Claims	Dave Jones	3. Generate the CMIS Activity Report for claims paid from the CMIS system

		and compare to the Liability Claim Report and Excel spreadsheet. <i>Note: this process should be complete by Day 1, EOD.</i>
Claims	Dave Jones	4. Investigate and adjust differences located in the CMIS Activity Report in the appropriate source system. <i>Note: this process should be complete by Day 1, EOD.</i>

Prepare journal entries (CoA.6)

DEPARTMENT	RESPONSIBILITY	ACTION
Claims	Dave Jones	1. Generate the Injury and Damage Report based upon input from the daily Excel spreadsheet. <i>Note: this process should be complete by Day 2, MOD.</i>
Claims	Dave Jones	2. Extract data from Injury and Damage Report and enter into JE Tool. <i>Note: this process should be complete by Day 2, MOD.</i>

Identify errors in prepared journal entries (CoA.7a)

DEPARTMENT	RESPONSIBILITY	ACTION
Claims	Dave Jones	1. Verify a copy of the journal entry against the source document to ensure data entry accuracy. If an error is identified, return the JE and correcting note to preparer. <i>Note: this process should be complete by Day 2, EOD.</i>

Correct errors in prepared journal entries (CoA.7b)

DEPARTMENT	RESPONSIBILITY	ACTION
Claims	Dave Jones	1. Correct data entry in JE Tool. <i>Note: this process should be complete by Day 2, EOD.</i>

Post journal entries to BDMS 2.0 (CoA.8)

DEPARTMENT	RESPONSIBILITY	ACTION
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Claims	Dave Jones	1. Approve journal entries for posting.
Corporate Accounting	BDMS Coordinator / John Linton	2. BDMS will post all journal entries approved for posting. <i>Note: this process should be complete by Day 2, EOD.</i>

Create and post accruals (CoA.10)  
 Create and post reserves (CoA.11)

DEPARTMENT	RESPONSIBILITY	ACTION
N/A	N/A	1. No accruals or reserves are booked for Claims.

## Training and Documents

Training:

Additional Documents:

## Who Should Know

- Controller
- Asst. Controllers
- Shared Services, Administrative Services, Claims
- Corporate Accounting

## Related Information

Misc. Claims - Reconciliation & Analysis

## Contacts

Name	Role	Dept
Don Eckstein	Director	Claims
Dave Jones	Claims	Claims
Erica Glenn	Senior Analyst	Accounting Research

Amy Sheppard	Manager	Accounting Research
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## Definitions

Claims - Shared Services, Administrative Services

## Revisions

The following revision is effective 09/01/00:

- Update procedure for department and personnel changes

The following revisions are effective 11/01/01:

- Update procedure for department name change and software change
- Combined CG&E's & ULH&P's policy 7.1.7.2 with 7.1.7.1

The following revisions are effective 11/01/03:

- Update procedure for personnel and department name changes

The following revisions are effective 01/01/05:

- Update policy for new manual ownership
- Update policy to reflect reorganization of manual



Misc. Cash Receipts - Claims for CG&E



## Misc. Cash Receipts - Claims for CG&E

Functional Area: Insurance  
Sarbanes-Oxley Category: Revenue, Metering, Billing, Receipts,  
Collections  
Process Owner: Dave Jones  
Effective Date: 09/01/98  
Revised Date: 01/01/05

All accounting policies and procedures can be found on the Accounting Policies and Procedures community within iPower as follows:

- Launch iPower
- Select "Accounting Policies and Procedures" under the "Communities" heading at the top of the page

### Policy Statement

Cinergy will record all transactions relating to Miscellaneous Cash Receipts in the Company financial statements.

### Reason for Policy

To record miscellaneous cash receipt activity in the Company financial statements in adherence to GAAP

### Process Flows

### Process Description/Narrative

## Frequently Asked Questions

## Procedure

- Capture information on business transactions (CoA.1)
- Classify transactions for journalizing (CoA.2)
- Cutoff transactions (CoA.5)

DEPARTMENT	RESPONSIBILITY	ACTION
Claims	Dave Jones Therese Barnes Geraldine Brandy	1. Receive insurance claim payment and create deposit ticket and Collection Advise Sheet containing accounting information. <i>Note: this process should be completed daily.</i>
Claims	Dave Jones Therese Barnes Geraldine Brandy	2. Forward the deposit ticket and check to Treasury. <i>Note: this process should be completed daily.</i>
Treasury	Kim Sipes	3. Capture insurance claim deposit activity and classify into the ATWS. Month end cutoff occurs on the last day of the month. <i>Note: this process should be completed daily.</i>

Identify error(s) in Source Documents and pushback for correction (CoA.3)

DEPARTMENT	RESPONSIBILITY	ACTION
Treasury	Kim Sipes	1. Match insurance claim deposit ticket to Cash Report. Note any errors identified and return to preparer for correction. <i>Note: this process should be complete by Day 3, EOD.</i>

Correct error(s) in source documents (CoA.4)

DEPARTMENT	RESPONSIBILITY	ACTION
Claims	Dave Jones Therese Barnes Geraldine Brandy	1. Correct errors in documents and update deposit records. <i>Note: this process should be complete by Day 3, EOD.</i>

## Prepare journal entries (CoA.6)

DEPARTMENT	RESPONSIBILITY	ACTION
Claims	Dave Jones Therese Barnes Geraldine Brandy	1. Forward a copy of all insurance claim deposit tickets and Collection Advise Sheets to RB Financial Operations. <i>Note: this process should be completed bi-weekly.</i>
Treasury	Kim Sipes	2. Forward a copy of the Cash Report to RB Financial Operations. <i>Note: this process should be complete by Day 3, EOD.</i>
RB Financial Operations	Joyce Wimmers	3. Extract deposit ticket activity and keypunch into the JE Tool. <i>Note: this process should be complete by Day 4, EOD.</i>

## Identify errors in prepared journal entries (CoA.7a)

DEPARTMENT	RESPONSIBILITY	ACTION
RB Financial Operations	Beverly Bockrath	1. Verify a copy of the journal entry against the source document to ensure data entry accuracy. If an error is identified, return the JE and correcting note to preparer. <i>Note: this process should be complete by Day 4, EOD.</i>

## Correct errors in prepared journal entries. (CoA.7b)

DEPARTMENT	RESPONSIBILITY	ACTION
RB Financial Operations	Joyce Wimmers	1. Correct data entry errors in JE Tool. <i>Note: this process should be complete by Day 4, EOD.</i>

## Post journal entries to BDMS 2.0. (CoA.8)

DEPARTMENT	RESPONSIBILITY	ACTION
RB Financial Operations	Beverly Bockrath	1. Approve journal entries for posting.
Corporate Accounting	BDMS/ Ron Cooley	2. BDMS will post all journal entries approved for posting. <i>Note: this process should be complete by Day 4, EOD.</i>

Create and post accruals (CoA.10)  
 Create and post reserves (CoA.11)

DEPARTMENT	RESPONSIBILITY	ACTION
N/A	N/A	1. No accruals or reserves are booked related to miscellaneous cash receipts.

## Training and Documents

Training:

Additional Documents:

## Who Should Know

- Controller
- Asst. Controllers
- RB Financial Operations
- Shared Services, Administrative Services, Claims
- Treasury

## Related Information

Misc. Cash Receipts - Fitness Center Policy

Misc. Cash Receipts - PSI Claims Policy

Misc. Cash Receipts - Refunds/Credits/Dividends Policy

Misc. Cash Receipts - Management Stock Option Payments Policy

Cash Ledger Procedures Policy

## Contacts

Name	Role	Dept
Joyce Wimmers	RBU	RBBU

Beverly Bockrath	RBU	RBBU
Kim Sipes	Treasury	Treasury
Dave Jones	Insurance	Claims
Therese Barnes	Insurance	Claims
Don Eckstein	Director	Claims
Geraldine Brandy	Insurance	Claims
Erica Glenn	Senior Analyst	Accounting Research
Amy Sheppard	Manager	Accounting Research

## Definitions

Claims - Shared Services, Administrative Services

## Revisions

The following revisions are effective 10/01/01:

- Update policy for personnel changes
- Update policy for process changes

The following revisions are effective 11/01/03:

- Update procedure for personnel and department name changes

The following revisions are effective 01/01/05:

- Update policy for new manual ownership
- Update policy to reflect reorganization of manual



## Misc. Claims Reconciliation & Analysis

Functional Area: Insurance  
Sarbanes-Oxley Category: Expenditures  
Process Owner: Dave Jones  
Effective Date: 09/01/98  
Revised Date: 01/01/05

All accounting policies and procedures can be found on the Accounting Policies and Procedures community within iPower as follows:

- Launch iPower
- Select "Accounting Policies and Procedures" under the "Communities" heading at the top of the page

### Policy Statement

All Balance Sheet accounts for all corporations shall be reconciled using Reconciliation and Analysis Standards as outlined in the Reconciliation & Analysis of Accounts Policy. The reconciliation shall be done on a timely basis, which is determined according to the account standards defined in the New Account Set-up & Definition (Account Standards) Policy.

### Reason for Policy

- To ensure that responsibility for accuracy of data within an account is held by those closest to the transaction
- To increase control of accounts
- To clearly define ownership of accounts providing a single source for information regarding the accounts

### Process Flows

**Process Description/Narrative**

**Frequently Asked Questions**

**Procedure**

Reconcile Accounts (CoA.9)

DEPARTMENT	RESPONSIBILITY	ACTION
Claims	Dave Jones	<i>Note: Claims is responsibility for the reconciliation of Claim reserve accounts.</i>
Claims	Dave Jones	1. Obtain GL information from FRT reports, and obtain supporting schedules from source systems or Excel spreadsheets.
Claims	Dave Jones	2. Validate and compare the balances from the GL to the supporting schedules.
Claims	Dave Jones	3. Identify and resolve any material balance fluctuations.
Claims	Dave Jones	4. Update "Last Reconciled Date" field in BDMS (PBR - Accounting Data Set-up) to reflect the last period for which the account balance was verified/reconciled.

Perform analysis of transactions (CoA.12)

DEPARTMENT	RESPONSIBILITY	ACTION
Claims	Dave Jones	1. Perform trend analysis on the Billed vs. Collected Report, which provides detailed information regarding damages done to Cinergy property.
Claims	Dave Jones	2. Perform trend analysis on the Injury and Damages Report, which provides detailed information regarding damages to other's

Misc. Claims - Reconciliation & Analysis

		property by Cinergy.
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Perform analysis of financial statements: business unit review (CoA.13a)

DEPARTMENT	RESPONSIBILITY	ACTION
Claims	Don Eckstein	1. Provide monthly analysis and sufficient explanation to Business Units regarding insurance claim activity.

Perform analysis of financial statements: legal review of regulatory entity (CoA.13b)

DEPARTMENT	RESPONSIBILITY	ACTION
Claims	Don Eckstein	1. Perform variance analysis for budget vs. actual data contained within the Insurance Claims P&L generated from the PBR tool.

## Training and Documents

Training:

Additional Documents:

## Who Should Know

- Controller
- Assistant Controllers
- Corporate Accounting
- Shared Services, Administrative Services, Claims

## Related Information

New Account Set-up & Definition (Account Standards) Policy

Reconciliation & Analysis of Accounts Policy



## Misc. Claims - Reserve Accrual Policy

**Contacts**

Name	Role	Dept
Don Eckstein	Director	Claims
Dave Jones	Claims	Claims
Erica Glenn	Senior Analyst	Accounting Research
Amy Sheppard	Manager	Accounting Research

**Definitions**

Claims - Shared Services, Administrative Services

**Revisions**

The following revision is effective 01/01/99:

- Update process for Account reconciliation Database in PBR

The following revision is effective 09/01/00:

- Update policy for department and personnel changes

The following revisions are effective 11/01/01:

- Update policy for department name change
- Changed policy number from 7.1.7.3 to 7.1.7.2

The following revision is effective 11/01/03:

- Update policy for personnel and department name changes

The following revisions are effective 01/01/05:

- Update policy for new manual ownership
- Update policy to reflect reorganization of manual



## Stores, Freight & Handling - Annual & Periodic Studies

Functional Area: Management Reporting & Cost Acctg.  
Sarbanes-Oxley Category: General Ledger Accounting  
Process Owner: Barry Blackwell  
Effective Date: 01/01/02  
Revised Date: 01/01/05

All accounting policies and procedures can be found on the Accounting Policies and Procedures community within iPower as follows:

- Launch iPower
- Select "Accounting Policies and Procedures" under the "Communities" heading at the top of the page

### Policy Statement

On an annual basis, the Management Reporting & Cost Accounting Staff will complete a study of the stores, freight and handling (SF&H) expense to determine the appropriate levels to be maintained within the undistributed SF&H accounts. Periodically, at least quarterly, the Energy Merchant Business Unit will review and compare the balance in the SF&H accounts to the appropriate percent of total inventory remaining in the 154 accounts, as determined by the Management Reporting & Cost Accounting Staff during the annual study.

### Reason for Policy

To ensure that the SF&H account balances are recorded in the Company's financial statements in accordance with the Company's policies and procedures which are pursuant to GAAP and other regulatory requirements

## Process Flows

## Process Description/Narrative

## Frequently Asked Questions

### **Q1. What is the nature of items that are considered to be SF&H costs?**

A. SF&H costs include the expense associated with buying, receiving, storing and issuing materials. These costs include, but are not limited to, labor and expenses associated with storeroom and purchasing personnel, maintenance of stores equipment, inventory record keeping, handling of scrap materials, freight, utilities for storerooms, rent of storage space and facilities, and the costs of transfers between storerooms.

### **Q2. What is the proper accounting treatment for SF&H costs?**

A. The proper accounting treatment, by business unit, is as follows:

- ***Regulated Businesses Business Unit (RBBU)/Power Technology and Infrastructure Services Business Unit (PTIS):*** In accordance with the Code of Federal Regulation (CFR), all SF&H costs should be charged to the 163000 (Stores Expense Undistributed) cost pool account. This account shall be cleared by adding to the cost of materials and supplies issued a suitable loadings charge that will distribute the expense equitably over the materials and supplies issued. These costs will be loaded out by attaching an additional charge to material issuances and to certain accounts payable transactions. This loadings charge will follow the same accounting as the material issued (i.e., capital or expense).
- ***Energy Merchant Business Unit (EMBU):*** Direct SF&H costs associated with larger projects (e.g., any project requiring significant time, without respect to total dollars), for the EMBU should be charged directly to the project (operation and maintenance expense (O&M) and/or capital). All other amounts should be charged directly to production O&M accounts (506XXX and 514XXX). The appropriate business segment code should be charged to ensure that the costs align with the correct generating station.

Direct SF&H costs include EMBU storeroom personnel and expenses and EMBU related procurement expenditures.

EMBU will maintain a reasonable balance in its SF&H accounts as determined by the annual study performed by the Cost Accounting Staff, which represents the amount of SF&H costs associated with the ongoing levels of inventory.

**Q3. Should the balance in 163 be maintained if SF&H costs are charged directly to O&M instead of through a loadings process?**

A. Whether you charge directly to O&M or run your expenses through a cost pool loadings process has no bearing on your balance sheet methodology. In other words, justification for SF&H balances on the balance sheet is the same for both the loadings process and the direct charging practices.

**Q4. Why do the EMBU and the RBBU have different accounting treatments?**

A. As the EMBU is moving into a de-regulated environment, it is important to be able to better manage its business and costs in a manner that is consistent with its current business practice.

**Q5. What are the appropriate balances to be maintained in the 163000 accounts?**

A. Through various studies of its inventory turnover and reviews of other utilities' Form 1's in prior years, Cinergy has determined that the appropriate balances to be maintained in the 163000 accounts are currently 6% of the total inventory remaining in the 154 accounts. This target represents a reasonable amount of SF&H costs associated with the ongoing levels of inventory.

On an annual basis, the Management Reporting & Cost Accounting Staff will perform a study in order to determine and update the appropriate amount of SF&H as a percent of total inventory that should be maintained in our 163000 accounts.

**Q6. How are the 163-account reserve balances maintained?**

A. The 163-account reserve balances, by business unit, are as follows:

- ***Regulated Businesses Business Unit/Power Technology and Infrastructure Services Business Unit (PTIS):*** Costs associated with buying, receiving, storing and issuing materials are aggregated in the 163000 accounts. When materials are issued, these amounts are loaded out of the 163000 accounts

Stores, Freight & Handling - Annual & Periodic Studies

by attaching the applicable loading rate. On a monthly basis, the activity in the SF&H cost pool accounts is reviewed and any unusual or non-recurring activity are investigated for propriety. Periodically, the balances left in the SF&H cost pool accounts will be reviewed and compared to appropriate percent of the total inventory remaining in the 154 accounts, as determined by the Management Reporting & Cost Accounting Staff during the annual study. The difference between the target balance and the actual balance in the 163 accounts is reviewed and adjusted, if material. The adjustment is debited/credited to the 163 accounts and the corresponding entry is apportioned between capital and O&M accounts.

- **Energy Merchant Business Unit:** On an annual basis, the Management Reporting & Cost Accounting Staff will perform a study in order to determine and update the percent of inventory that should be maintained in the 163000 accounts for EMBU. Periodically, at least quarterly, the EMBU financial staff will review and compare the balance in the 163000 accounts to the percent of total inventory remaining in the 154 accounts, as determined by the Management Reporting & Cost Accounting Staff in the annual study.

If an adjustment is needed, a journal entry will be prepared by EMBU to adjust the balance to its target level. The adjustment is debited/credited to the 163 accounts and the offsetting entry will be taken to the O&M accounts (income or expense). It is recommended that the review be done in the second month of each calendar quarter so that the adjustment will be made in the quarter ending month.

**Procedure**

Annual Study

DEPARTMENT	RESPONSIBILITY	ACTION
Management Reporting & Cost Accounting	Management Reporting & Cost Accounting Staff	1. Annually, perform a study to determine the appropriate amount of SF&H as a percent of total inventory that should be maintained for on-going levels of inventory. This analysis can be completed through various studies of turnover in Cinergy's inventory and by reviewing other utilities' Form 1's.

RBBU/PTIS Periodic Analysis

Stores, Freight & Handling - Annual & Periodic Studies

DEPARTMENT	RESPONSIBILITY	ACTION
Management Reporting & Cost Accounting	Management Reporting & Cost Accounting Staff	1. Periodically, compare the balance in the 163 accounts maintained for RBBU and PTIS to the appropriate percent of total inventory remaining in the 154 accounts as determined during the annual study.
Management Reporting & Cost Accounting	Management Reporting & Cost Accounting Staff	2. Create correcting adjustments, as deemed necessary. These adjustments can be accomplished by creating a journal entry or by adjusting the loading rate.

EMBU Periodic Analysis

DEPARTMENT	RESPONSIBILITY	ACTION
Energy Merchant Business Unit	Expense Planning & Analysis	1. Periodically, at least quarterly, compare the balance in the 163 accounts to the appropriate percent of the total inventory in the 154 accounts. It is recommended that the review be done in the second month of each calendar quarter so that the adjustment will be made in the quarter ending month.
Energy Merchant Business Unit	Expense Planning & Analysis	2. Create correcting journal entries, as deemed necessary. The offsetting amount should be taken to income or expense.
BU	Expense Planning & Analysis	3. Provide copy of this analysis to the Management Reporting & Cost Accounting Staff or review.
Management Reporting & Cost Accounting	Management Reporting & Cost Accounting Staff	4. Review analysis prepared by EMBU for reasonableness and accuracy.

**Training and Documents**

Training:

Additional Documents:

- SF&H Research Paper

- Process Flow Diagrams
- SF&H Project Paper
- SF&H Monthly Cost Pool Procedures
- Accounting Research Memo re: EMBU SF&H Charges dated July 30, 2001

## Who Should Know

- Controller
- Asst. Controller
- Corporate Accounting
- Accounting Research
- Management Reporting & Cost Accounting
- Business Unit CFOs
- Business Unit Accounting Managers
- Business Unit Financial staffs

## Related Information

Stores Freight & Handling Capital vs. Expense Accounting Policy

Stores Freight & Handling Reconciliation & Analysis Policy

## Contacts

Name	Role	Dept
Nancy Bosse	Financial Coordinator	Energy Merchant Business Unit
Barry Blackwell	Manager	Management Reporting & Cost Acctg.
Susan Eliason	Financial Coordinator	Regulated Businesses Business Unit
Caryl R. West	Senior Analyst	CAC
Erica Glenn	Senior Analyst	Accounting Research
Amy Sheppard	Manager	Accounting Research

## Definitions

GAAP - Generally Accepted Accounting Principles

CFR - Code of Federal Regulation

## Revisions

The following revisions are effective 01/01/05:

- Update policy for new manual ownership
- Update policy to reflect reorganization of manual



Stopping & Closing Balance Sheet Accounts



## Stopping & Closing Balance Sheet Accounts

Functional Area: General Accounting  
Sarbanes-Oxley Category: High Level Controls  
Process Owner: Gwen Pate  
Effective Date: 10/01/04  
Revised Date: 11/01/05

All accounting policies and procedures can be found on the Accounting Policies and Procedures community within iPower as follows:

- Launch iPower
- Select "Accounting Policies and Procedures" under the "Communities" heading at the top of the page

### Policy Statement

All Balance Sheet accounts, with zero balances, that the company does not intend to use in the future should be stopped and closed.

### Reason for Policy

To stop and close unused Balance Sheet accounts

### Process Flows

### Process Description/Narrative

**Frequently Asked Questions**

**Q1. What does it mean to "stop" an account?**

A. An account is stopped when a current "stop date" is added to the account such that BDMS3.0 will no longer accept/process charges to that Corporation/account combination.

**Q2. Who should I contact to stop an account?**

A. Only Corporate Accounting can change the "stop date" on an account. Therefore, in order to stop an account, notify Corporate Accounting.

**Q3. What information does Corporate Accounting need in order to stop an account?**

A. Accounts with a balance should never be stopped. Accordingly, prior to requesting Corporate Accounting stop an account, the account owner needs to verify that the balance in the account is zero or needs to process transactions that will bring the balance in the account to zero. Corporate Accounting should then be notified of the effective stop date to be added to the account.

**Q4. What does it mean to "close" an account?**

A. An account is closed when it is no longer required to be reconciled on a periodic basis. Accounts with zero balances and a "stop date" which has passed can be closed. All closed accounts are assigned to Corporate Accounting in the Account Reconciliation Database.

**Q5. Who can close an account?**

A. On a monthly basis, Corporate Accounting reviews all stopped accounts and closes all with a zero balance and a "passed" stop date. Additionally, your Corporate Accounting contact can close all accounts with a current stop date and a zero balance.

**Procedure**

Closing and Stopping an Account

DEPARTMENT	RESPONSIBILITY	ACTION
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Owner Department	Account Owner	1. Verify account has zero balance or process transactions that will bring account balance to zero. After transactions are processed, verify account balance is zero.
Owner Department	Account Owner	2. Notify Corporate Accounting to stop an account. Provide Corporate Accounting with the effective stop date.
Corporate Accounting	Corporate Accounting Contact	3. Update BDMS 3.0 to reflect stop date requested by Account Owner.
Corporate Accounting	Corporate Accounting Contact	4. If "stop date" placed on an account is the current date, close the account by updating the following fields in the Account Reconciliation Database: <ul style="list-style-type: none"> <li>• Department Owner (change to Center COM)</li> <li>• Individual Owner (change to T97519)</li> <li>• Reconciliation Frequency (change to "C")</li> <li>• Reconciliation Reviewer (change to T97596)</li> <li>• Review Frequency (change to "C")</li> <li>• Set all risk factors equal to "No"</li> </ul>
Corporate Accounting	Wesley Ryan	5. On a monthly basis, review all stopped accounts and close all accounts where the "stop date" has passed and the account has a zero balance by updating the following fields in the Account Reconciliation Database: <ul style="list-style-type: none"> <li>• Department Owner (change to Center COM)</li> <li>• Individual Owner (change to T97519)</li> <li>• Reconciliation Frequency (change to "C")</li> <li>• Reconciliation Reviewer (change to T97596)</li> <li>• Review Frequency (change to "C")</li> <li>• Set all risk factors equal to "No"</li> </ul>

**Training and Documents**

Stopping & Closing Balance Sheet Accounts

Training:

Additional Documents:

## Who Should Know

- Corporate Accounting
- All Balance Sheet Account Owners

## Related Information

## Contacts

NAME	ROLE	DEPARTMENT
John Linton	Coordinator, Data Warehouse	Corporate Accounting
Kelly Henson	Lead Analyst	Corporate Accounting
Wesley Ryan	Senior Analyst	Corporate Accounting
Gwen Pate	Manager	Corporate Accounting
Erica Glenn	Coordinator	Accounting Research
Amy Sheppard	Manager	Accounting Research

## Definitions

## Revisions

The following revision is effective on 10/01/04:

- Update policy to reflect change of ownership of closed accounts

The following revisions are effective 01/01/05:

- Update policy for new manual ownership
- Update policy to reflect reorganization of manual

The following revisions are effective 11/01/05:

- Update policy for personnel changes
- Update procedure for new Reconciliation Reviewer and Review Frequency fields
- Update procedure for F&A system updates



## Recurring Accruals

Functional Area: General Accounting  
Sarbanes-Oxley Category: General Ledger Accounting  
Process Owner: Gwen Pate  
Effective Date: 06/01/98  
Revised Date: 01/01/05

All accounting policies and procedures can be found on the Accounting Policies and Procedures community within iPower as follows:

- Launch iPower
- Select "Accounting Policies and Procedures" under the "Communities" heading at the top of the page

### Policy Statement

All journal entries for recurring accruals where the transaction dollars do not change materially from period to period should be set-up as "recurring" journal entries within the Journal Entry Tool.

### Reasons for Policy

- To reduce the amount of effort and time spent on recording and reviewing accrual journal entries
- To reduce chance for human error in journal entry production

### Process Flows

### Process Description/Narrative

**Frequently Asked Questions**

**Q1. How should accrual journal entries that are recurring and do not fluctuate materially in amount be handled?**

A. They should be set-up as "recurring" within the Journal Entry Tool.

**Q2. How is materiality measured?**

A. Materiality can vary by legal entity and cannot be determined with precision. Professional judgment must be used in determining materiality.

**Q3. How often should journal entries, set up as recurring within the Journal Entry Tool, and the related accounts be adjusted and reconciled, respectively, according to supporting schedules or workpapers?**

A. This will vary by the type of transaction involved and the accounts that are affected by these transactions. Generally, if a journal entry's period to period variance is deemed immaterial and is set-up as recurring within the Journal Entry Tool, any adjustment would not be required more often than once a year. It is recommended that the adjustment occur in the same month the account reconciliation is performed to distribute the amount of work throughout the year. Generally, most accounts should be reconciled at least once annually. However, for more active accounts more frequent reconciliation may be necessary. In these situations, consult your supervisor to determine the month adjustments will be recorded. For more information on account reconciliation, please refer to Reconciliation and Analysis of Accounts Policy.

**Procedure**

Analysis of Recurring, Accrual Journal Entries

DEPARTMENT	RESPONSIBILITY	ACTION
All Departments	Any employee responsible for preparing journal entries	1. Review manual, accrual journal entries
All Departments	Any employee responsible for preparing journal entries	2. Determine if accrual journal entries are recurring (occurs monthly, quarterly, or semi annual)
All Departments	Any employee responsible	2(a) If yes, go to step 3

Recurring Accruals

	for preparing journal entries	
All Departments	Any employee responsible for preparing journal entries	2(b) If no, go to step 6
All Departments	Any employee responsible for preparing journal entries	3. Determine if journal entries are consistent period to period (recorded to same accounts)
All Departments	Any employee responsible for preparing journal entries	3(a) If yes, go to step 4
All Departments	Any employee responsible for preparing journal entries	3(b) If no, go to step 6
All Departments	Any employee responsible for preparing journal entries	4. Determine if journal entry amounts are identical period to period
All Departments	Any employee responsible for preparing journal entries	4(a) If yes, set up as recurring journal entry within the Journal Entry Tool
All Departments	Any employee responsible for preparing journal entries	4(b) If no, go to step 5
All Departments	Any employee responsible for preparing journal entries	5. If the accounts are the same every period, but the amounts change on a monthly, quarterly or semi annual basis, then set up a predefined journal entry within the Journal Entry Tool. This will allow you to go to the predefined entry every period to enter the amounts.
All Departments	Any employee responsible for preparing journal entries	6. Enter the entry as a normal new entry every month, quarter, or semi annually

## Training and Documents

Training:

Additional Documents:

- Journal Entry Tool PBR Project (User's Manual)

## Who Should Know

- Accounting Managers
- Accounting Supervisors



- Accounting Employees

**Related Information**

Reconciliation & Analysis of Accounts Policy

**Contacts**

NAME	ROLE	DEPARTMENT
Benita Ross	Coordinator	Corporate Accounting
Gwen Pate	Manager	Corporate Accounting
Benita Ross	Coordinator	Corporate Accounting
Erica Glenn	Coordinator	Accounting Research
Amy Sheppard	Manager	Accounting Research

**Definitions**

**Revisions**

The following revision is effective 11/01/00:

- Update procedure for process change

No changes were made upon review 05/01/02

The following revisions are effective 01/01/05:

- Update policy for new manual ownership
- Update policy to reflect reorganization of manual



## Regulatory Reporting

Functional Area: General Accounting  
Sarbanes-Oxley Category: Financial Reporting & Disclosures  
Process Owner: Gwen Pate  
Effective Date: 09/01/98  
Revised Date: 09/01/05

All accounting policies and procedures can be found on the Accounting Policies and Procedures community within iPower as follows:

- Launch iPower
- Select "Accounting Policies and Procedures" under the "Communities" heading at the top of the page

### Policy Statement

These regulatory policies and procedures are to be followed when coordinating, preparing, and reviewing Forms 1, 2, 2A, and similar reports to be filed with the federal and state regulatory commissions.

### Reason for Policy

- To ensure accuracy and timeliness of data to be filed with the federal and state regulatory commissions
- To develop consistency from year to year and quarter to quarter
- To give coordinators, reviewers, and preparers an understanding of what is required to complete the process

Implementation of these policies and procedures (along with the detailed desk procedures) will help ensure compliance with the federal and state regulatory commissions, and will give individuals a clear-cut direction in completing the year-end and quarterly regulatory reporting process.

## Process Flows

## Process Description/Narrative

Each quarter the Federal Energy Regulatory Commission (FERC) requires electric and gas companies to file operational and financial information. The filing covered in this policy include: Form 1, Form 2, Form 2A and Form 3Q. The Form No. 1 is a comprehensive financial and operating report submitted for Electric Rate regulation and financial audits. The form contains data for a calendar year. Among other things, the form contains a Comparative Balance Sheet, Statement of Income, Statement of Retained Earnings, Statement of Cash Flows, and Notes to Financial Statements. Major is defined as having (1) one million Megawatt hours or more; (2) 100 megawatt hours of annual sales for resale; (3) 500 megawatt hours of annual power exchange delivered; or (4) 500 megawatt hours of annual wheeling for others (deliveries plus losses).

The Form No. 2 is a compilation of financial and operational information from major interstate natural gas pipelines subject to the jurisdiction of the FERC. The form contains data for a calendar year. Among other things, the form contains a Comparative Balance Sheet, Statement of Income, Statement of Retained Earnings, Statement of Cash Flows, and Notes to Financial Statements. Form No. 2-A is an abbreviated Form No. 2 filed by non-major interstate natural gas pipelines subject to the jurisdiction of the FERC.

The Form No. 3-Q is a comprehensive quarterly financial and operating report which supplements Annual Report Forms 1, Forms 2 and 2-A and is submitted for each Major and Non Major Electric and Natural Gas Company.

Form 1, 2, 2A and 3Q filings:

Form 1: CG&E, ULH&P and PSI

Form 2: ULH&P

Form 2A: KO Transmission

Form 3Q: CG&E, ULH&P, PSI and KO Transmission

*Note: CG&E does not have interstate gas operating revenues and as a result is not required to file Form 2.*

The process of compiling the reports is initiated by a data request from General Accounting. Along with the data request are checklists used to verify the data reported is consistent and accurate. These are completed using the FERC submission software

and reviewed by General Accounting and select management. Once all information has been reviewed, the forms are certified by the CFO and electronically submitted to the FERC.

## **Frequently Asked Questions**

**Q1. How does General Accounting determine the responsible department for a particular page?**

A. Pages are assigned based on which department has responsibility for accounting for data being requested or for the preparation or review of the data.

**Q2. Is there any support on how the prior year's page was prepared?**

A. Each department should maintain support for the pages it prepared in the prior year.

**Q3. Why is it difficult to line up the text within the software?**

A. This software was not written to duplicate the capabilities of a word processor.

**Q4. How can we tie our page to another page, which has not been completed?**

A. Please contact the coordinator to determine if the applicable tie-out page has been completed. If the page has not yet been completed, the coordinator will work with you and the appropriate other department to finalize the appropriate tie out amount. Pages that do not tie are returned to the appropriate department for correction.

**Q5. Can any of the information be completed before year-end?**

A. Each department should review and determine what information can be effectively and efficiently obtained throughout the year.

**Q6. Why is the due date so early for the page I have to prepare when the report isn't due to the regulator for more than a month?**

A. Pages need to be completed by the due date for the following reasons:

1. To allow time to perform cross-checks with other pages.
2. To allow sufficient time to complete other pages which require supporting detail from the page in question.

3. To allow time to compile all pages, issue draft copies and collect comments, make necessary changes, run edit checks and compile, copy and mail the final report to the regulator.
4. To spread the workload of the numerous reports due to various regulators on the same date.

**Q7. Is there a FERC report for Cinergy?**

A. No.

**Q8. What Cinergy companies file Form 1, 2, 2A and 3Q reports?**

A. The Cincinnati Gas & Electric Co. (Form 1, 2 & 3Q), PSI Energy, Inc. (Form 1 & 3Q), The Union Light, Heat & Power Co. (Form 1, 2 & 3Q), and KO Transmission Company (Form 2A & 3Q).

**Q9. What is the difference between a Form 1 and a Form 2?**

A. Form 1 is for electric operations and Form 2 is for gas operations.

**Q10. Why isn't a copy of CG&E Form 2 filed with the FERC?**

A. FERC jurisdiction exists only in the case of interstate operating revenues. CG&E gas operations are located solely in Ohio.

**Q11. Why does ULH&P file a Form 2 with FERC, instead of a Form 2A?**

A. KPSC requires a Form 2 for ULH&P. Instead of filing a Form 2A with FERC and a Form 2 with KPSC, only a Form 2 is filed with both commissions to avoid duplication of effort (since the Form 2 contains all information required by Form 2A).

**Q12. Why is a Form 2A filed for KO Transmission, instead of a Form 2?**

A. Form 2 is required for natural gas companies whose combined gas transported or stored for a fee exceeds 50 million Dths in each of the three previous calendar years. Form 2A is required for natural gas companies that are less than 50 million Dths and greater than 200 thousand Dths in each of the three previous calendar years.

**Q13. What are the due dates for the various regulatory reports? How can I determine who to contact in General Accounting for questions regarding the report I am working on? Who can I contact to provide process improvement recommendations?**

A. Due dates for Form 1, 2 & 2A are on April 18th. Due dates for Form 3Q are 60 days after the end of the quarter. However, these dates need to be confirmed with the regulatory commission each year to make sure they haven't changed. Names of coordinators will be communicated with each data request. Any recommendations for improvement can be sent to the coordinators.

**Procedure**

General Accounting Process

DEPARTMENT	RESPONSIBILITY	ACTION
General Accounting	Coordinator(s)	1. Determine due dates for the following: <ul style="list-style-type: none"> <li>• Statutory due dates for the form by reviewing last year's dates and then confirming them once the letters are received from the regulatory commission.</li> <li>• Request letters (which include due dates for each page).</li> <li>• Date report draft will be issued for comments.</li> <li>• Date comments are due back.</li> <li>• Date report will be sent to the printers.</li> <li>• Date report will be mailed to the regulatory agencies.</li> <li>• Date of mass mailing. This mailing consists of internal and external requests.</li> </ul>
General Accounting	Coordinator(s)	2. Contact External Auditors and establish a timeline for the audit. Information to discuss is as follows: <ul style="list-style-type: none"> <li>• Date Coordinators will supply financial statements to External Auditors.</li> <li>• Date External Auditors will commence audit.</li> <li>• Timeline for filing of report, including date External Auditor's opinion must be received in order to achieve the timeline.</li> </ul>
General Accounting	Coordinator(s)	3. Schedule and conduct meeting with the Corporate Accounting Supervisor to determine when Balance Sheet and

		Income Statement pages will be completed to distribute to all departments for their tie-outs.
General Accounting	Coordinator(s)	4. Determine from the information received from the regulatory commission, what changes (if any) have been made to the software or forms from the prior year. Notify appropriate department of changes.
General Accounting	Coordinator(s)	5. Set up and maintain support binders.
General Accounting	Coordinator(s)	6. Send out the data request letters. Included within the data request letters is a page tie-out schedule and a list of the coordinators to contact for any questions, comments, or concerns.
General Accounting	Coordinator(s)	7. Schedule software training sessions, as necessary. Software support should be provided throughout the year-end process. Contact Cinergy's IT support person and/or General Accounting software support person to resolve all software problems.
General Accounting	Coordinator(s)	8. Send a notice to all departments responsible for inputting their own data when the software is available for usage.
General Accounting	Coordinator(s)	9. Back-up the software daily (this is completed by IT).
General Accounting	Coordinator(s)	10. Follow up with the appropriate departments when their assigned pages are not received by the agreed to date. The reply should be documented.
General Accounting	Coordinator(s)	11. When requested information is received: <ul style="list-style-type: none"> <li>• Review page to determine that all information required by the regulatory commission has been provided.</li> <li>• Perform necessary tie-outs and footing. Verify that there is back-up for all information.</li> <li>• Disclosures are consistent within the document and any other regulatory reports that have the same information.</li> </ul>