

CINERGY CORP.
2007 First Quarter Financial Report

INDEX

**CINERGY CORP.
FOR THE QUARTER ENDED
MARCH 31, 2007**

<u>Item</u>	<u>Page</u>
PART I. FINANCIAL INFORMATION	
Financial Statements	
Unaudited Consolidated Statements of Operations for the Three Months Ended March 31, 2007 and 2006	3
Unaudited Consolidated Balance Sheets as of March 31, 2007 and December 31, 2006	4
Unaudited Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2007 and 2006	6
Unaudited Consolidated Statements of Common Stockholder's Equity and Comprehensive Income for the Three Months Ended March 31, 2007 and 2006	7
Unaudited Notes to the Consolidated Financial Statements	8

CINERGY CORP.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In millions)

	Successor	Predecessor
	Three Months	Three Months
	Ended	Ended
	March 31, 2007	March 31, 2006
Operating Revenues		
Non-regulated electric, natural gas and other	\$ 430	\$ 551
Regulated electric	723	703
Regulated natural gas	339	322
Total operating revenues	<u>1,492</u>	<u>1,576</u>
Operating Expenses		
Fuel used in electric generation and purchased power	395	417
Operation, maintenance and other	343	401
Natural gas and petroleum products purchased	235	232
Costs of fuel resold	70	146
Depreciation and amortization	181	162
Property and other taxes	90	86
Total operating expenses	<u>1,314</u>	<u>1,444</u>
(Losses) Gains on Sales of Other Assets and Other, net	<u>(11)</u>	<u>26</u>
Operating Income	<u>167</u>	<u>158</u>
Other Income and Expenses		
Equity in earnings of unconsolidated affiliates	6	4
Other income and expenses, net	24	16
Total other income and expenses	<u>30</u>	<u>20</u>
Interest Expense	69	86
Minority Interest Benefit	-	(2)
Income from Continuing Operations Before Income Taxes	<u>128</u>	<u>94</u>
Income Tax Expense from Continuing Operations	<u>21</u>	<u>17</u>
Income from Continuing Operations	<u>107</u>	<u>77</u>
(Loss) Income from Discontinued Operations, net of tax	<u>(1)</u>	<u>5</u>
Income Before Cumulative Effect of Change in Accounting Principle	<u>106</u>	<u>82</u>
Cumulative Effect of Change in Accounting Principle, net of tax	<u>-</u>	<u>(3)</u>
Net Income	<u>\$ 106</u>	<u>\$ 79</u>

See Notes to Unaudited Consolidated Financial Statements

CINERGY CORP.
CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In millions)

	Successor	
	March 31, 2007	December 31, 2006
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 154	\$ 167
Receivables (net of allowance for doubtful accounts of \$10 at March 31, 2007 and \$6 at December 31, 2006)	596	637
Inventory	298	365
Assets held for sale	22	26
Unrealized gains on mark-to-market and hedging transactions	50	74
Other	292	203
Total current assets	1,412	1,472
Investments and Other Assets		
Restricted funds held in trust	114	156
Investments in unconsolidated affiliates	386	405
Goodwill	4,387	4,385
Intangible assets	774	833
Notes receivable	139	146
Unrealized gains on mark-to-market and hedging transactions	57	74
Assets held for sale	150	136
Other	261	249
Total investments and other assets	6,268	6,384
Property, Plant and Equipment		
Cost	17,246	16,976
Less accumulated depreciation and amortization	4,639	4,508
Net property, plant and equipment	12,607	12,468
Regulatory Assets and Deferred Debits		
Deferred debt expense	74	76
Regulatory assets related to income taxes	118	118
Other	1,127	1,173
Total regulatory assets and deferred debits	1,319	1,367
Total Assets	\$ 21,606	\$ 21,691

See Notes to Unaudited Consolidated Financial Statements

CINERGY CORP.
CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In millions, except share and per share amounts)

	Successor	
	March 31, 2007	December 31, 2006
LIABILITIES AND COMMON STOCKHOLDER'S EQUITY		
Current Liabilities		
Accounts payable	\$ 656	\$ 733
Notes payable and commercial paper	406	101
Taxes accrued	171	293
Interest accrued	75	65
Liabilities associated with assets held for sale	21	25
Current maturities of long-term debt	417	735
Unrealized losses on mark-to-market and hedging transactions	65	78
Other	297	366
Total current liabilities	<u>2,108</u>	<u>2,396</u>
Long-term Debt	<u>4,543</u>	<u>4,533</u>
Deferred Credits and Other Liabilities		
Deferred income taxes	1,771	1,745
Investment tax credit	38	40
Accrued pension and other postretirement benefit costs	1,244	1,204
Regulatory liabilities	651	680
Unrealized losses on mark-to-market and hedging transactions	75	92
Liabilities associated with assets held for sale	32	21
Asset retirement obligations	54	54
Other	394	317
Total deferred credits and other liabilities	<u>4,259</u>	<u>4,153</u>
Commitments and Contingencies		
Common Stockholder's Equity		
Common stock, \$0.01 par value; 1,000 shares authorized, 100 shares issued and outstanding at March 31, 2007 and December 31, 2006	-	-
Additional paid-in capital	10,581	10,581
Retained earnings	191	106
Accumulated other comprehensive loss	(76)	(78)
Total common stockholder's equity	<u>10,696</u>	<u>10,609</u>
Total Liabilities and Common Stockholder's Equity	<u>\$ 21,606</u>	<u>\$ 21,691</u>

See Notes to Unaudited Consolidated Financial Statements

CINERGY CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In millions)

	Successor	Predecessor
	Three Months	Three Months
	Ended	Ended
	March 31, 2007	March 31, 2006
Cash Flows from Operating Activities		
Net income	\$ 106	\$ 79
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	181	162
Return on equity investments	16	5
Losses (Gains) on sales and impairment of equity investments and other assets	12	(27)
Impairment charges	-	6
Deferred income taxes and investment tax credit amortization	(1)	(40)
Equity earnings of unconsolidated affiliates	(6)	(4)
Regulatory asset/liability amortization	17	13
Cumulative effect of change in accounting principle	-	3
Accrued pension and postretirement benefit costs	25	33
(Increase) decrease in:		
Net realized and unrealized mark-to-market and hedging transactions	11	(155)
Receivables	42	504
Inventory	67	103
Other current assets	(14)	22
Increase (decrease) in:		
Accounts payable	(34)	(420)
Taxes accrued	(159)	(60)
Other current liabilities	(59)	(120)
Regulatory asset/liability deferrals	(53)	(21)
Other assets	69	56
Other liabilities	59	27
Net cash provided by operating activities	279	166
Cash Flows from Investing Activities		
Capital expenditures	(293)	(298)
Investment expenditures	(3)	(51)
Purchase of emission allowances	(43)	(188)
Sale of emission allowances	25	106
Net proceeds from the sales of equity investments and other assets, and sales of and collections on notes receivable	6	7
Withdrawal of restricted funds held in trust	44	48
Other	2	-
Net cash used in investing activities	(262)	(376)
Cash Flows from Financing Activities		
Proceeds from the:		
Issuance of long-term debt	-	175
Issuance of common stock	-	29
Payments for the redemption of:		
Long-term debt	(335)	(14)
Preferred stock of a subsidiary	-	(20)
Notes payable and commercial paper	305	167
Dividends paid	-	(127)
Other	-	2
Net cash (used in) provided by financing activities	(30)	212
Net (decrease) increase in cash and cash equivalents	(13)	2
Cash and cash equivalents at beginning of period	167	146
Cash and cash equivalents at end of period	\$ 154	\$ 148
Supplemental Disclosures		
Significant non-cash transactions:		
Allowance for funds used during construction (AFUDC) – equity component	\$ 5	\$ 3

See Notes to Unaudited Consolidated Financial Statements

CINERGY CORP.
CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDER'S EQUITY AND COMPREHENSIVE INCOME
(Unaudited)
(In millions)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)					Total Common Stockholder's Equity
					Foreign Currency Adjustments	Net Gains (Losses) on Cash Flow Hedges	Minimum Pension Liability Adjustment	SFAS No. 158 Adjustment	Other	
Successor										
Three Months Ended March 31, 2007										
Balance at December 31, 2006	\$ -	\$ 10,581	\$ 106	\$ -	\$ (2)	\$ (36)	\$ -	\$ (42)	\$ 2	\$ 10,609
Net income	-	-	106	-	-	-	-	-	-	106
Other Comprehensive Income	-	-	-	-	-	4	-	-	-	4
Cash flow hedges	-	-	-	-	-	-	-	(1)	-	(1)
Other	-	-	-	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	-	-	-	-	-	109
Adoption of SFAS No. 158 - measurement date provision	-	-	(21)	-	-	-	-	(1)	-	(22)
Balance at March 31, 2007	\$ -	\$ 10,581	\$ 191	\$ -	\$ (2)	\$ (32)	\$ -	\$ (44)	\$ 2	\$ 10,696
Predecessor										
Balance at December 31, 2005	\$ 2	\$ 2,982	\$ 1,722	\$ (5)	\$ 9	\$ (8)	\$ (128)	\$ -	\$ 3	\$ 4,577
Net income	-	-	79	-	-	-	-	-	-	79
Other comprehensive income, net of tax effect of (\$5)	-	-	-	-	-	-	-	-	2	2
Unrealized gain on investment trusts	-	-	-	-	-	-	-	-	-	-
Minimum pension liability adjustment	-	-	-	-	-	-	1	-	-	1
Cash flow hedges	-	-	-	-	-	8	-	-	-	8
Total comprehensive income	-	-	-	-	-	-	-	-	-	90
Issuance of common stock (946,650 shares)	-	29	-	-	-	-	-	-	-	29
Dividends on common stock (\$0.64 per share)	-	-	(127)	-	-	-	-	-	-	(127)
Other	-	7	-	-	-	-	-	-	(2)	5
Balance at March 31, 2006	\$ 2	\$ 3,018	\$ 1,674	\$ (5)	\$ 9	\$ -	\$ (127)	\$ -	\$ 3	\$ 4,574

See Notes to Unaudited Consolidated Financial Statements

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

Nature of Operations and Basis of Consolidation. Cinergy Corp. (collectively with its subsidiaries, Cinergy), is an energy company primarily located in Ohio, Indiana, Kentucky and Texas. These Consolidated Financial Statements include, after eliminating intercompany transactions and balances, the accounts of Cinergy and all majority-owned subsidiaries where Cinergy has control, and those variable interest entities where Cinergy is the primary beneficiary. These Consolidated Financial Statements also reflect Cinergy's proportionate share of certain generation and transmission facilities.

Cinergy, a Delaware corporation organized in 1993, owns directly or indirectly all outstanding common stock of its public utility subsidiaries, Duke Energy Ohio, Inc (Duke Energy Ohio) and its wholly owned public utility subsidiary, Duke Energy Kentucky, Inc. (Duke Energy Kentucky), and Duke Energy Indiana, Inc. (Duke Energy Indiana), as well as Cinergy Investments, Inc. (Investments) and Duke Energy Shared Services (DESS). Investments, which is Cinergy's non-regulated investment holding company, is involved in cogeneration and energy efficiency investments and energy marketing. DESS provides administrative, management, and support services to Cinergy's subsidiaries. In October 2006, Cinergy completed the sale of its commercial marketing and trading business to Fortis Bank S.A./N.V. (Fortis), a Benelux-based financial services group. See Note 9 for additional information.

On April 3, 2006, Duke Energy Corporation (Old Duke Energy) and Cinergy merged into wholly owned subsidiaries of Duke Energy Holding Corp. (Duke Energy HC), resulting in Duke Energy HC becoming the parent entity. In connection with the closing of the merger transactions, Duke Energy HC changed its name to Duke Energy Corporation (New Duke Energy or Duke Energy) and Old Duke Energy converted into a limited liability company named Duke Power Company LLC (subsequently renamed Duke Energy Carolinas, LLC effective October 1, 2006). As a result of the merger transactions, each outstanding share of Cinergy common stock was converted into 1.56 shares of common stock of New Duke Energy, which resulted in the issuance of approximately 313 million shares of Duke Energy common stock. See Note 2 for additional information regarding the merger. Both Old Duke Energy and New Duke Energy are referred to as Duke Energy herein.

As a result of Duke Energy's merger with Cinergy, Cinergy entered into a tax sharing agreement with Duke Energy, where the separate return method is used to allocate tax expenses or benefits to the subsidiaries whose investments or results of operations provide these tax expenses or benefits. The accounting for income taxes essentially represents the income taxes that Cinergy would incur if Cinergy was a separate company filing its own tax return.

Predecessor and Successor Reporting. In connection with the merger, Duke Energy acquired all of the outstanding common stock of Cinergy. The merger has been accounted for under the purchase method of accounting with Duke Energy treated as the acquirer for accounting purposes. As a result, the assets and liabilities of Cinergy were recorded at their respective fair values as of the merger consummation date. Purchase accounting impacts, including goodwill recognition, have been "pushed down" to Cinergy, resulting in the assets and liabilities of Cinergy being recorded at their respective fair values as of April 3, 2006. Except for an adjustment related to pension and other postretirement benefit obligations, as mandated by Statement of Financial Accounting Standards (SFAS) No. 87, "Employers' Accounting for Pensions," and SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," the accompanying consolidated financial statements do not reflect any adjustments related to Cinergy's regulated operations that are accounted for pursuant to SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation" (SFAS No. 71), which are comprised of Duke Energy Ohio's regulated transmission and distribution, Duke Energy Indiana and Duke Energy Kentucky. Under the rate setting and recovery provisions currently in place for these regulated operations which provide revenues derived from cost, the fair values of the individual tangible and intangible assets and liabilities are considered to approximate their carrying values.

Cinergy's Consolidated Statements of Operations subsequent to the merger include amortization relating to purchase accounting adjustments and depreciation of fixed assets based upon their fair value. Therefore, the Cinergy financial data prior to the merger will not generally be comparable to its financial data subsequent to the merger. See Note 2 for additional information.

Due to the impact of push-down accounting, the financial statements and certain note presentations separate Cinergy's presentations into two distinct periods, the period before the consummation of the merger (labeled "Predecessor") and the period after that date (labeled "Successor"), to indicate the application of different basis of accounting between the periods presented.

These Consolidated Financial Statements reflect all normal recurring adjustments that are, in the opinion of management, necessary to fairly present Cinergy's financial position and results of operations. Amounts reported in the interim Consolidated Statements of Operations are not necessarily indicative of amounts expected for the respective annual periods due to the effects of seasonal temperature variations on energy consumption, the timing of maintenance on electric generating units, changes in mark-to-market (MTM) valuations, changing commodity prices, and other factors. These Consolidated Financial Statements and Notes should be read in conjunction with Cinergy's 2006 Consolidated Financial Statements and Notes.

Use of Estimates. To conform to generally accepted accounting principles (GAAP) in the United States, management makes estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements and Notes. Although these estimates are based on management's best available knowledge at the time, actual results could differ.

Reclassifications and Revisions. The financial statements for periods prior to the merger have been reclassified to conform with Duke Energy's format. Certain other prior period amounts have been reclassified to conform to the presentation for the current period. Such reclassifications include the reclassification of income from continuing operations from Cinergy's commercial marketing and trading business to discontinued operations.

Other Regulatory Assets and Deferred Debits. The state of Ohio passed comprehensive electric deregulation legislation in 1999, and in 2000, the Public Utilities Commission of Ohio (PUCO) approved a stipulation agreement relating to Duke Energy Ohio's transition plan creating a Regulatory Transition Charge (RTC) designed to recover Duke Energy Ohio's generation-related regulatory assets and transition costs over a ten-year period beginning January 1, 2001. Accordingly, application of SFAS No. 71 was discontinued for the generation portion of Duke Energy Ohio's business. Duke Energy Ohio has a RTC related regulatory asset balance of approximately \$310 million and \$331 million as of March 31, 2007 and December 31, 2006, respectively, which is classified in Other Regulatory Assets and Deferred Debits on the Consolidated Balance Sheets. The RTC has been approved by the PUCO to be recovered over a ten-year period beginning January 1, 2001.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

2. Duke Energy/Cinergy Merger

On April 3, 2006, the merger between Duke Energy and Cinergy was consummated (see Note 1 for additional information on the merger, purchase accounting and Predecessor and Successor reporting). For accounting purposes, the effective date of the merger was April 1, 2006. The merger combines the Duke Energy and Cinergy regulated franchises as well as deregulated generation in the Midwestern United States (Midwest).

As discussed in Note 1 above, purchase accounting impacts, including goodwill recognition, have been "pushed down" to Cinergy, resulting in the assets and liabilities of Cinergy being recorded at their respective fair values as of April 3, 2006. The following unaudited consolidated pro forma financial results for Cinergy are presented as if the merger with Duke Energy had occurred at the beginning of the period presented:

Unaudited Consolidated Pro Forma Results (Predecessor) ^(a)	
	Three Months Ended March 31, 2006
	(in millions)
Operating revenues	\$ 1,578
Income from continuing operations	52
Net income	53

(a) See Note 1 for additional information on Predecessor and Successor reporting.

These pro forma results do not include any significant transactions completed by Cinergy other than the impact of Cinergy's merger with Duke Energy.

Prior to consummation of the merger, certain regulatory approvals were received from the state utility commissions and the Federal Energy Regulatory Commission (FERC). See Note 12 for a discussion of the regulatory impacts of the merger.

3. Common Stock and Stock-Based Compensation

Common Stock Outstanding

Prior to its merger with Duke Energy, Cinergy issued new Cinergy Corp. common stock shares to satisfy obligations under certain of its employee stock plans and the Cinergy Corp. Direct Stock Purchase and Dividend Reinvestment Plan. Cinergy issued 1.7 million shares of stock under these plans in the quarter ended March 31, 2006. After the merger, obligations under these plans were satisfied with Duke Energy common stock.

Cash dividends declared for the quarter ended March 31, 2006 included dividends of \$0.48 per share, which were declared by the Board of Directors on January 16, 2006 and partial dividends of \$0.1564 per share, which were declared on March 10, 2006.

Cinergy owns all of the common stock of Duke Energy Ohio and Duke Energy Indiana. In April 2006, Duke Energy acquired 100 percent of Cinergy's outstanding stock for 1.56 shares of Duke Energy common stock per outstanding share of Cinergy common stock. This conversion resulted in the issuance of approximately 313 million shares of Duke Energy common stock. See Note 2 for additional information.

Stock-based Compensation Plans

Subsequent to the closing of the merger, Cinergy and its subsidiaries are allocated stock-based compensation expense from Duke Energy as certain of its employees participate in Duke Energy's stock-based compensation programs. Effective January 1, 2006, Cinergy adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 123(R), "Share-Based Payment" (SFAS No. 123(R)). SFAS No. 123(R) establishes accounting for stock-based awards exchanged for employee and certain non-employee services. Accordingly, for employee awards, equity classified stock-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized as expense over the requisite service period. Cinergy elected to adopt the modified prospective application method as provided by SFAS No. 123(R). There were no modifications to outstanding stock options prior to the adoption of SFAS 123(R).

Impact of Spin-off on Equity Compensation Awards

On January 2, 2007, Spectra Energy Corp. (Spectra Energy) was spun off by Duke Energy to its shareholders. In connection with this transaction, Duke Energy distributed substantially all the shares of common stock of Spectra Energy to Duke Energy shareholders. The distribution ratio approved by Duke Energy's Board of Directors was one-half share of Spectra Energy common stock for every share of Duke Energy common stock.

Effective with the spin-off, all previously granted Duke Energy long-term incentive plan equity awards were split into Duke Energy and Spectra Energy equity-related awards, consistent with the spin-off conversion ratio. Each equity award (stock option, phantom share and performance share) was split into two awards: a Duke Energy award (issued by Duke Energy in Duke Energy shares) and a Spectra Energy award (issued by Spectra Energy in Spectra Energy shares). The number of shares covered by the adjusted Duke Energy award equals the number of shares covered by the original award, and the number of shares covered by the Spectra Energy award equal the number of shares that would have been received in the spin-off by a non-employee shareholder (which reflected the one-half share of Spectra Energy common stock for every share of Duke Energy common stock distribution ratio for Spectra Energy shares).

Stock option exercise prices were adjusted using a formula approved by the Duke Energy Compensation Committee that was designed to preserve the exercise versus market price spread (whether "in the money" or "out of the money") of each option.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

All equity award adjustments were designed to equalize the fair value of each award before and after the spin-off. Accordingly, no material incremental compensation expense was recognized as a result of the equity award adjustments.

Cinergy's future stock-based compensation expense will not be significantly impacted by the equity award adjustments that occurred as a result of the spin-off. Stock-based compensation expense recognized in future periods will correspond to the unrecognized compensation expense as of the date of the spin-off. Unrecognized compensation expense as of the date of the spin-off reflects the unamortized balance of the original grant date fair value of the equity awards held by Cinergy's employees (regardless of whether those awards are linked to Duke Energy common stock or Spectra Energy common stock).

Cinergy recorded pre-tax stock-based compensation expense included in Income From Continuing Operations for the three months ended March 31, 2007 and 2006 as follows:

	Successor ^(a)	Predecessor ^(a)
	Three Months Ended March 31	Three Months Ended March 31
	(in millions)	
	2007	2006
	\$ 2	\$ 3
Stock Options	1	1
Phantom Stock	1	12
Performance Awards		
	\$ 4	\$ 16
Total		

(a) See Note 1 for additional information on Predecessor and Successor reporting.

The tax benefit associated with the recorded expense in Income from Continuing Operations for the three months ended March 31, 2007 and 2006 was approximately \$2 million and \$6 million, respectively.

Stock Option Activity

	Options	Weighted Average Exercise Price ^(a)
	Outstanding at December 31, 2006	6,813,643
Options exercised	(157,152)	13
Options forfeited/expired	(5,928)	16
Outstanding at March 31, 2007	6,650,563	\$ 14
Exercisable at March 31, 2007	3,952,201	\$ 13

(a) Weighted-average exercise prices reflect the adjusted prices that resulted from the spin-off of Spectra Energy, as discussed above.

There were no options granted in the three months ended March 31, 2007. Cinergy granted 682,400 options in the three months ended March 31, 2006.

Performance Awards

Duke Energy awarded 422,430 shares (fair value of approximately \$6 million) to Cinergy employees during the three months ended March 31, 2007. Cinergy awarded target grants for 351,000 performance-based shares in the three months ended March 31, 2006.

The following table summarizes certain information about stock-based performance awards outstanding at March 31, 2007:

	Shares
Number of Stock-based Performance Awards:	
Outstanding at December 31, 2006	520,228
Granted	422,430
Vested	(102,220)
Forfeited	(11,885)
Outstanding at March 31, 2007	828,553

As of March 31, 2007, Cinergy had approximately \$13 million of unrecognized compensation expense which is expected to be recognized over a weighted-average period of 2.3 years.

Phantom Stock Awards

Duke Energy awarded 281,380 shares to Cinergy employees (fair value of approximately \$5 million based on the market price of Duke Energy's common stock at the grant dates) during the three months ended March 31, 2007. There were no phantom stock awards issued during the three months ended March 31, 2006.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

The following table summarizes information about phantom stock awards issued to Cinergy employees and outstanding at March 31, 2007:

	Shares
Number of Phantom Stock Awards:	
Outstanding at December 31, 2006	349,155
Granted	281,380
Vested	(36,126)
Forfeited	(6,201)
Outstanding at March 31, 2007	588,208

As of March 31, 2007, Cinergy had approximately \$9 million of unrecognized compensation expense which is expected to be recognized over a weighted-average period of 2.8 years.

4. Preferred Stock

In March 2006, Duke Energy Ohio redeemed all outstanding shares of its \$16.98 million notional amount 4% Cumulative Preferred Stock and its \$3.5 million notional amount 4.75% Cumulative Preferred Stock at a price of \$108 per share and \$101 per share, respectively, plus accrued and unpaid dividends.

5. Inventory

Inventory consists primarily of coal held for electric generation, materials and supplies and natural gas held in storage. Inventory is recorded at the lower of cost or market value, using the average cost method.

	Successor ^(a)	
	March 31, 2007	December 31, 2006
	<i>(in millions)</i>	
Fuel for use in electric generation	\$ 147	\$ 159
Materials and supplies	125	124
Gas stored for current use	26	82
Total Inventory	\$ 298	\$ 365

^(a) See Note 1 for additional information on Predecessor and Successor reporting.

6. Debt and Credit Facilities

Available Credit Facilities and Restrictive Debt Covenants. Cinergy Corp. and its subsidiaries have a multi-year syndicated \$1.5 billion revolving credit facility with an expiration date of June 2011. This credit facility contains an option allowing borrowing up to the full amount of the facility on the day of initial expiration for up to one year and contains a covenant requiring the debt-to-total capitalization ratio to not exceed 65% for Cinergy and certain of its subsidiaries. The credit facility also contains a \$500 million borrowing sub-limit for Duke Energy Ohio, a \$500 million sub-limit for Duke Energy Indiana and a \$100 million sub-limit for Duke Energy Kentucky.

The issuance of commercial paper, letters of credit and other borrowings reduces the amount available under the available credit facility.

Cinergy's debt and credit agreements contain various financial and other covenants; however, Cinergy's credit agreement does not include any covenants based on credit ratings. Failure to meet those covenants beyond applicable grace periods could result in accelerated due dates and/or termination of the agreement. As of March 31, 2007, Cinergy was in compliance with those covenants. In addition, some of the credit agreements may allow for acceleration of payments or termination of the agreement due to nonpayment or to the acceleration of other significant indebtedness of the borrower or some of its subsidiaries. None of the debt or credit agreements contain material adverse change clauses.

As of March 31, 2007 and December 31, 2006, approximately \$307 million of pollution control bonds which are short-term obligations by nature are classified as Long-term Debt on the Consolidated Balance Sheets due to Cinergy's intent and ability to utilize such borrowings as long-term financing. Cinergy's credit facility with non-cancelable terms in excess of one year as of the balance sheet date gives Cinergy the ability to refinance these short-term obligations on a long-term basis.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Credit Facilities Summary as of March 31, 2007 (in millions)

	Expiration Date	Credit Facilities Capacity	Amounts Outstanding		Total
			Commercial Paper	Letters of Credit	
			(in millions)		
Cinergy					
\$1,500 multi-year syndicated	June 2011	\$ 1,500	\$ 406	\$ 1	\$ 407

Money Pool. Cinergy participates with Duke Energy and other Duke Energy subsidiaries in a money pool arrangement to better manage cash and working capital requirements. Under this arrangement, those companies with short-term funds may provide short-term loans to affiliates participating under this arrangement. Prior to the merger, Cinergy participated in a similar money pool arrangement with other Cinergy subsidiaries. As of March 31, 2007 and December 31, 2006, all short-term loans outstanding under this arrangement were among Cinergy and its consolidated subsidiaries thus the transactions eliminated in the consolidation at the Cinergy level.

7. Employee Benefit Obligations

Cinergy Retirement Plans

As discussed in the 2006 10-K, Cinergy maintains qualified and non-qualified defined benefit pension plans as well as other post-retirement benefit plans. Cinergy adopted the funded status disclosure and recognition provisions of SFAS No. 158, "Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of Financial Accounting Standards Board (FASB) Statements No. 87, 88, 106, and 132(R)" (SFAS No. 158) effective December 31, 2006. Cinergy adopted the change in measurement date transition requirements of SFAS No. 158 effective January 1, 2007 by remeasuring plan assets and benefit obligations as of that date. Previously, Cinergy used a September 30 measurement date for its defined benefit and other post-retirement plans and other post-retirement plans. Net periodic benefit cost of approximately \$21 million for the three-month period between September 30, 2006 and December 31, 2006 was recognized as a separate reduction of retained earnings as of January 1, 2007. Cinergy is in the process of finalizing its actuarial calculation of the changes in plan assets and plan obligations between the September 30, 2006 and December 31, 2006 measurement dates, and expects to record an immaterial revision to accumulated other comprehensive income and regulatory assets in the second quarter of 2007, once the actuarial valuations are finalized.

The table below identifies significant changes to the individual line items in Cinergy's Consolidated Balance Sheets during the three months ended March 31, 2007 due to the adoption of SFAS No. 158 measurement date provisions for the Cinergy retirement and other post-retirement plans (amounts in brackets represent credits).

	December 31, 2006	Adoption of SFAS No. 158 measurement date provisions (in millions)	January 1, 2007
Accrued pension and other postretirement benefit costs	\$ (1,273)	\$ (24)	\$ (1,297)
Regulatory Assets	45	2	47
Deferred income tax assets	25	-	25
Accumulated other comprehensive loss, net of tax	42	1	43
Retained earnings	-	21	-

Qualified Pension Plans

The following table shows the components of the net periodic pension costs for the Cinergy qualified retirement plans:

	Successor ^{(a)(b)} Three Months Ended March 31, 2007	Predecessor ^(a) Three Months Ended March 31, 2006
	(in millions)	
Service cost	\$ 13	\$ 11
Interest cost	28	25
Expected return on plans' assets	(27)	(23)
Amortization of prior service cost	-	1
Amortization of actuarial loss	-	4
Net periodic benefit cost	\$ 14	\$ 18

(a) See Note 1 for additional information on Predecessor and Successor reporting.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

As noted above, Cinergy adopted the change in measurement date transition requirements of SFAS No. 158 effective January 1, 2007 by remeasuring plan assets and benefit obligations as of that date. There were no changes in assumptions used in the remeasuring of qualified plan assets or the benefit obligation. The following table shows the effect of the remeasurement on the plan assets and benefit obligation of the Cinergy qualified retirement plans:

	December 31, 2006	January 1, 2007 ^(a)	Change
		(in millions)	
Projected Benefit Obligation	\$ 1,976	\$ 2,047	\$ 71
Plan Assets at measurement date	1,302	1,351	49
Funded Status	\$ (674)	\$ (696)	\$ (22)

(a) Reflects the projected benefit obligation and plan assets subsequent to the measurement date change.

There were no qualified pension benefit contributions for the three months ended March 31, 2007 or March 31, 2006. Duke Energy anticipates that it will make total contributions of approximately \$315 million to the legacy Cinergy qualified pension plans in 2007. During May 2007 \$250 million in contributions were made.

Non-Qualified Pension Plans

The following table shows the components of the net periodic pension costs for the Cinergy non-qualified retirement plans:

	Successor ^(a)	Predecessor ^(a)
	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
	(in millions)	
Service cost	\$ 1	\$ 1
Interest cost	1	2
Amortization of prior service cost	-	1
Amortization of actuarial loss	-	1
Net periodic benefit cost	\$ 2	\$ 5

(a) See Note 1 for additional information on Predecessor and Successor reporting.

As noted above, Cinergy adopted the change in measurement date transition requirements of SFAS No. 158 effective January 1, 2007 by remeasuring plan assets and benefit obligations as of that date. There were no changes in assumptions used in the remeasuring of the non-qualified benefit obligation. There are no non-qualified plan assets. The following table shows the effect of the remeasurement on the benefit obligation of the Cinergy non-qualified retirement plans:

	December 31, 2006	January 1, 2007 ^(a)	Change
		(in millions)	
Projected Benefit Obligation	\$ 114	\$ 97	\$ (17)
Funded Status	\$ (114)	\$ (97)	\$ 17

(a) Reflects the projected benefit obligation subsequent to the measurement date change.

Other Post-Retirement Benefit Plan

The following table shows the components of the net periodic post-retirement benefit costs for the Cinergy other post-retirement benefit plan:

	Successor ^{(a)(b)}	Predecessor ^(a)
	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
	(in millions)	
Service cost	\$ 2	\$ 2
Interest cost	7	6
Amortization of actuarial loss	-	2
Net periodic benefit cost	\$ 9	\$ 10

(a) See Note 1 for additional information on Predecessor and Successor reporting.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

9. Goodwill and Intangibles

As discussed further in Note 2, in April 2006, Duke Energy and Cinergy consummated their merger, which resulted in Cinergy recording goodwill of approximately \$4.4 billion. Cinergy evaluates the impairment of goodwill under the guidance of SFAS No. 142, "Goodwill and Other Intangible Assets" and no impairment of goodwill has been recorded. The following table shows the changes in goodwill for the three months ended March 31, 2007:

Carrying Amount of Goodwill

Successor ^(a)		
Balance at December 31, 2006	Changes	Balance at March 31, 2007
(in millions)		
\$ 4,385	\$ 2	\$ 4,387

(a) See Note 1 to the Consolidated Financial Statements for additional information on Predecessor and Successor reporting.

Intangible Assets

The carrying amount and accumulated amortization of intangible assets are as follows:

	Successor ^(a)	
	March 31, 2007	December 31, 2006
(in millions)		
Emission allowances	\$ 526	\$ 572
Gas, coal, and power contracts	307	307
Other	31	31
Total intangible assets	864	910
Accumulated amortization—gas, coal, and power contracts	(61)	(48)
Accumulated amortization—other	(29)	(29)
Total accumulated amortization	(90)	(77)
Total intangible assets, net	\$ 774	\$ 833

(a) See Note 1 for additional information on Predecessor and Successor reporting.
 (b) Emission allowances do not have a contractual term or expiration date.

Carrying values of emission allowances sold or consumed during the three months ended March 31, 2006 and three months ended March 31, 2007 were as follows:

Successor ^(a)	Predecessor ^(a)
Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
(in millions)	
\$91	\$64

(a) See Note 1 for additional information on Predecessor and Successor reporting.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Amortization expense for intangible assets for the three months ended March 31, 2007 and March 31, 2006 was as follows:

Successor ^(a)	Predecessor ^(a)
Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
\$ 13	\$ 7

(in millions)

(a) See Note 1 for additional information on Predecessor and Successor reporting.

Intangible Liabilities

As of April 3, 2006, Cinergy recorded an intangible liability in connection with the merger with Duke Energy amounting to approximately \$113 million associated with the Market Based Standard Service Offer (MBSSO) in Ohio that will be recognized in earnings over the remaining regulatory period, which ends on December 31, 2008. Cinergy also recorded approximately \$56 million of intangible liabilities associated with other power sale contracts in connection with the merger with Duke Energy. The carrying amount of these liabilities as of March 31, 2007 and December 31, 2006 is as follows:

	Successor ^(a)	
	March 31, 2007	December 31, 2006
	(in millions)	
MBSSO	\$ 95	\$ 95
Other power sale contracts	35	39
Total intangible liabilities	\$130	\$134

(a) See Note 1 for additional information on Predecessor and Successor reporting.

Approximately \$4 million was amortized to income during the three months ended March 31, 2007. Intangible liabilities are classified as Other non-current liabilities on the Consolidated Balance Sheets.

10. Discontinued Operations and Assets Held for Sale

The following table summarizes the results classified as (Loss) Income from Discontinued Operations, net of tax, in the Consolidated Statements of Operations.

Discontinued Operations (in millions)

	Successor ^(a)	Predecessor ^(a)
	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Operating Revenues	\$ —	\$ 43
Operating Income		
Pre-tax Operating Income	\$ —	\$ 10
Income Tax Expense	—	3
Operating Income, Net of Tax	\$ —	\$ 7
Net Loss on Dispositions		
Pre-tax Loss on Dispositions	\$ (1)	\$ (3)
Income Tax Benefit	—	(1)
Loss on Dispositions, Net of Tax	(1)	(2)
(Loss) Income from Discontinued Operations, Net of Tax	\$ (1)	\$ 5

(a) See Note 1 for additional information on Predecessor and Successor reporting.

The following table presents the carrying values of the major classes of assets and associated liabilities held for sale in the Consolidated Balance Sheets as of March 31, 2007 and December 31, 2006. Assets held for sale at both March 31, 2007 and December 31, 2006 primarily relate to Duke Energy Indiana's Wabash River Power Station, as well as certain Duke Energy Ohio trading contracts that were sold in 2006 that have yet to be novated. See Note 8 for additional information related to Wabash River Power Station.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Summarized Balance Sheet Information for Assets and Associated Liabilities Held for Sale (in millions)

	Successor ^(a)	
	March 31, 2007	December 31, 2006
Current assets	\$ 22	\$ 26
Investments and other assets	30	19
Property, plant and equipment, net	120	117
Total assets held for sale	<u>\$ 172</u>	<u>\$ 162</u>
Current liabilities	\$ 21	\$ 25
Other liabilities	32	21
Total liabilities associated with assets held for sale	<u>\$ 53</u>	<u>\$ 46</u>

(a) See Note 1 for additional information on Predecessor and Successor reporting.

In June 2006, Duke Energy announced it had reached an agreement to sell Cinergy Marketing and Trading, LP, and Cinergy Canada, Inc. (collectively CMT), as well as certain Duke Energy Ohio trading contracts, to Fortis, a Benelux-based financial services group. In October 2006, the sale was completed. Results of operations for CMT, as well as certain Duke Energy Ohio trading contracts, have been reflected in (Loss) Income from Discontinued Operations, net of tax. In October 2006, in connection with this transaction, Duke Energy Ohio entered into a series of Total Return Swaps (TRS) with Fortis, which are accounted for as mark to market derivatives. The TRS offsets the net fair value of the contracts being sold to Fortis. The TRS will be cancelled for each underlying contracts as each is transferred to Fortis. All economic and credit risk associated with the contracts has been transferred to Fortis as of the date of the sale through the TRS. As of March 31, 2007, approximately 95% of the contracts have been novated by Fortis. At March 31, 2007, contracts with a net fair value of \$51 million remain in Assets held for sale and represent contracts that have yet to be novated by Fortis.

11. Risk Management Instruments

The following table shows the carrying value of Cinergy's derivative portfolio as of March 31, 2007, and December 31, 2006.

Derivative Portfolio Carrying Value (in millions)

	Successor ^(a)	
	March 31, 2007	December 31, 2006
Hedging	\$ (1)	\$ (2)
Trading	1	2
Undesignated.....	(33)	(22)
Total	<u>\$ (33)</u>	<u>\$ (22)</u>

(a) See Note 1 for additional information on Predecessor and Successor reporting.

The amounts in the table above represent the combination of assets and liabilities for unrealized gains and losses on mark-to-market and hedging transactions on Cinergy's Consolidated Balance Sheets, excluding approximately \$51 million of derivative assets and \$51 million of derivative liabilities which are recorded as assets and liabilities held for sale. See Note 10 for additional information.

The \$11 million decrease in the undesignated derivative portfolio fair value is due primarily to unrealized mark-to-market losses as a result of higher power prices. This was partially offset by unrealized mark-to-market gains on coal derivatives.

Credit Risk. Included in Other Current Assets in the Consolidated Balance Sheets as of March 31, 2007 and December 31, 2006 are collateral assets of approximately \$62 million and \$58 million, respectively, which represents cash collateral posted by Cinergy with other third parties. Included in Other Current Liabilities in the Consolidated Balance Sheets as of March 31, 2007 and December 31, 2006 are collateral liabilities of approximately \$8 million and \$27 million, respectively, which represents cash collateral posted by other third parties to Cinergy. This decrease in cash collateral posted by other third parties to Cinergy is primarily due the sale of the commercial marketing and trading business to Fortis in 2006.

12. Regulatory Matters

Regulatory Merger Approvals. As discussed in Note 1 and Note 2, on April 3, 2006, the merger between Duke Energy and Cinergy was consummated to create a newly formed company, Duke Energy Holding Corp. (subsequently renamed Duke Energy Corporation). As a condition to the merger approval, the Public Utilities Commission of Ohio (PUCO) and the Kentucky Public Service Commission (KPSC) required that certain merger related savings be shared with consumers in Ohio and Kentucky, respectively. The commissions also required Cinergy, Duke Energy Ohio and Duke Energy Kentucky to meet additional conditions. While the merger itself was not subject to approval by the Indiana Utility Regulatory Commission (IURC), the IURC approved certain affiliate agreements in connection with the merger subject to similar conditions. Key elements of these conditions include:

- The PUCO required that Duke Energy Ohio provide (i) a rate reduction of approximately \$15 million for one year to facilitate economic development in a time of increasing rates and market prices (ii) a reduction of approximately \$21 million to its gas and electric consumers in Ohio for one year, with both credits beginning January 1, 2006. As of March 31, 2007, Duke Energy Ohio had completed its merger related rate reductions and filed a report with the PUCO to terminate the merger credit riders. Approximately \$2 million of the rate reduction was passed through to customers during the three months ended March 31, 2007.
- The KPSC required that Duke Energy Kentucky provide \$8 million in rate reductions to its customers over five years, ending when new rates are established in the next rate case after January 1, 2008. As of March 31, 2007, Duke Energy Kentucky had returned approximately \$2 million to customers on this rate reduction. Of this amount, approximately \$1 million of the rate reduction was passed through to customers during the three months ended March 31, 2007.
- The IURC required that Duke Energy Indiana provide a rate reduction of \$40 million to its customers over a one year period and \$5 million over a five year period for low-income energy assistance and clean coal technology. In April 2006, Citizens Action Coalition of Indiana, Inc., an intervenor in the merger proceeding, filed a Verified Petition for Rehearing and Reconsideration claiming that Duke Energy Indiana should be ordered to provide an additional \$5 million in rate reduction to customers to be consistent with the terms of the North Carolina Utility Commission's order approving the merger. In May 2006, the IURC denied the petition for rehearing and reconsideration. As of April 30, 2007, Duke Energy Indiana had completed its merger related reductions and filed a notice with the IURC to terminate the merger credit rider. Approximately \$12 million of the rate reduction was passed through to customers during the three months ended March 31, 2007.
- The FERC approved the merger without conditions.

Rate Related Information. The IURC and KPSC approve rates for retail electric and gas sales within their states. The PUCO approves rates and market prices for retail electric and gas sales within Ohio. The FERC approves rates for electric sales to wholesale customers served under cost-based rates.

Duke Energy Ohio Electric Rate Filings. Duke Energy Ohio operates under a Rate Stabilization Plan (RSP), a MBSSO approved by the PUCO in November 2004. In March 2005, the Office of the Ohio Consumers' Council (OCC) appealed the PUCO's approval of the MBSSO to the Supreme Court of Ohio and the court issued its decision in November 2006. It upheld the MBSSO in virtually every respect but remanded to the PUCO on two issues. The Court ordered the PUCO to support a certain portion of its order with reasoning and record evidence and to require Duke Energy Ohio to disclose certain confidential commercial agreements with other parties previously requested by the OCC. Duke Energy Ohio has complied with the disclosure order. Such confidential commercial agreements are relatively common in the jurisdiction and the PUCO has not allowed production of such agreements in past cases in which the PUCO was presented with a settlement agreement on the basis that they are irrelevant. A hearing on remand has concluded and Duke Energy Ohio expects a Commission Order before the end of the year.

On August 2, 2006, Duke Energy Ohio filed an application with the PUCO to amend its MBSSO through 2010. The proposal provides for continued electric system reliability, a simplified market price structure and clear price signals for customers, while helping to maintain a stable revenue stream for Duke Energy Ohio. The application is pending and Cinergy cannot predict the outcome of this proceeding.

Duke Energy Ohio's MBSSO includes a fuel clause recovery component which is audited annually by the PUCO. In April 2007, Duke Energy Ohio entered a settlement resolving all open issues identified in the 2006 audit with some, but not all, of the parties. The PUCO set the settlement for the hearing, which has been completed. A PUCO decision is expected before the end of the year. Cinergy does not expect the agreement to have a material impact on its consolidated results of operations, cash flows or financial position.

In addition to the fuel clause recovery component, Duke Energy Ohio's MBSSO includes a reserve capacity component known as the System Reliability Tracker (SRT), and an Annually Adjusted Component (AAC) to recover changes in environmental, tax and homeland security costs. In April 2007, Duke Energy Ohio entered a Stipulation resolving all issues related to the 2006 SRT audit and application to amend the 2007 AAC market price. The Stipulation included some, but not all, of the parties. A hearing was held regarding the Stipulation. Duke Energy Ohio expects a Commission decision before the end of the year. Cinergy does not expect a significant change, if any, to the MBSSO components but cannot predict the outcome of the cases.

Duke Energy Kentucky Electric Rate Case. In May 2006, Duke Energy Kentucky filed an application for an increase in its base electric rates. The application, which sought an increase of approximately \$67 million in revenue, or approximately 28 percent, to be effective in January 2007, was filed pursuant to the KPSC's 2003 Order approving the transfer of 1,100 MW of generating assets from Duke Energy Ohio to Duke Energy Kentucky. In the fourth quarter of 2006, the KPSC approved the settlement agreement resolving all the issues raised in the proceeding. Among other things, the settlement agreement provided for a \$49 million increase in Duke Energy Kentucky's base electric rates and reinstatement of the fuel cost recovery mechanism, which had been frozen since 2001. The settlement agreement also provided for Duke Energy Kentucky to obtain KPSC approval for a back-up power supply plan. In January 2007, Duke Energy Kentucky filed a back-up power supply plan with the KPSC. The plan provided for Duke Energy Kentucky to purchase back-up power through bilateral contracts for scheduled outages. Duke Energy Kentucky will recover these costs through base rates. The plan provided for Duke Energy Kentucky to purchase back-up power through the Midwest Independent Transmission System Operator, Inc. (Midwest ISO) energy markets for unscheduled outages. Duke Energy Kentucky will recover these costs through its fuel adjustment clause. The KPSC issued an order in March 2007 approving Duke Energy Kentucky's back-up power supply plan.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Duke Energy Kentucky Gas Rate Cases. In 2002, the KPSC approved Duke Energy Kentucky's gas base rate case which included, among other things, recovery of costs associated with an accelerated gas main replacement program. The approval authorized a tracking mechanism to recover certain costs including depreciation and a rate of return on the program's capital expenditures. The Kentucky Attorney General appealed to the Franklin Circuit Court the KPSC's approval of the tracking mechanism as well as the KPSC's subsequent approval of annual rate adjustments under this tracking mechanism. In 2005, both Duke Energy Kentucky and the KPSC requested that the court dismiss these cases. At the present time, Cinergy cannot predict the timing or outcome of this litigation.

In February 2005, Duke Energy Kentucky filed a gas base rate case with the KPSC requesting approval to continue the tracking mechanism and for a \$14 million annual increase in base rates. A portion of the increase is attributable to recovery of the current cost of the accelerated main replacement program in base rates. In December 2005, the KPSC approved an annual rate increase of \$8 million and re-approved the tracking mechanism through 2011. In February 2006, the Kentucky Attorney General appealed the KPSC's order to the Franklin Circuit Court, claiming that the order improperly allows Duke Energy Kentucky to increase its rates for gas main replacement costs in between general rate cases, and also claiming that the order improperly allows Duke Energy Kentucky to earn a return on investment for the costs recovered under the tracking mechanism which permits Duke Energy Kentucky to recover its gas main replacement costs. At this time, Cinergy cannot predict the outcome of this litigation.

Other. In August 2005, Duke Energy Indiana filed an application with the IURC for approval of study and preconstruction costs related to the joint development of an integrated gasification combined cycle (IGCC) project with Southern Indiana Gas and Electric Company d/b/a Vectren Energy Delivery of Indiana, Inc. (Vectren). Duke Energy Indiana and Vectren reached a Settlement Agreement with the Indiana Office of Utility Consumer Counselor (OUCC) providing for the recovery of such costs if the IGCC project is approved and constructed and for the partial recovery of such costs if the IGCC project does not go forward. The IURC issued an order on July 26, 2006 approving the Settlement Agreement in its entirety.

On September 7, 2006, Duke Energy Indiana and Vectren filed a joint petition with the IURC seeking Certificates of Public Convenience and Necessity (CPCN) for the construction of a 630 MW IGCC power plant at Duke Energy Indiana's Edwardsport Generating Station in Knox County, Indiana. The petition describes the applicants' need for additional base-load generating capacity and requests timely recovery of all construction and operating costs related to the proposed generating station, including financing costs, together with certain incentive ratemaking treatment. Duke Energy Indiana and Vectren filed their cases in chief with the IURC on October 24, 2006. Duke Energy Indiana's estimated costs for the potential IGCC project have increased. Duke Energy Indiana's publicly filed testimony with the IURC indicates that industry (Electric Power Research Institute) total capital requirement estimates for a facility of this type and size are now in the range of \$1.6 billion to \$2.1 billion (including escalation to 2011 and owners' specific site costs). On February 16, 2007, Duke Energy Indiana filed a request for deferral and subsequent cost recovery of the costs expected to be incurred prior to the anticipated date of an order by the IURC regarding Duke Energy Indiana's request for a CPCN for the construction of the IGCC project at the Edwardsport Generating Station. These costs relate to the continued investigation, analysis and development of the IGCC project, and must be incurred, to assure the project can achieve a targeted in-service date of 2011. In April 2007, Duke Energy Indiana and Vectren filed a Front End Engineering and Design (FEED) Study Report which included an updated estimated cost for the IGCC project of approximately \$2 billion (including allowance for funds used during construction). Both the CPCN case and the interim cost recovery case are scheduled for an evidentiary hearing in June 2007. An order in the interim cost recovery case is expected in the third quarter of 2007, and an order on the CPCN case is expected in the fourth quarter of 2007.

In April 2005, the PUCO issued an order opening a statewide investigation into riser leaks in gas pipeline systems throughout Ohio. The investigation followed four explosions since 2000 caused by gas riser leaks, including an April 2000 explosion in Duke Energy Ohio's service area. In November 2006, the PUCO Staff released the expert report, which concluded that certain types of risers are prone to leaks under various conditions, including over-tightening during initial installation. The PUCO Staff recommended that natural gas companies continue to monitor the situation and study the cause of any further riser leaks to determine whether further remedial action is warranted. Duke Energy Ohio has approximately 87,000 of these risers on its distribution system. If the PUCO orders natural gas companies to replace all of these risers, Duke Energy Ohio estimates a replacement cost of \$35 million. At this time, Cinergy cannot predict the outcome or the impact of the statewide Ohio investigation.

13. Commitments and Contingencies

Environmental

Cinergy is subject to federal, state and local regulations regarding air and water quality, hazardous and solid waste disposal and other environmental matters. These regulations can be changed from time to time, imposing new obligations on Cinergy.

Remediation activities. Like others in the energy industry, Cinergy and its affiliates are responsible for environmental remediation at various contaminated sites. These include some properties that are part of ongoing Cinergy operations, sites formerly owned or used by Cinergy entities, and sites owned by third parties. Remediation typically involves management of contaminated soils and may involve groundwater remediation. Managed in conjunction with relevant federal, state and local agencies, activities vary with site conditions and locations, remedial requirements, complexity and sharing of responsibility. If remediation activities involve statutory joint and several liability provisions, strict liability, or cost recovery or contribution actions, Cinergy or its affiliates could potentially be held responsible for contamination caused by other parties. In some instances, Cinergy may share liability associated with contamination with other potentially responsible parties, and may also benefit from insurance policies or contractual indemnities that cover some or all cleanup costs. All of these sites generally are managed in the normal course of business or affiliate operations. Management believes that completion or resolution of these matters will have no material adverse effect on Cinergy's consolidated results of operations, cash flows or financial position.

Clean Water Act. The U.S. Environmental Protection Agency's (EPA's) final Clean Water Act Section 316(b) rule became effective July 9, 2004. The rule established aquatic protection requirements for existing facilities that withdraw 50 million gallons or more of water per day from rivers, streams, lakes, reservoirs, estuaries, oceans, or other U.S. waters for cooling purposes. Coal-fired generating facilities in which Cinergy is either a whole or partial owner are affected sources under that rule. On January 25, 2007, the U.S. Court of Appeals for the Second Circuit issued its opinion in *Riverkeeper, Inc. v. EPA*, Nos. 04-6692-ag(L) et. al. (2d Cir. 2007) remanding most aspects of EPA's rule back to the agency. The court effectively disallowed those portions of the rule most favorable to industry, and the decision creates a great deal of uncertainty regarding future requirements and their timing. Cinergy is still unable to estimate costs to comply with the EPA's rule, it is expected that costs will increase as a result of the court's decision. The magnitude of any such increase cannot be estimated at this time.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Clean Air Mercury Rule (CAMR) and Clean Air Interstate Rule (CAIR). The EPA finalized its CAMR and CAIR in May 2005. The CAMR limits total annual mercury emissions from coal-fired power plants across the United States through a two-phased cap-and-trade program. Phase 1 begins in 2010 and Phase 2 begins in 2018. The CAIR limits total annual and summertime nitrogen oxides (NO_x) emissions and annual sulfur dioxide (SO₂) emissions from electric generating facilities across the Eastern United States through a two-phased cap-and-trade program. Phase 1 begins in 2009 for NO_x and in 2010 for SO₂. Phase 2 begins in 2015 for both NO_x and SO₂.

Cinergy currently estimates that it will spend approximately \$717 million between 2007 and 2011 to comply with Phase 1 of CAMR and CAIR at plants that Cinergy owns or partially owns but does not operate. Cinergy estimates its CAIR/CAMR Phase 2 compliance costs at approximately \$450 million over the period 2007-2016. Cinergy is currently unable to estimate the cost of complying with Phase 2 of CAMR beyond 2016. The IURC issued an order in 2006 granting Duke Energy Indiana approximately \$1.07 billion in rate recovery to cover its estimated Phase 1 of CAIR/CAMR compliance costs in Indiana. Duke Energy Ohio receives partial recovery of depreciation and financing costs related to environmental compliance projects for 2005-2008 through its rate stabilization plan (see Note 12).

Extended Environmental Activities and Accruals. Included in Other Current Liabilities and Other Deferred Credits and Other Liabilities on the Consolidated Balance Sheets were total accruals related to extended environmental-related activities of approximately \$19 million and \$20 million as of March 31, 2007 and December 31, 2006, respectively. These accruals represent Cinergy's provisions for costs associated with remediation activities at some of its current and former sites, as well as other relevant environmental contingent liabilities. Management believes that completion or resolution of these matters will have no material adverse effect on Cinergy's consolidated results of operations, cash flows or financial position.

Litigation

New Source Review (NSR). In 1999-2000, the U.S. Justice Department, acting on behalf of the EPA, filed a number of complaints and notices of violation against multiple utilities across the country for alleged violations of the NSR provisions of the Clean Air Act (CAA). Generally, the government alleged that projects performed at various coal-fired units were major modifications, as defined in the CAA, and that the utilities violated the CAA when they undertook those projects without obtaining permits and installing emission controls for SO₂, NO_x, and particulate matter. The complaints seek (1) injunctive relief to require installation of pollution control technology on various allegedly violating generating units, and (2) unspecified civil penalties in amounts of up to \$27,500 per day for each violation. A number of Cinergy's owned and operated plants have been subject to these allegations and lawsuits. Cinergy asserts that there were no CAA violations because the applicable regulations do not require permitting in cases where the projects undertaken are "routine" or otherwise do not result in a net increase in emissions.

In November 1999, the United States brought a lawsuit in the United States Federal District Court for the Southern District of Indiana against Cinergy, Duke Energy Ohio, and Duke Energy Indiana alleging various violations of the CAA for various projects at six of Cinergy owned and co-owned generating stations in the Midwest. Additionally, the suit claims that Cinergy violated an Administrative Consent Order entered into in 1998 between the EPA and Cinergy relating to alleged violations of Ohio's State Implementation Plan (SIP) provisions governing particulate matter at Unit 1 at Duke Energy Ohio's W.C. Beckjord Station. In addition, three northeast states and two environmental groups have intervened in the case. In August 2005, the district court issued a ruling regarding the emissions test that it will apply to Cinergy, Duke Energy Ohio, and Duke Energy Indiana at the trial of the case. Contrary to Cinergy's, Duke Energy Ohio's, and Duke Energy Indiana's argument, the district court ruled that in determining whether a project was projected to increase annual emissions, it would not hold hours of operation constant. However, the district court subsequently certified the matter for interlocutory appeal to the Seventh Circuit Court of Appeals. In August 2006, the Seventh Circuit upheld the district court's opinion. In light of the Supreme Court's recent ruling in *Environmental Defense, et al v. Duke Energy, et al*, finding that the Fourth Circuit was incorrect in upholding an hourly emissions increase test, the Supreme Court denied Cinergy's petition for a writ of certiorari. The case will return to the district court for trial.

In March 2000, the United States also filed in the United States District Court for the Southern District of Ohio an amended complaint in a separate lawsuit alleging violations of the CAA regarding various generating stations, including a generating station operated by Columbus Southern Power Company (CSP) and jointly-owned by CSP, The Dayton Power and Light Company (DP&L), and Duke Energy Ohio. This suit is being defended by CSP (the CSP case). In April 2001, the United States District Court for the Southern District of Ohio in that case ruled that the Government and the intervening plaintiff environmental groups cannot seek monetary damages for alleged violations that occurred prior to November 3, 1994; however, they are entitled to seek injunctive relief for such alleged violations. Neither party appealed that decision. This matter was heard in trial in July 2005 and a decision is pending.

In addition, Cinergy and Duke Energy Ohio have been informed by DP&L that in June 2000, the EPA issued a Notice of Violation (NOV) to DP&L for alleged violations of CAA requirements at a station operated by DP&L and jointly-owned by DP&L, CSP, and Duke Energy Ohio. The NOV indicated the EPA may (1) issue an order requiring compliance with the requirements of the Ohio SIP, or (2) bring a civil action seeking injunctive relief and civil penalties of up to \$27,500 per day for each violation. In September 2004, Marilyn Wall and the Sierra Club brought a lawsuit against Duke Energy Ohio, DP&L and CSP for alleged violations of the CAA at this same generating station. This case is currently in discovery in front of the same judge who has the CSP case.

It is not possible to predict with certainty whether Cinergy will incur any liability or to estimate the damages, if any, that Cinergy might incur in connection with these matters.

Section 126 Petitions. In March 2004, the state of North Carolina filed a petition under Section 126 of the CAA in which it alleges that sources in 13 upwind states, including Indiana and Ohio, significantly contribute to North Carolina's non-attainment with certain ambient air quality standards. In August 2005, the EPA issued a proposed response to the petition. The EPA proposed to deny the ozone portion of the petition based upon a lack of contribution to air quality by the named states. The EPA also proposed to deny the particulate matter portion of the petition based upon the CAIR Federal Implementation Plan (FIP), that would address the air quality concerns from neighboring states. On April 28, 2006, the EPA denied North Carolina's petition based upon the final CAIR FIP described above. North Carolina has filed a legal challenge to the EPA's denial.

Carbon Dioxide Litigation. In July 2004, the states of Connecticut, New York, California, Iowa, New Jersey, Rhode Island, Vermont, Wisconsin, and the City of New York brought a lawsuit in the United States District Court for the Southern District of New York against Cinergy, American Electric Power Company, Inc., American Electric Power Service Corporation, The Southern Company, Tennessee Valley Authority, and Xcel Energy Inc. A similar lawsuit was filed in the United States District Court for the Southern District of New York against the same companies by Open Space Institute, Inc., Open Space Conservancy, Inc., and The Audubon Society of New Hampshire. These lawsuits allege that the defendants' emissions of carbon dioxide (CO₂) from the combustion of fossil fuels at electric generating facilities contribute to global warming and amount to a public nuisance. The complaints also allege that the defendants could generate the same amount of electricity while emitting significantly less CO₂. The

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

plaintiffs are seeking an injunction requiring each defendant to cap its CO₂ emissions and then reduce them by a specified percentage each year for at least a decade. In September 2005, the district court granted the defendants' motion to dismiss the lawsuit. The plaintiffs have appealed this ruling to the Second Circuit Court of Appeals. Oral argument was held before the Second Circuit Court of Appeals on June 7, 2006.

It is not possible to predict with certainty whether Cinergy will incur any liability or to estimate the damages, if any, that Cinergy might incur in connection with this matter.

Zimmer Generating Station (Zimmer Station) Lawsuit. In November 2004, a citizen of the Village of Moscow, Ohio, the town adjacent to Duke Energy Ohio's Zimmer Station, brought a purported class action in the United States District Court for the Southern District of Ohio seeking monetary damages and injunctive relief against Duke Energy Ohio for alleged violations of the CAA, the Ohio SIP, and Ohio laws against nuisance and common law nuisance. The plaintiffs have filed a number of additional notices of intent to sue and two lawsuits raising claims similar to those in the original claim. One lawsuit was dismissed on procedural grounds, and the remaining two have been consolidated. On December 28, 2006, the District Court certified this case as a class action. Limited discovery on class definition continues. At this time, Cinergy cannot predict whether the outcome of this matter will have a material impact on its consolidated financial position, cash flows or results of operations. Cinergy intends to defend this lawsuit vigorously in court.

Manufactured Gas Plant (MGP) Sites. Coal tar residues, related hydrocarbons, and various metals have been found in at least 23 sites that Duke Energy Indiana or its predecessors previously owned and sold in a series of transactions with Northern Indiana Public Service Company (NIPSCO) and Indiana Gas Company, Inc. (IGC). The 23 sites are in the process of being studied and will be remediated, if necessary. In 1998 NIPSCO, IGC, and Duke Energy Indiana entered into Site Participation and Cost Sharing Agreements to allocate liability and responsibilities among them. Thus far, Duke Energy Indiana has primary responsibility for investigating, monitoring, and, if necessary, remediating nine of these sites. In December 2003, Duke Energy Indiana entered into a voluntary remediation plan with the state of Indiana, providing a formal framework for the investigation and cleanup of the nine sites. The Indiana Department of Environmental Management oversees investigation and cleanup of all of these sites. In March 2007, Duke Energy Indiana offered to purchase four parcels of property adjacent to one of the MGP sites because of evidence of migration of groundwater contamination.

In April 1998, Duke Energy Indiana filed suit in Hendricks County in the state of Indiana against its general liability insurance carriers. Duke Energy Indiana sought a declaratory judgment to obligate its insurance carriers to (1) defend MGP claims against Duke Energy Indiana and compensate Duke Energy Indiana for its costs of investigating, preventing, mitigating, and remediating damage to property and paying claims related to MGP sites; or (2) pay Duke Energy Indiana's cost of defense. Duke Energy Indiana settled, in principle, its claims with all but one of the insurance carriers in January 2005 prior to commencement of the trial. With respect to the lone insurance carrier, a jury returned a verdict against Duke Energy Indiana in February 2005 on 6 of the 23 sites. Duke Energy Indiana appealed this decision, which was affirmed by the Indiana Court of Appeals. In September 2006, the Indiana Supreme Court declined to accept the appeal. Duke Energy Indiana is evaluating the impact of this decision.

Duke Energy Indiana has accrued costs related to investigation, remediation, and groundwater monitoring for those sites where such costs are probable and can be reasonably estimated. Duke Energy Indiana will continue to investigate and remediate the sites as outlined in the voluntary remediation plan. As additional facts become known and investigation is completed, Duke Energy Indiana will assess whether the likelihood of incurring additional costs becomes probable. Until all investigation and remediation is complete, Cinergy is unable to determine the overall impact on its consolidated financial position, cash flows or results of operations.

Duke Energy Ohio has performed site assessments on certain of its sites where MGP activities are believed to have occurred at some point in the past and have found no imminent risk to the environment. At this time, Cinergy cannot predict whether investigation and/or remediation will be required in the future at any of these sites.

Until all investigation and remediation is complete, Cinergy is unable to determine the overall impact on its consolidated financial position, cash flows or results of operations.

Dunavan Waste Superfund Site. In July and October 2005, Duke Energy Indiana received notices from the EPA that it has been identified as a de minimus potentially responsible party under the Comprehensive Environmental Response, Compensation, and Liability Act at the Dunavan Waste Oil Site in Oakwood, Vermilion County, Illinois. At this time, Cinergy does not have any further information regarding the scope of potential liability associated with this matter.

Ontario Canada Lawsuit. Cinergy understands that a class action lawsuit was filed in Superior Court in Ontario, Canada against Cinergy and approximately 20 other utility and power generation companies alleging various claims relating to environmental emissions from coal-fired power generation facilities in the United States and Canada and damages of approximately \$50 billion, with continuing damages in the amount of approximately \$4 billion annually. Cinergy understands that the lawsuit also claims entitlement to punitive and exemplary damages in the amount of \$1 billion. Cinergy has not yet been served in this lawsuit; however, if served, Cinergy intends to defend this lawsuit vigorously in court. At this time, Cinergy is not able to predict whether resolution of this matter would have a material effect on its consolidated financial position, cash flows or results of operations.

Hurricane Katrina Lawsuit. In April 2006, Cinergy was named in the third amended complaint of a purported class action lawsuit filed in the United States District Court for the Southern District of Mississippi. Plaintiffs claim that Cinergy, along with numerous other utilities, oil companies, coal companies and chemical companies, are liable for damages relating to losses suffered by victims of Hurricane Katrina. Plaintiffs claim that defendants' greenhouse gas emissions contributed to the frequency and intensity of storms such as Hurricane Katrina. In October 2006, Cinergy was served with this lawsuit and subsequently filed a motion to dismiss. Prior to a ruling on that motion, in December 2006 plaintiffs filed a motion for leave to file a fourth amended complaint to set forth additional claims, add additional parties and to substitute proper parties for improperly named defendants. Specifically, plaintiffs seek to replace holding companies, such as Cinergy, with their operating company subsidiaries, such as Duke Energy Indiana and Duke Energy Ohio. It is not possible to predict with certainty whether Cinergy will incur any liability or to estimate the damages, if any, that Cinergy might incur in connection with this matter.

Asbestos-related Injuries and Damages Claims. Duke Energy Indiana and Duke Energy Ohio have been named as defendants or co-defendants in lawsuits related to asbestos at their electric generating stations. Currently, there are approximately 130 pending lawsuits (the majority of which are Duke Energy Indiana cases). In these lawsuits, plaintiffs claim to have been exposed to asbestos-containing products in the course of their work as outside contractors. The plaintiffs further claim that as the property owner of the generating stations, Duke Energy Indiana and Duke Energy Ohio should be held liable for their injuries and illnesses based on an alleged duty to warn and protect them from any asbestos exposure. The impact on Cinergy's financial position, cash flows, or results of operations of these cases to date has not been material.

Of these lawsuits, one case filed against Duke Energy Indiana has been tried to verdict. The jury returned a verdict against Duke Energy Indiana on a negligence claim and a verdict for Duke Energy Indiana on punitive damages. Duke Energy Indiana

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

appealed this decision up to the Indiana Supreme Court. In October 2005, the Indiana Supreme Court upheld the jury's verdict. Duke Energy Indiana paid the judgment of approximately \$630,000 in the fourth quarter of 2005. In addition, Duke Energy Indiana has settled over 150 other claims for amounts, which neither individually nor in the aggregate, were material to Duke Energy Indiana's financial position or results of operations. Based on estimates under varying assumptions, concerning uncertainties, such as, among others: (i) the number of contractors potentially exposed to asbestos during construction or maintenance of Duke Energy Indiana generating plants; (ii) the possible incidence of various illnesses among exposed workers, and (iii) the potential settlement costs without federal or other legislation that addresses asbestos tort actions, Cinergy estimates that the range of reasonably possible exposure in existing and future suits over the next 50 years could range from an immaterial amount to approximately \$60 million, exclusive of costs to defend these cases. This estimated range of exposure may change as additional settlements occur and claims are made in Indiana and more case law is established.

Duke Energy Ohio has been named in fewer than 10 cases and as a result has virtually no settlement history for asbestos cases. Thus, Cinergy is not able to reasonably estimate the range of potential loss from current or future lawsuits. However, potential judgments or settlements of existing or future claims could be material to Cinergy.

Other Litigation and Legal Proceedings. Cinergy and its subsidiaries are involved in other legal, tax and regulatory proceedings arising in the ordinary course of business, some of which involve substantial amounts. Management believes that the final disposition of these proceedings will not have a material adverse effect on Cinergy's consolidated results of operations, cash flows or financial position.

Cinergy has exposure to certain legal matters that are described herein. As of March 31, 2007 and December 31, 2006, Cinergy has recorded immaterial reserves for these proceedings and exposures. Cinergy expenses legal costs related to the defense of loss contingencies as incurred.

Other Commitments and Contingencies

Cinergy produces synthetic fuel from facilities that qualify for tax credits (through 2007) in accordance with Section 29/45K of the Internal Revenue Code if certain requirements are satisfied. These credits reduce Cinergy's income tax liability and therefore Cinergy's effective tax rate. Cinergy's sale of synthetic fuel had generated \$339 million in tax credits through December 31, 2005. During the first quarter of 2006, an agreement was in place with the plant operator which would indemnify Cinergy in the event that tax credits are insufficient to support operating expenses. This agreement did not continue for the remainder of 2006. After reducing for the possibility of phase-outs in 2006, the amount of additional credits generated through December 31, 2006 was approximately \$20 million. Tax credits recorded in the first quarter of 2007 were approximately \$26 million.

Section 29/45K provides for a phase-out of the credit if the average price of crude oil during a calendar year exceeds a specified threshold. The phase-out is based on a prescribed calculation and definition of crude oil prices. If Cinergy were to operate its synthetic fuel facilities based on December 31, 2006 prices throughout 2007, yet crude oil prices were to rise such that the tax credit is completely phased-out, net income in 2007 would be negatively impacted. Cinergy is unlikely to experience a material loss because the exposure to synthetic fuel tax credit phase-out is monitored and Cinergy may choose to reduce or cease synthetic fuel production depending on the expectation of any potential tax credit phase-out. Cinergy may also reduce its exposure to crude prices through the execution of derivative transactions. The objective of these activities is to reduce potential losses incurred if the reference price in a year exceeds a level triggering a phase-out of synthetic fuel tax credits.

The Internal Revenue Service (IRS) has completed the audit of Cinergy for the 2002, 2003, and 2004 tax years including the synthetic fuel facility owned during that period. That facility represents \$219 million of tax credits generated during that audit period. The IRS has not proposed any adjustment that would disallow the credits claimed during that period. Subsequent periods are still subject to audit. Cinergy believes that it operates in conformity with all the necessary requirements to be allowed such credits under Section 29/45K.

In October 2006, Cinergy began an internal investigation into improper data reporting to the U.S. Environmental Protection Agency (USEPA) regarding air emissions under the NO_x Budget Program at Cinergy's DEGS of Narrows, L.L.C. power plant facility in Narrows, Virginia. The investigation has revealed evidence of falsification of data by an employee relating to the quality assurance testing of its continuous emissions monitoring system (CEMS) to monitor heat input and NO_x emissions. In December 2006, Cinergy voluntarily disclosed the potential violations to the USEPA and Virginia Department of Environmental Quality (VDEQ), and in January 2007, Cinergy made a full written disclosure of the investigation's findings to the USEPA and the VDEQ. Cinergy has taken appropriate disciplinary action, including termination, with respect to the employees involved with the false reporting. It is not possible to predict with certainty whether Cinergy will incur any liability or to estimate the damages, if any, that Cinergy might incur in connection with this matter.

Other. Cinergy enters into various fixed-price, non-cancelable commitments to purchase or sell power (tolling arrangements or power purchase contracts) that may or may not be recognized on the Consolidated Balance Sheets.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

14. Guarantees and Indemnifications

Cinergy has various financial and performance guarantees and indemnifications which are issued in the normal course of business. As discussed below, these contracts include performance guarantees, stand-by letters of credit and indemnifications. Cinergy enters into these arrangements to facilitate a commercial transaction with a third party by enhancing the value of the transaction to the third party.

Cinergy has issued performance guarantees to customers and other third parties that guarantee the payment and performance of certain non-wholly-owned consolidated entities. Additionally, Cinergy has issued guarantees of debt of certain non-consolidated entities and less than wholly-owned consolidated entities. The maximum potential amount of future payments Cinergy could have been required to make under these performance guarantees as of March 31, 2007 was approximately \$312 million. Approximately \$169 million of the performance guarantees expire between 2007 and 2017, with the remaining performance guarantees expiring after 2017 or having no contractual expiration.

Cinergy has entered into various indemnification agreements related to purchase and sale agreements and other types of contractual agreements with vendors and other third parties. These agreements typically cover environmental, tax, litigation and other matters, as well as breaches of representations, warranties and covenants. Typically, claims may be made by third parties for various periods of time, depending on the nature of the claim. Cinergy's potential exposure under these indemnification agreements can range from a specified amount, such as the purchase price, to an unlimited dollar amount, depending on the nature of the claim and the particular transaction. Cinergy is unable to estimate the total potential amount of future payments under these indemnification agreements due to several factors, such as the unlimited exposure under certain guarantees.

At March 31, 2007, the amounts recorded for the guarantees and indemnifications mentioned above are immaterial, both individually and in the aggregate.

15. Related Party Transactions

Cinergy engages in related party transactions. These transactions are generally performed at cost and in accordance with the applicable state and federal commission regulations. Balances due to or due from related parties included in the Consolidated Balance Sheets as of March 31, 2007 and December 31, 2006 are as follows:

	Successor ^(a)	
	March 31, 2007	December 31, 2006
	(in millions)	
Current assets ^(b)	\$ 146	\$ 75
Non-current assets ^(c)	\$ -	\$ 1
Current liabilities ^(d)	\$ (144)	\$ (226)
Net deferred tax liabilities ^(e)	\$ (1,710)	\$ (1,701)

(a) See Note 1 for additional information on Predecessor and Successor reporting.

(b) Of the balance at March 31, 2007, approximately \$55 million is classified as Receivables and \$91 million is classified as Other current assets on the Consolidated Balance Sheets. The balance at December 31, 2006 is classified as Receivables on the Consolidated Balance Sheets.

(c) The balance at December 31, 2006 is classified as Other non-current assets on the Consolidated Balance Sheets.

(d) Of the balance at March 31, 2007, approximately (\$144) million is classified as Accounts payable on the Consolidated Balance Sheets. Of the balance at December 31, 2006, approximately (\$131) million is classified as Accounts payable and (\$95) million is classified as Taxes accrued on the Consolidated Balance Sheets.

(e) Of the balance at March 31, 2007, approximately (\$1,771) million is classified as Deferred income taxes and \$61 million is classified as Other current assets on the Consolidated Balance Sheets. Of the balance at December 31, 2006, approximately (\$1,745) million is classified as Deferred income taxes and \$44 million is classified as Other current assets on the Consolidated Balance Sheets.

Cinergy is allocated its proportionate share of corporate governance and other costs by a consolidated affiliate of Duke Energy. These amounts are recorded in Operation, maintenance and other within Operating Expenses on the Consolidated Statements of Operations. Additionally, Duke Energy and its subsidiaries are allocated their proportionate share of corporate governance costs from a consolidated affiliate of Cinergy. Corporate governance and other shared services costs are primarily allocations of corporate costs, such as human resources, legal and accounting fees, as well as other third party costs. These amounts are recorded in Operation, maintenance and other within Operating expenses on the Consolidated Statements of Operations. Cinergy also recognizes recoveries of direct and allocated corporate governance and shared service costs charged to affiliates. These recoveries are primarily reflected as an offset within Operating Expense on the Consolidated Statements of Operations.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

The revenues and expenses associated with corporate governance and other service costs for Cinergy for the three months ended March 31, 2007 and March 31, 2006 are as follows:

	Successor^(a)	Predecessor^(a)
Three Months Ended March 31, 2007	Three Months Ended March 31, 2006	Three Months Ended March 31, 2006
(in millions)		
Corporate governance and other service revenues	\$ 30	\$ -
Corporate governance and other service expenses	\$ 58	\$ -

(a) See Note 1 for additional information on Predecessor and Successor reporting.

Additionally, certain trade receivables have been sold by Cinergy to Cinergy Receivables Company, LLC (Cinergy Receivables), an unconsolidated entity formed by Cinergy. The proceeds obtained from the sales of receivables are largely cash but do include a subordinated note from Cinergy Receivables for a portion of the purchase price. This subordinated note is classified by Cinergy as Receivables in the Consolidated Balance Sheets and was approximately \$185 million and \$210 million as of March 31, 2007 and December 31, 2006, respectively.

See Note 8 for a discussion of amounts paid to Duke Energy Ohio as a result of the agreement between Duke Energy and Duke Energy Ohio related to Duke Energy's contribution of its ownership interests in five plants to Duke Energy Ohio.

16. New Accounting Standards

The following new accounting standards were adopted by Cinergy subsequent to March 31, 2006 and the impact of such adoption, if applicable, has been presented in the accompanying Consolidated Financial Statements:

Financial Accounting Standards Board (FASB) Staff Position (FSP) No. FAS 123(R)-4, "Classification of Options and Similar Instruments Issued as Employee Compensation That Allow for Cash Settlement upon the Occurrence of a Contingent Event" (FSP No. FAS 123(R)-4). In February 2006, the FASB staff issued FSP No. 123(R)-4 to address the classification of options and similar instruments issued as employee compensation that allow for cash settlement upon the occurrence of a contingent event. The guidance amends SFAS No. 123(R). FSP No. FAS 123(R)-4 provides that cash settlement features that can be exercised only upon the occurrence of a contingent event that is outside the employee's control does not require classifying the option or similar instrument as a liability until it becomes probable that the event will occur. FSP No. FAS 123(R)-4 applies only to options or similar instruments issued as part of employee compensation arrangements. The guidance in FSP No. FAS 123(R)-4 was effective for Cinergy as of April 1, 2006. Cinergy adopted SFAS No. 123(R) as of January 1, 2006 (see Note 7). The adoption of FSP No. FAS 123(R)-4 did not have a material impact on Cinergy's consolidated statement of operations, cash flows or financial position.

FSP No. FIN 46(R)-6, "Determining the Variability to Be Considered In Applying FASB Interpretation No. 46(R) (FSP No. FIN 46(R)-6)." In April 2006, the FASB staff issued FSP No. FIN 46(R)-6 to address how to determine the variability to be considered in applying FIN 46(R), "Consolidation of Variable Interest Entities." The variability that is considered in applying FIN 46(R) affects the determination of whether the entity is a variable interest entity (VIE), which interests are variable interests in the entity, and which party, if any, is the primary beneficiary of the VIE. The variability affects the calculation of expected losses and expected residual returns. This guidance was effective for all entities with which Cinergy first becomes involved or existing entities for which a reconsideration event occurs after July 1, 2006. The adoption of FSP No. FIN 46(R)-6 did not have a material impact on Cinergy's consolidated results of operations, cash flows or financial position.

Emerging Issus Task Force (EITF) Issue No. 05-1, "Accounting for the Conversion of an Instrument that Becomes Convertible Upon the Issuer's Exercise of a Call Option" (EITF No. 05-1). In June 2006, the EITF reached a consensus on EITF No. 05-1. The consensus requires that the issuance of equity securities to settle a debt instrument (pursuant to the instrument's original conversion terms) that became convertible upon the issuer's exercise of a call option be accounted for as a conversion if the debt instrument contained a substantive conversion feature as of its issuance date. If the debt instrument did not contain a substantive conversion option as of its issuance date, the issuance of equity securities to settle the debt instrument should be accounted for as a debt extinguishment. The consensus was effective for Cinergy for all conversions within its scope that resulted from the exercise of call options beginning July 1, 2006. The adoption of EITF No. 05-1 did not have a material impact on Cinergy's consolidated results of operations, cash flows or financial position.

SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments—an amendment of FASB SFAS No. 133 and 140" (SFAS No. 155). In February 2006, the FASB issued SFAS No. 155, which amends SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" and SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," (SFAS No. 140). SFAS No. 155 allows financial instruments that have embedded derivatives to be accounted for at fair value at acquisition, at issuance, or when a previously recognized financial instrument is subject to a remeasurement (new basis) event, on an instrument-by-instrument basis, in cases in which a derivative would otherwise have to be bifurcated. SFAS No. 155 was effective for Cinergy for all financial instruments acquired, issued, or subject to remeasurement after January 1, 2007, and for certain hybrid financial instruments that had been bifurcated prior to the effective date, for which the effect is to be reported as a cumulative-effect adjustment to beginning retained earnings. The adoption of SFAS No. 155 did not have any material impact on Cinergy's consolidated results of operations, cash flows, or financial position.

SFAS No. 156, "Accounting for Servicing of Financial Assets—an amendment of FASB Statement No. 140" (SFAS No. 156). In March 2006, the FASB issued SFAS No. 156, which amends SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." SFAS No. 156 requires recognition of a servicing asset or liability when an

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

entity enters into arrangements to service financial instruments in certain situations. Such servicing assets or servicing liabilities are required to be initially measured at fair value, if practicable. SFAS No. 156 also allows an entity to subsequently measure its servicing assets or servicing liabilities using either an amortization method or a fair value method. SFAS No. 156 was effective for Cinergy as of January 1, 2007, and must be applied prospectively, except that where an entity elects to remeasure separately recognized existing arrangements and reclassify certain available-for-sale securities to trading securities, any effects must be reported as a cumulative-effect adjustment to retained earnings. The adoption of SFAS No. 156 did not have any material impact on Cinergy's consolidated results of operations, cash flows, or financial position.

SFAS No. 158, "Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)" (SFAS No. 158). In October 2006, the FASB issued SFAS No. 158, which changes the recognition and disclosure provisions and measurement date requirements for an employer's accounting for defined benefit pension and other postretirement plans. The recognition and disclosure provisions require an employer to (1) recognize the funded status of a benefit plan—measured as the difference between plan assets at fair value and the benefit obligation—in its statement of financial position, (2) recognize as a component of other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost, and (3) disclose in the notes to financial statements certain additional information. SFAS No. 158 does not change the amounts recognized in the income statement as net periodic benefit cost. Cinergy recognized the funded status of its defined benefit pension and other postretirement plans and provided the required additional disclosures as of December 31, 2006. The adoption of SFAS No. 158 recognition and disclosure provisions resulted in an increase in total assets of approximately \$71 million (consisting of an increase in regulatory assets of \$45 million and an increase in deferred tax assets of \$26 million), an increase in total liabilities of approximately \$112 million and a decrease in accumulated other comprehensive income, net of tax, of approximately \$42 million as of December 31, 2006. The adoption of SFAS No. 158 did not have any material impact on Cinergy's consolidated results of operations or cash flows.

Under the measurement date requirements of SFAS No. 158, an employer is required to measure defined benefit plan assets and obligations as of the date of the employer's fiscal year-end statement of financial position (with limited exceptions). Historically, Cinergy has measured its plan assets and obligations up to three months prior to the fiscal year-end, as allowed under the authoritative accounting literature. Cinergy adopted the change in measurement date effective January 1, 2007 by remeasuring plan assets and benefit obligations as of that date, pursuant to the transition requirements of SFAS No. 158. See Note 7.

Staff Accounting Bulletin (SAB) No. 108, "Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements" (SAB No. 108). In September 2006 the Securities and Exchange Commission (SEC) issued SAB No. 108, which provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. Traditionally, there have been two widely-recognized approaches for quantifying the effects of financial statement misstatements. The income statement approach focuses primarily on the impact of a misstatement on the income statement—including the reversing effect of prior year misstatements—but its use can lead to the accumulation of misstatements in the balance sheet. The balance sheet approach, on the other hand, focuses primarily on the effect of correcting the period-end balance sheet with less emphasis on the reversing effects of prior year errors on the income statement. The SEC staff believes that registrants should quantify errors using both a balance sheet and an income statement approach (a "dual approach") and evaluate whether either approach results in quantifying a misstatement that, when all relevant quantitative and qualitative factors are considered, is material.

SAB No. 108 was effective for Cinergy's year ending December 31, 2006. SAB No. 108 permits existing public companies to initially apply its provisions either by (i) restating prior financial statements as if the "dual approach" had always been used or (ii), under certain circumstances, recording the cumulative effect of initially applying the "dual approach" as adjustments to the carrying values of assets and liabilities as of January 1, 2006 with an offsetting adjustment recorded to the opening balance of retained earnings. Cinergy has historically used a dual approach for quantifying identified financial statement misstatements. Therefore, the adoption of SAB No. 108 did not have any material impact on Cinergy's consolidated results of operations, cash flows or financial position.

FASB Interpretation No. (FIN) 48, "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109" (FIN 48). In July 2006, the FASB issued FIN 48, which provides guidance on accounting for income tax positions about which Cinergy has concluded there is a level of uncertainty with respect to the recognition in Cinergy's financial statements. FIN 48 prescribes a minimum recognition threshold a tax position is required to meet. Tax positions are defined very broadly and include not only tax deductions and credits but also decisions not to file in a particular jurisdiction, as well as the taxability of transactions. Cinergy implemented FIN 48 effective January 1, 2007. The implementation resulted in an immaterial adjustment to goodwill. Corresponding entries impacted a variety of balance sheet line items, including Deferred income taxes and Other Liabilities. Upon implementation of FIN 48, Cinergy reflects interest expense related to taxes as Interest Expense in the Consolidated Statements of Operations. In addition, subsequent accounting for FIN 48 (after January 1, 2007) involves an evaluation to determine if any changes have occurred that would impact the existing uncertain tax positions as well as determining whether any new tax positions are uncertain. Any impacts resulting from the evaluation of existing uncertain tax positions or from the recognition of new uncertain tax positions impacts income tax expense and interest expense in the Consolidated Statement of Operations, with offsetting impacts to the balance sheet line items described above and Taxes accrued. See Note 16 for additional information.

FSP No. FIN 48-1, Definition of "Settlement" in FASB Interpretation No. 48 (FSP No. FIN 48-1). In May 2007, the FASB staff issued FSP No. FIN 48-1 which clarifies the conditions under FIN 48 that should be met for a tax position to be effectively settled with the taxing authority. Cinergy's implementation of FIN 48 as of January 1, 2007 was consistent with the guidance in this FSP.

FSP No. FAS 123(R)-5, "Amendment of FASB Staff Position FAS 123(R)-1" (FSP No. FAS 123(R)-5). In October 2006, the FASB staff issued FSP No. FAS 123(R)-5 to address whether a modification of an instrument in connection with an equity restructuring should be considered a modification for purposes of applying FSP No. FAS 123(R)-1, "Classification and Measurement of Freestanding Financial Instruments Originally Issued in Exchange for Employee Services under FASB Statement No. 123(R)" (FSP No. FAS 123(R)-1)." In August 2005, the FASB staff issued FSP FAS 123(R)-1 to defer indefinitely the effective date of paragraphs A230–A232 of SFAS No. 123(R), and thereby require entities to apply the recognition and measurement provisions of SFAS No. 123(R) throughout the life of an instrument, unless the instrument is modified when the holder is no longer an employee. The recognition and measurement of an instrument that is modified when the holder is no longer an employee should be determined by other applicable generally accepted accounting principles. FSP No. FAS 123(R)-5 addresses modifications of stock-based awards made in connection with an equity restructuring and clarifies that for instruments that were originally issued as employee compensation and then modified, and that modification is made to the terms of the instrument solely to reflect an equity restructuring that occurs when the holders are no longer employees, no change in the recognition or the

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

measurement (due to a change in classification) of those instruments will result if certain conditions are met. This FSP was effective for Cinergy as of January 1, 2007. The adoption of FAS 123(R)-5 did not have any material impact on Cinergy's consolidated results of operations or cash flows.

FSP No. AUG AIR-1, "Accounting for Planned Major Maintenance Activities," (FSP AUG AIR-1). In September 2006, the FASB Staff issued FSP No. AUG AIR-1. This FSP prohibits the use of the accrue-in-advance method of accounting for planned major maintenance activities in annual and interim financial reporting periods, if no liability is required to be recorded for an asset retirement obligation based on a legal obligation for which the event obligating the entity has occurred. The FSP also requires disclosures regarding the method of accounting for planned major maintenance activities and the effects of implementing the FSP. The guidance in this FSP was effective for Cinergy as of January 1, 2007. The adoption of FSP No. AUG-AIR-1 did not have any material impact on Cinergy's consolidated results of operations, cash flows or financial position.

EITF Issue No. 06-3, "How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation) (EITF No. 06-3)." In June 2006, the EITF reached a consensus on EITF No. 06-3 to address any tax assessed by a governmental authority that is directly imposed on a revenue-producing transaction between a seller and a customer and may include, but are not limited to, sales, use, value added, and some excise taxes. For taxes within the issue's scope, the consensus requires that entities present such taxes on either a gross (i.e., included in revenues and costs) or net (i.e., exclude from revenues) basis according to their accounting policies, which should be disclosed. If such taxes are reported gross and are significant, entities should disclose the amounts of those taxes. Disclosures may be made on an aggregate basis. The consensus was effective for Cinergy beginning January 1, 2007. The adoption of EITF No. 06-3 did not have any material impact on Cinergy's consolidated results of operations, cash flows or financial position.

EITF Issue No. 06-5, "Accounting for Purchases of Life Insurance—Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4" (EITF No. 06-5). In June 2006, the EITF reached a consensus on the accounting for corporate-owned and bank-owned life insurance policies. EITF No. 06-5 requires that a policyholder consider the cash surrender value and any additional amounts to be received under the contractual terms of the policy in determining the amount that could be realized under the insurance contract. Amounts that are recoverable by the policyholder at the discretion of the insurance company must be excluded from the amount that could be realized. Fixed amounts that are recoverable by the policyholder in future periods in excess of one year from the surrender of the policy must be recognized at their present value. EITF No. 06-5 was effective for Cinergy as of January 1, 2007 and must be applied as a change in accounting principle through a cumulative-effect adjustment to retained earnings or other components of equity as of January 1, 2007. The adoption of EITF No. 06-5 did not have any material impact on Cinergy's consolidated results of operations, cash flows or financial position.

The following new accounting standards have been issued but have not yet been adopted by Cinergy as of March 31, 2007:

SFAS No. 157, "Fair Value Measurements" (SFAS No. 157). In September 2006, the FASB issued SFAS No. 157, which defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements. However, in some cases, the application of SFAS No. 157 may change Cinergy's current practice for measuring and disclosing fair values under other accounting pronouncements that require or permit fair value measurements. For Cinergy, SFAS No. 157 is effective as of January 1, 2008 and must be applied prospectively except in certain cases. Cinergy is currently evaluating the impact of adopting SFAS No. 157, and cannot currently estimate the impact of SFAS No. 157 on its consolidated results of operations, cash flows or financial position.

SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" (SFAS No. 159). In February 2007, the FASB issued SFAS No. 159, which permits entities to choose to measure many financial instruments and certain other items at fair value. For Cinergy, SFAS No. 159 is effective as of January 1, 2008 and will have no impact on amounts presented for periods prior to the effective date. Cinergy cannot currently estimate the impact of SFAS No. 159 on its consolidated results of operations, cash flows or financial position and has not yet determined whether or not it will choose to measure items subject to SFAS No. 159 at fair value.

17. Income Taxes

Prior to the merger of Cinergy and Duke Energy on April 3, 2006, the taxable income of Cinergy was reflected in Cinergy's U.S. federal and state income tax returns. After the merger, the taxable income of Cinergy is reflected in Duke Energy's U.S. federal and state tax returns. On January 1, 2007, Cinergy adopted FIN 48. As a result of the adoption of FIN 48, Cinergy recognized an increase to goodwill of approximately \$6 million, which reflects all adoption provisions of FIN 48, including those provisions related to unrecognized income tax benefits, interest expense, and penalties.

Effective with the adoption of FIN 48, Cinergy's liability totaled approximately \$152 million related to unrecognized federal and state tax benefits, gross of any federal tax benefit for unrecognized state income tax benefits. If all unrecognized tax benefits were recognized, there would be no effect on the effective tax rate since the balance relates to either temporary differences or goodwill.

During the first quarter, Cinergy's unrecognized tax benefits decreased approximately \$32 million, primarily related to a settlement offer involving timing differences. At March 31, 2007, Cinergy's liability related to unrecognized tax benefits, gross of any federal tax benefit for unrecognized state income tax benefits, was approximately \$120 million. It is reasonably possible that Cinergy will reflect a reduction in unrecognized tax benefits of approximately \$100 million in the next twelve months due to the expected settlement of certain years, as well as the expected settlement of an issue related to the timing of when deductions can be taken. Cinergy does not expect any impact on the effective tax rate related to these expected settlements in the next twelve months.

Also effective with the adoption of FIN 48, Cinergy's liability related to pre-tax interest expense associated with income tax positions totaled approximately \$16 million. At March 31, 2007, approximately \$8 million of pre-tax interest is accrued. The decrease in the liability of approximately \$8 million during the first quarter reflects an increase to pre-tax income of \$1 million, with the remaining decrease in the liability recorded primarily as a reduction to goodwill.

Cinergy has open with the federal jurisdiction tax years 1997 and after. The state tax jurisdictions are closed through 2001, with the exception of any federal adjustments related to open federal years.

With the implementation of FIN 48, Cinergy records, as it relates to taxes, interest expense as Interest Expense, interest income as Interest Income, and penalties in Other Income and Expenses in the Consolidated Statement of Operations.

The effective tax rate for the three months ended March 31, 2007 was approximately 16.4% as compared to the effective tax rate of 18.1% for the same period in 2006. These effective tax rates are far below Cinergy's statutory rates due to the utilization of synthetic fuel tax credits, as discussed in Note 13.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

18. Severance

During the three months ended March 31, 2007, Cinergy recorded approximately \$1 million of severance charges under its ongoing severance plan. Future severance costs under this plan, if any, are currently not estimable.

	Balance at January 1, 2007	Successor ^(a) Provision/ Adjustments ^(b)	Cash Reductions	Balance at March 31, 2007
		(in millions)		
Severance Reserve	\$ 23	\$ (3)	\$ (15)	\$ 5

(a) See Note 1 for additional information on Predecessor and Successor reporting.

(b) Of the (\$3) million Provision/Adjustments recorded to Severance during the period ending March 31, 2007, (\$4) million was recorded to Goodwill and \$1 million was recorded to Operating expense.

19. Subsequent Events

On May 29, 2007, Duke Energy, through Cinergy, acquired the wind power development business of Tierra Energy, a wind power development company. The purchase includes more than 1,000 megawatts of wind assets under development in the Western and Southwestern United States. Management anticipates spending approximately \$400 million in capital expenditures in 2007 and 2008 on three development projects having a total capacity of approximately 240 megawatts, which are anticipated to be in commercial operation by the end of 2008. Additional facilities could be in operation as early as 2009.

For information on subsequent events related to employee benefit obligations, regulatory matters and commitments and contingencies, see Notes 7, 12 and 13, respectively.