

CINERGY CORP.
2007 Third Quarter Financial Report

INDEX

**CINERGY CORP.
SEPTEMBER 30, 2007**

	<u>Page</u>
Financial Statements	
Unaudited Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2007; the Three and Six Months Ended September 30, 2006 and the Three Months Ended March 31, 2006	3
Unaudited Consolidated Balance Sheets as of September 30, 2007 and December 31, 2006	4
Unaudited Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2007; the Six Months Ended September 30, 2006 and the Three Months Ended 31, 2006	6
Unaudited Consolidated Statements of Common Stockholder's Equity and Comprehensive Income for the Nine Months Ended September 30, 2007; the Six Months Ended September 30, 2006 and the Three Months Ended March 31, 2006	7
Notes to the Unaudited Consolidated Financial Statements	8

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

	Successor				Predecessor
	Three Months Ended	Nine Months Ended	Three Months Ended	Six Months Ended	Three Months Ended
	September 30, 2007	September 30, 2007	September 30, 2006	September 30, 2006	March 31, 2006
Operating Revenues					
Regulated electric	\$ 910	\$ 2,410	\$ 806	\$ 1,556	\$ 703
Non-regulated electric, natural gas and other	770	1,729	467	932	551
Regulated natural gas	64	511	71	164	322
Total operating revenues	1,744	4,650	1,344	2,652	1,576
Operating Expenses					
Fuel used in electric generation and purchased power	635	1,521	562	1,093	417
Operation, maintenance and other	351	1,045	296	656	401
Natural gas and petroleum products purchased	25	317	31	82	232
Costs of fuel resold	154	321	18	58	146
Depreciation and amortization	217	585	182	366	162
Property and other taxes	79	247	70	141	86
Total operating expenses	1,461	4,036	1,159	2,396	1,444
(Losses) Gains on Sales of Other Assets and Other, net	(2)	(13)	(3)	(8)	26
Operating Income	281	601	182	248	158
Other Income and Expenses					
Equity in earnings of unconsolidated affiliates	-	12	8	14	4
Other income and expenses, net	21	73	22	45	16
Total other income and expenses	21	85	30	59	20
Interest Expense	69	202	80	162	86
Minority Interest Benefit	-	-	-	-	(2)
Income from Continuing Operations Before Income Taxes	233	484	132	145	94
Income Tax Expense from Continuing Operations	26	77	53	59	17
Income from Continuing Operations	207	407	79	86	77
(Loss) Income from Discontinued Operations, net of tax	-	(6)	15	9	5
Income Before Cumulative Effect of Change in Accounting Principle	207	401	94	95	82
Cumulative Effect of Change in Accounting Principle, net of tax	-	-	-	-	(3)
Net Income	\$ 207	\$ 401	\$ 94	\$ 95	\$ 79

See Notes to Unaudited Consolidated Financial Statements

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

	Successor	
	September 30, 2007	December 31, 2006
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 130	\$ 167
Receivables (net of allowance for doubtful accounts of \$4 at September 30, 2007 and \$6 at December 31, 2006)	609	637
Inventory	383	365
Assets held for sale	5	26
Unrealized gains on mark-to-market and hedging transactions	37	74
Other	367	203
Total current assets	1,531	1,472
Investments and Other Assets		
Restricted funds held in trust	47	156
Investments in unconsolidated affiliates	384	405
Goodwill	4,362	4,385
Intangible assets	709	833
Notes receivable	125	146
Unrealized gains on mark-to-market and hedging transactions	52	74
Assets held for sale	116	136
Other	318	249
Total investments and other assets	6,113	6,384
Property, Plant and Equipment		
Cost	17,807	16,976
Less accumulated depreciation and amortization	4,890	4,508
Net property, plant and equipment	12,917	12,468
Regulatory Assets and Deferred Debits		
Deferred debt expense	70	76
Regulatory assets related to income taxes	115	118
Other	993	1,173
Total regulatory assets and deferred debits	1,178	1,367
Total Assets	\$ 21,739	\$ 21,691

See Notes to Unaudited Consolidated Financial Statements

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

	Successor	
	September 30, 2007	December 31, 2006
LIABILITIES AND COMMON STOCKHOLDER'S EQUITY		
Current Liabilities		
Accounts payable	\$ 612	\$ 733
Notes payable and commercial paper	497	101
Taxes accrued	236	293
Interest accrued	89	65
Liabilities associated with assets held for sale	5	25
Current maturities of long-term debt	609	735
Unrealized losses on mark-to-market and hedging transactions	56	78
Other	330	366
Total current liabilities	2,434	2,396
Long-term Debt	4,340	4,533
Deferred Credits and Other Liabilities		
Deferred income taxes	1,882	1,745
Investment tax credit	36	40
Accrued pension and other postretirement benefit costs	936	1,204
Regulatory liabilities	653	680
Unrealized losses on mark-to-market and hedging transactions	74	92
Liabilities associated with assets held for sale	3	21
Asset retirement obligations	56	54
Other	304	317
Total deferred credits and other liabilities	3,944	4,153
Commitments and Contingencies		
Common Stockholder's Equity		
Common stock, \$0.01 par value; 1,000 shares authorized, 100 shares issued and outstanding at September 30, 2007 and December 31, 2006	-	-
Additional paid-in capital	10,786	10,581
Retained earnings	361	106
Accumulated other comprehensive loss	(126)	(78)
Total common stockholder's equity	11,021	10,609
Total Liabilities and Common Stockholder's Equity	\$ 21,739	\$ 21,691

See Notes to Unaudited Consolidated Financial Statements

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

	Successor		Predecessor
	Nine Months Ended	Six Months Ended	Three Months Ended
	September 30, 2007	September 30, 2006	March 31, 2006
Cash Flows from Operating Activities			
Net income	\$ 401	\$ 95	\$ 79
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	591	372	162
Return on equity investments	28	19	5
Losses (Gains) on sales and impairment of equity investments and other assets	13	8	(27)
Impairment charges	-	-	6
Deferred income taxes and investment tax credit amortization	200	45	(40)
Equity earnings of unconsolidated affiliates	(12)	(14)	(4)
Regulatory asset/liability amortization	39	19	13
Cumulative effect of change in accounting principle	-	-	3
Accrued pension and postretirement benefit costs	86	67	33
Contribution to Company sponsored pension and other post-retirement benefit plans	(382)	(124)	-
(Increase) decrease in:			
Net realized and unrealized mark-to-market and hedging transactions	19	23	(155)
Receivables	82	315	504
Inventory	(18)	(24)	103
Other current assets	4	(69)	22
Increase (decrease) in:			
Accounts payable	(91)	(375)	(420)
Taxes accrued	(307)	19	(60)
Other current liabilities	(31)	(157)	(120)
Regulatory asset/liability deferrals	(96)	155	(21)
Other assets	183	10	56
Other liabilities	(21)	(19)	27
Net cash provided by operating activities	<u>688</u>	<u>365</u>	<u>166</u>
Cash Flows from Investing Activities			
Capital expenditures	(905)	(518)	(298)
Investment expenditures	(4)	-	(51)
Acquisitions, net of cash acquired	(58)	-	-
Purchases of emission allowances	(70)	(179)	(188)
Sales of emission allowances	39	161	106
Net proceeds from the sales of equity investments and other assets, and sales of and collections on notes receivable	35	17	7
Withdrawal of restricted funds held in trust	114	1	48
Other	8	2	-
Net cash used in investing activities	<u>(841)</u>	<u>(516)</u>	<u>(376)</u>
Cash Flows from Financing Activities			
Proceeds from the:			
Issuance of long-term debt	8	401	175
Issuance of common stock	-	-	29
Payments for the redemption of:			
Long-term debt	(357)	(451)	(14)
Preferred stock of a subsidiary	-	(12)	(20)
Contribution from parent	204	-	-
Notes payable and commercial paper	396	158	167
Dividends paid	(135)	-	(127)
Other	-	1	2
Net cash provided by financing activities	<u>116</u>	<u>97</u>	<u>212</u>
Changes in cash and cash equivalents included in assets held for sale	-	35	-
Net (decrease) increase in cash and cash equivalents	(37)	(19)	2
Cash and cash equivalents at beginning of period	<u>167</u>	<u>148</u>	<u>146</u>
Cash and cash equivalents at end of period	<u>\$ 130</u>	<u>\$ 129</u>	<u>\$ 148</u>
Supplemental Disclosures			
Significant non-cash transactions:			
Purchase accounting adjustments	\$ -	\$ 4,541	\$ -
Allowance for funds used during construction (AFUDC) – equity component	\$ 17	\$ 11	\$ 3
Transfer of generating assets from Duke Energy	\$ -	\$ 1,452	\$ -
Accrued capital expenditures	\$ 40	\$ 47	\$ -

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										
Nine Months Ended September 30, 2007										
Balance at December 31, 2006	\$ -	\$ 10,581	\$ 106	\$ -	\$ (2)	\$ (36)	\$ -	\$ (42)	\$ 2	\$ 10,609
Net income	-	-	401	-	-	-	-	-	-	401
Other comprehensive income	-	-	-	-	-	-	-	-	-	-
Cash flow hedges	-	-	-	-	-	(1)	-	-	-	(1)
Other	-	-	-	-	-	-	-	3	-	3
Total comprehensive income	-	-	401	-	-	-	-	3	-	403
Capital contribution from parent	-	204	-	-	-	-	-	-	-	204
Common stock dividends	-	-	(135)	-	-	-	-	-	-	(135)
Adoption of SFAS No. 158 - measurement date provision ^(a)	-	-	(11)	-	-	-	-	(50)	-	(61)
Other	-	1	-	-	-	-	-	-	-	1
Balance at September 30, 2007	\$ -	\$ 10,786	\$ 361	\$ -	\$ (2)	\$ (37)	\$ -	\$ (89)	\$ 2	\$ 11,021
Six Months Ended September 30, 2006										
Balance at April 1, 2006	\$ -	\$ 9,115	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,115 ^(b)
Net income	-	-	95	-	-	-	-	-	-	95
Other comprehensive income	-	-	-	-	-	-	-	-	-	-
Unrealized gain on investment trusts	-	-	-	-	-	-	-	-	1	1
Total comprehensive income	-	-	95	-	-	-	-	-	1	96
Transfer of generating assets from Duke Energy ^(c)	-	1,452	-	-	-	(39)	-	-	-	1,413
Balance at September 30, 2006	\$ -	\$ 10,567	\$ 95	\$ -	\$ -	\$ (39)	\$ -	\$ -	\$ 1	\$ 10,624
Predecessor										
Three Months Ended March 31, 2006										
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	-	-	79	-	-	-	-	-	2	80
Issuance of common stock	-	29	-	-	-	-	-	-	-	29
Common stock dividends	-	-	(127)	-	-	-	-	-	-	(127)
Other	-	7	-	-	-	-	-	-	(2)	5
Balance at March 31, 2006	\$ 2	\$ 3,018	\$ 1,674	\$ (5)	\$ 9	\$ -	\$ (127)	\$ -	\$ 3	\$ 4,574 ^(b)

(a) Net of \$35 tax benefit in 2007.

(b) Difference in equity balances at March 31, 2006 and April 1, 2006 is due to the application of push-down accounting reflecting Duke Energy's merger with Cinergy (see Notes 1 and 2 to the Consolidated Financial Statements).

(c) Includes \$39 (net of tax benefit of \$24) related to deferred losses on terminated cash flow hedges included in Accumulated Other Comprehensive Loss.

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, renewable energy 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 12 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 and benefits to the subsidiaries whose investments or results of operations provide these tax expenses and benefits. The accounting for income taxes essentially represents the income taxes that 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 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. 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.

Unbilled Revenue. Revenues on sales of electricity and gas are recognized when the service is provided. Unbilled revenues are estimated by applying an average revenue per kilowatt hour or per Mcf for all customer classes to the number of estimated kilowatt hours or Mcf's delivered but not billed. The amount of unbilled revenues can vary significantly period to period as a result of factors including seasonality, weather, customer usage pattern and customer mix. Unbilled revenues, which are recorded as Receivables in Cinergy's Consolidated Balance Sheets at September 30, 2007 and December 31, 2006 were approximately \$190 million and \$210 million, respectively.

Other Regulatory Assets and Deferred Debits. The state of Ohio passed comprehensive electric deregulation legislation in 1999, and in 2000, the Public Utilities Commission of Ohio (PUCO) approved a stipulation agreement relating to Duke Energy Ohio's transition plan creating a Regulatory Transition Charge (RTC) designed to recover Duke Energy Ohio's generation-related regulatory assets and transition costs over a ten-year period beginning January 1, 2001 and ending December 31, 2010. 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 \$260 million and \$331 million as of September 30, 2007 and December 31, 2006, respectively, which is classified in Other Regulatory Assets and Deferred Debits on the Consolidated Balance Sheets.

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 14 for a discussion of the regulatory impacts of the merger.

3. Transfer of Certain Duke Energy Generating Assets to Duke Energy Ohio

In April 2006, Duke Energy contributed to Duke Energy Ohio its ownership interest in five plants, representing a mix of combined cycle and peaking plants, with a combined capacity of 3,600 megawatts (MWs). The transaction was effective in April 2006 and was accounted for at Duke Energy's net book value for these assets. The entities holding these generating plants, which were indirect subsidiaries of Duke Energy, were first distributed to Duke Energy, which then contributed them to Cinergy which, in turn, contributed them to Duke Energy Ohio. In the final step, the entities were then merged into Duke Energy Ohio.

The following unaudited consolidated pro forma financial results for Cinergy are presented as if the transaction 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	\$ 1,584
Income from continuing operations	66
Net income	67

(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 the transfer of the ownership interest in the five plants as discussed above. As part of this transaction, Duke Energy agreed to reimburse Duke Energy Ohio, on a quarterly basis, through April 2016 in the event of certain cash shortfalls related to the performance of the five plants. Based on the assessment of the performance of the five plants during the first, second and third quarters of 2007, Duke Energy Ohio did not incur any qualifying shortfalls related to the performance of the five plants thus no cash reimbursement was required from Duke Energy. During the third quarter of 2006, Duke Energy reimbursed Duke Energy Ohio \$1.9 million for certain cash shortfalls that occurred during the second quarter of 2006. However, as a result of the calculation pertaining to the third quarter 2006 performance of the five plants, the \$1.9 million received by Duke Energy Ohio from Duke Energy was returned to Duke Energy during the fourth quarter of 2006. Cinergy accounts for any payments from or return of payments to Duke Energy in its Common Stockholder's Equity as an adjustment to Additional paid-in capital.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

4. Acquisitions and Dispositions

Acquisitions. In May 2007, Cinergy acquired the wind power development assets of Energy Investor Funds from Tierra Energy. The purchase includes more than 1,000 MWs of wind assets in various stages of development in the Western and Southwestern U.S. and supports Cinergy's strategy to increase its investment in renewable energy. A significant portion of the purchase price was for intangible assets (see Note 10). Three of the development projects, totaling approximately 240 MWs, are located in Texas and Wyoming and are anticipated to be in commercial operation by the end of 2008 or early 2009, with additional units at these sites potentially in operation later in 2009. Cinergy anticipates capital expenditures of approximately \$430 million through 2009 to complete the first three projects.

During the second quarter of 2007, Cinergy acquired two additional synthetic fuel (synfuel) facilities for an immaterial amount. These synfuel facilities, along with existing facilities, generated approximately \$66 million and \$115 million of tax credits during the three and nine months ended September 30, 2007, respectively. See Note 15 and Note 19.

Dispositions. For the three and nine months ended September 30, 2007 the sales of emission allowances resulted in approximately \$7 million and \$39 million, respectively, in proceeds and net pre-tax gains (losses) of an immaterial amount and \$(11) million, respectively recorded in (Losses) Gains on Sales of Other Assets and Other, net on the Consolidated Statements of Operations. For the three and six months ended September 30, 2006, the sale of emission allowances resulted in approximately \$71 million and \$161 million, respectively, in proceeds and net pre-tax losses of \$(10) million and \$(15) million, respectively, recorded in (Losses) Gains on Sales of Other Assets and Other, net on the Consolidated Statements of Operations. For the three months ended March 31, 2006, the sale of emission allowances resulted in approximately \$106 million in proceeds and net pre-tax gains of \$26 million recorded in (Losses) Gains on Sales of Other Assets and Other, net on the Consolidated Statements of Operations.

In December 2006, Duke Energy Indiana agreed to sell one unit of its Wabash River Power Station (Unit 1) to Wabash Valley Power Association (WVPA). The price of the transaction will be based on the book value of Wabash River Power Station (Unit 1) at the time of closing, which is currently estimated to be approximately \$110-\$120 million. The sale is subject to the approval of the Indiana Utility Regulatory Commission (IURC), the FERC, the U.S. Federal Trade Commission (FTC) and the Department of Justice (DOJ). Duke Energy Indiana has received FERC approval and was granted early termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act by the FTC and DOJ. On January 12, 2007, Duke Energy Indiana filed a petition with the IURC requesting authority to sell Wabash River Power Station (Unit 1) to WVPA along with approval of the Operation and Maintenance Agreement and the Facilities Operations and Services Agreement associated with the sale. On May 30, 2007, Duke Energy Indiana submitted to the IURC a Settlement Agreement between Duke Energy Indiana, WVPA and the Indiana Office of Utility Consumer Counselor (OUCC). The Settlement Agreement provides for the transfer of Wabash River Power Station (Unit 1) to WVPA and approval of Duke Energy Indiana's proposed ratemaking and accounting treatment. The IURC approved the sale in the third quarter of 2007.

Under these agreements Duke Energy Indiana will provide to WVPA certain operation and maintenance services for Wabash River Power Station (Unit 1) and WVPA's coal gasification facility. The fees received from these agreements will be treated as revenues for ratemaking purposes and thus are expected to benefit Duke Energy Indiana's customers. In August 2005, Duke Energy Indiana purchased the Wheatland Generating Station to replace the firm capacity to be transferred to WVPA as a result of the sale of Wabash River Power Station (Unit 1) and will replace Wabash River Power Station (Unit 1) in cost of service to Duke Energy Indiana's electric customers.

Duke Energy Indiana does not anticipate recognizing a material gain or loss on this transaction and expects this transaction to close around the end of 2007. The assets and liabilities of the Wabash River Power Station (Unit 1) are separately disclosed on the Consolidated Balance Sheets as Assets held for sale and Liabilities associated with assets held for sale.

See Note 12 for dispositions related to discontinued operations.

5. 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.

During the nine months ended September 30, 2007, Cinergy paid dividends to its parent, Duke Energy, of \$135 million.

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

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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. 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 as follows:

	Successor ^(a)				Predecessor ^(a)
	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2007	Three Months Ended September 30, 2006	Six Months Ended September 30, 2006	Three Months Ended March 31, 2006
			(in millions)		
Stock Options	\$ 1	\$ 4	\$ 2	\$ 4	\$ 3
Phantom Stock	2	4	3	6	1
Performance Awards	1	4	1	2	12
Total	\$ 4	\$ 12	\$ 6	\$ 12	\$ 16

(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 and nine months ended September 30, 2007, the three months ended March 31 and September 30, 2006 and the six months ended September 30, 2006 was approximately \$1 million, \$4 million, \$6 million \$2 million and \$5 million, respectively.

Duke Energy Stock Option Activity

	Options	Weighted Average Exercise Price ^(a)
Outstanding at December 31, 2006	6,813,643	\$ 14
Options exercised	(587,517)	14
Options forfeited/expired	(22,776)	16
Outstanding at September 30, 2007	<u>6,203,350</u>	\$ 14
Exercisable at September 30, 2007	4,173,926	\$ 14

(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 nine months ended September 30, 2007. Cinergy granted 682,400 options in the three months ended March 31, 2006. Duke Energy granted 1,877,646 options to Cinergy employees in the six months ended September 30, 2006. As of September 30, 2007, Cinergy had approximately \$3 million of unrecognized compensation expense which is expected to be recognized over a weighted-average period of 1.5 years.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Performance Awards

Duke Energy awarded 422,430 shares (fair value of approximately \$6 million) to Cinergy employees during the nine months ended September 30, 2007. Cinergy awarded target grants for 351,000 performance-based shares in the three months ended March 31, 2006. Duke Energy awarded 540,360 shares (fair value of approximately \$13 million) to Cinergy employees during the six months ended September 30, 2006.

The following table summarizes certain information about Duke Energy stock-based performance awards outstanding at September 30, 2007:

	<u>Shares</u>
Number of Stock-based Performance Awards:	
Outstanding at December 31, 2006	520,228
Granted	422,430
Vested	(102,220)
Forfeited	<u>(26,524)</u>
Outstanding at September 30, 2007	<u>813,914</u>

As of September 30, 2007, Cinergy had approximately \$10 million of unrecognized compensation expense which is expected to be recognized over a weighted-average period of 1.8 years.

Phantom Stock Awards

Duke Energy awarded 294,380 shares to Cinergy employees (fair value of approximately \$6 million based on the market price of Duke Energy's common stock at the grant dates) during the nine months ended September 30, 2007. Duke Energy awarded 403,040 shares (fair value of approximately \$12 million based on the market price of Duke Energy's common stock at the grant dates) during the six months ended September 30, 2006. There were no phantom stock awards issued during the three months ended March 31, 2006.

The following table summarizes information about Duke Energy phantom stock awards issued to Cinergy employees and outstanding at September 30, 2007:

	<u>Shares</u>
Number of Phantom Stock Awards:	
Outstanding at December 31, 2006	349,155
Granted	294,380
Vested	(109,858)
Forfeited	<u>(12,920)</u>
Outstanding at September 30, 2007	<u>520,757</u>

As of September 30, 2007, Cinergy had approximately \$5 million of unrecognized compensation expense which is expected to be recognized over a weighted-average period of 2.3 years.

6. 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.

In May 2006, Duke Energy Indiana redeemed all outstanding shares of its \$3.7 million notional amount 3.5% Cumulative Preferred Stock, its \$3.9 million notional amount 4.32% Cumulative Preferred Stock, and its \$3.7 million notional amount 4.16% Cumulative Preferred Stock at par, plus accrued and unpaid dividends.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

7. Inventory

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

	Successor ^(a)	
	September 30, 2007	December 31, 2006
	(in millions)	
Fuel for use in electric generation	\$ 163	\$ 159
Materials and supplies	133	124
Gas stored for current use	87	82
Total Inventory	\$ 383	\$ 365

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

8. Debt and Credit Facilities

Available Credit Facilities and Restrictive Debt Covenants. In June 2007, Duke Energy closed on the syndication of an amended and restated credit facility, replacing the existing credit facilities totaling \$2.65 billion, including a multi-year syndicated \$1.5 billion revolving credit facility at Cinergy, with a 5-year, \$2.65 billion master credit facility. The master credit facility contains a \$500 million borrowing sub-limit for Duke Energy Ohio (excluding Duke Energy Kentucky), a \$400 million borrowing sub-limit for Duke Energy Indiana and a \$100 million borrowing sub-limit for Duke Energy Kentucky. Concurrent with the syndication of the master credit facility, Duke Energy established a new \$1.5 billion commercial paper program at Duke Energy and terminated Cinergy's previously existing commercial paper program.

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

Duke Energy's credit agreement contains various financial and other covenants, including, but not limited to, a covenant regarding the debt-to-total capitalization ratio at Duke Energy, Duke Energy Ohio, Duke Energy Kentucky and Duke Energy Indiana to not exceed 65%. Cinergy's debt agreements also contain various financial and other covenants. Failure to meet these covenants beyond applicable grace periods could result in accelerated due dates and/or termination of the agreements. As of September 30, 2007, Duke Energy, Cinergy, Duke Energy Ohio, Duke Energy Kentucky and Duke Energy Indiana were in compliance with these covenants. In addition, some credit agreements may allow for acceleration of payments or termination of the agreements due to nonpayment, or the acceleration of other significant indebtedness of the borrower or some of its subsidiaries. None of the debt or credit agreements contain material adverse change clauses.

Other. Since the termination of the Cinergy revolving credit facility and commercial paper program, Cinergy receives support for its short-term borrowing needs primarily through an intercompany loan from its parent entity, Duke Energy. As of September 30, 2007 Cinergy had an intercompany loan outstanding with Duke Energy of \$497 million classified within Notes payable and commercial paper in the accompanying Consolidated Balance Sheets. As of December 31, 2006 Cinergy had \$101 million outstanding under its commercial paper program classified within Notes payable and commercial paper in the accompanying Consolidated Balance Sheets. During the nine months ended September 30, 2007, the \$396 million increase in Notes payable and commercial paper is reflected as a cash inflow within Net cash provided by financing activities on the Consolidated Statements of Cash Flows. In addition, 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 September 30, 2007 and December 31, 2006, all short-term loans outstanding under the money pool arrangement were among Cinergy and its consolidated subsidiaries thus the transactions eliminated in the consolidation at the Cinergy level.

As of September 30, 2007 and December 31, 2006, approximately \$307 million of certain pollution control bonds, which are short-term obligations by nature, are classified as Long-term Debt on the Consolidated Balance Sheets due to Cinergy's intent and ability to utilize such borrowings as long-term financing. Duke Energy's credit facilities with non-cancelable terms in excess of one year as of the balance sheet date give Cinergy the ability to refinance these short-term obligations on a long-term basis.

In October 2007, Duke Energy Ohio and Duke Energy Indiana had approximately \$100 million and \$265 million, respectively, of debt which matured and was repaid, principally from short-term borrowings and cash from operations.

9. 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.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

In the first quarter of 2007, Cinergy recorded estimates of the impacts of adoption of the measurement date provisions of SFAS No. 158, pending finalization of actuarial calculations of changes in plan assets and plan obligations between the September 30, 2006 and December 31, 2006. During the second quarter of 2007, these calculations were completed and final amounts are presented in the table below. The finalization of these actuarial calculations resulted in an approximate \$52 million increase in accrued pension and other post-retirement benefit costs, an approximate \$50 million reduction in accumulated other comprehensive income, net of approximately \$26 million in deferred income tax assets, and an approximate \$24 million reduction to regulatory assets.

Net periodic benefit cost of approximately \$21 million for the three-month period between September 30, 2006 and December 31, 2006 was recognized. Approximately \$10 million in deferred tax assets were recorded during the second quarter of 2007, as a separate reduction of retained earnings as of January 1, 2007.

The table below identifies significant changes to the individual line items in Cinergy's Consolidated Balance Sheets during the nine months ended September 30, 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).

	Successor^(a) Adoption of SFAS No. 158 measurement date provisions			January 1, 2007
	December 31, 2006		January 1, 2007	
	(in millions)			
Accrued pension and other postretirement benefit costs	\$ (1,273)	\$	(78)	\$ (1,351)
Regulatory Assets	45		(22)	23
Deferred income tax assets	25		35	60
Accumulated other comprehensive loss, net of tax	42		51	93
Retained earnings	--		11	--

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

Qualified Pension Plans

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

	Successor^(a)				Predecessor^(a)
	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2007	Three Months Ended September 30, 2006	Six Months Ended September 30, 2006	Three Months Ended March 31, 2006
	(in millions)				
Service cost	\$ 13	\$ 37	\$ 13	\$ 25	\$ 11
Interest cost	29	86	27	55	25
Expected return on plans' assets	(32)	(95)	(25)	(49)	(23)
Amortization of prior service cost	2	5	--	--	1
Amortization of actuarial loss	--	--	--	--	4
Net periodic benefit cost ^(b)	\$ 12	\$ 33	\$ 15	\$ 31	\$ 18

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

(b) These amounts exclude approximately zero and \$12 million for the three and nine months ended September 30, 2007, respectively, and approximately \$5 million and \$10 million for the three and six months ended September 30, 2006, respectively, of regulatory asset amortization resulting from purchase accounting.

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:

	Successor^(a)		
	December 31, 2006	January 1, 2007^(b)	Change
	(in millions)		
Projected Benefit Obligation	\$ 1,976	\$ 2,052	\$ 76
Plan Assets at measurement date	1,302	1,351	49
Funded Status	\$ (674)	\$ (701)	\$ (27)

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

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

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

During the three and nine months ended September 30, 2007, Duke Energy contributed \$350 million to its legacy Cinergy qualified retirement plans. During the three and six months ended September 30, 2006, Duke Energy contributed \$124 million to its legacy Cinergy qualified retirement plans. Duke Energy does not anticipate making any additional contributions to its legacy Cinergy qualified retirement plans during the remainder of 2007.

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 September 30, 2007	Nine Months Ended September 30, 2007	Three Months Ended September 30, 2006	Six Months Ended September 30, 2006	Three Months Ended March 31, 2006
	(in millions)				
Service cost	\$ --	\$ 1	\$ 1	\$ 1	\$ 1
Interest cost	2	5	1	3	2
Amortization of prior service cost	--	--	--	--	1
Amortization of actuarial loss	--	--	--	--	1
Net periodic benefit cost	\$ 2	\$ 6	\$ 2	\$ 4	\$ 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:

	Successor ^(a)		Change
	December 31, 2006	January 1, 2007 ^(b)	
	(in millions)		
Projected Benefit Obligation	\$ 114	\$ 112	\$ (2)
Funded Status	\$ (114)	\$ (112)	\$ 2

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

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

Other Post-Retirement Benefit Plans

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

	Successor ^(a)				Predecessor ^(a)
	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2007	Three Months Ended September 30, 2006	Six Months Ended September 30, 2006	Three Months Ended March 31, 2006
	(in millions)				
Service cost	\$ --	\$ 4	\$ 2	\$ 4	\$ 2
Interest cost	8	22	7	13	6
Amortization of actuarial loss	1	1	--	--	2
Net periodic benefit cost ^(b)	\$ 9	\$ 27	\$ 9	\$ 17	\$ 10

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

(b) These amounts exclude approximately \$4 million and \$8 million for the three and nine months ended September 30, 2007, respectively, and approximately \$2 million and \$5 million for the three and six months ended September 30, 2006, respectively, of regulatory asset amortization resulting from purchase accounting.

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 other post-retirement benefit plan assets or the accumulated other post-retirement benefit obligation. The following table shows the effect of the remeasurement on the benefit obligation of the Cinergy other post-retirement plan:

	December 31, 2006	Successor ^(a) January 1, 2007 ^(b)	Change
		(in millions)	
Accumulated other post-retirement benefit obligation	\$ 497	\$ 523	\$ 26
Funded Status	\$ (497)	\$ (523)	\$ (26)

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

(b) Reflects the accumulated other post retirement benefit obligation subsequent to the measurement date change.

During the three and nine months ended September 30, 2007, Duke Energy contributed approximately \$32 million to its legacy Cinergy other post-retirement plans. Duke Energy does not anticipate making any additional contributions to its other post-retirement plans during the remainder of 2007.

10. Goodwill and Intangibles

As discussed in Note 2, in April 2006, Duke Energy and Cinergy consummated their merger, which resulted in Cinergy recording goodwill of approximately \$4.4 billion. The following table shows the changes in goodwill for the nine months ended September 30, 2007:

Carrying Amount of Goodwill

	Successor ^(a)	
	Balance at December 31, 2006	Balance at September 30, 2007
	Changes	
	(in millions)	
	\$ 4,385	\$ (23)
		\$ 4,362

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

Intangible Assets

The carrying amount and accumulated amortization of intangible assets as of September 30, 2007 and December 31, 2006 are as follows:

	Successor ^(a)	
	September 30, 2007	December 31, 2006
	(in millions)	
Emission allowances	\$ 440	\$ 572
Gas, coal, and power contracts	295	295
Other ^(b)	63	15
Total gross carrying amount	798	882
Accumulated amortization—gas, coal, and power contracts	(82)	(44)
Accumulated amortization—other	(7)	(5)
Total accumulated amortization	(89)	(49)
Total intangible assets, net	\$ 709	\$ 833

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

(b) Increase in Intangible assets primarily related to the acquisition of the wind power development assets of Energy Investor Funds from Tierra Energy (see Note 4).

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Carrying values of emission allowances sold or consumed were as follows:

Successor ^(a)				Predecessor ^(a)
Three Months Ended September 30, 2007	Nine Months Ended September 30, 2007	Three Months Ended September 30, 2006	Six Months Ended September 30, 2006	Three Months Ended March 31, 2006
(in millions)				
\$ 59	\$ 206	\$ 146	\$ 273	\$ 64

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

Amortization expense for intangible assets was as follows:

Successor ^(a)				Predecessor ^(a)
Three Months Ended September 30, 2007	Nine Months Ended September 30, 2007	Three Months Ended September 30, 2006	Six Months Ended September 30, 2006	Three Months Ended March 31, 2006
(in millions)				
\$ 13	\$ 40	\$ 14	\$ 29	\$ 7

(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 September 30, 2007 and December 31, 2006 is as follows:

	Successor ^(a)	
	September 30, 2007	December 31, 2006
	(in millions)	
MBSSO	\$ 78	\$ 95
Other power sale contracts	27	39
Total intangible liabilities	\$105	\$134

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

During the three and nine months ended September 30, 2007, Cinergy amortized approximately \$15 million and \$29 million to income, respectively, related to these intangible liabilities. During the three and six months ended September 30, 2006, Cinergy amortized approximately \$31 million and \$35 million, respectively, to income, related to these intangible liabilities. Intangible liabilities are classified as Other Deferred Credits and Other Liabilities on the Consolidated Balance Sheets.

11. Severance

During the three and nine months ended September 30, 2007, Cinergy recorded approximately \$0 million and \$6 million of severance charges under Duke Energy and Cinergy's ongoing severance plan. Of this amount, approximately \$4 million during the nine months ended September 30, 2007 relates to Cinergy's allocated share of severance cost from a consolidated affiliate of Duke Energy (see Note 17). Future severance costs under this plan, if any, are currently not estimable.

	Successor ^(a)			
	Balance at January 1, 2007	Provision/ Adjustments	Cash Reductions	Balance at September 30, 2007
	(in millions)			
Severance Reserve	\$ 23	\$ 1	\$ (19)	\$ 5

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

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

12. Discontinued Operations and Assets Held for Sale

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 contract 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 September 30, 2007, substantially all of the contracts have been novated by Fortis. At September 30, 2007, contracts with a net fair value of \$5 million remain in Assets held for sale and represent contracts that have yet to be novated by Fortis.

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

	Successor ^(a)				Predecessor ^(a)
	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2007	Three Months Ended September 30, 2006	Six Months Ended September 30, 2006	Three Months Ended March 31, 2006
	(in millions)				
Operating Revenues	\$ --	\$ --	\$ 32	\$ 34	\$ 43
Operating Income (Loss)					
Pre-tax Operating Income	\$ --	\$ --	\$ 12	\$ 1	\$ 10
Income Tax Expense	--	--	8	5	3
Operating Income (Loss), Net of Tax	\$ --	\$ --	\$ 4	\$ (4)	\$ 7
Net (Loss) Gain on Dispositions					
Pre-tax (Loss) Gain on Dispositions	\$ --	\$ (1)	\$ 14	\$ 8	\$ (3)
Income Tax Expense (Benefit)	--	5	3	(5)	(1)
(Loss) Gain on Dispositions, Net of Tax	\$ --	\$ (6)	\$ 11	\$ 13	\$ (2)
(Loss) Income from Discontinued Operations, Net of Tax	\$ --	\$ (6)	\$ 15	\$ 9	\$ 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 September 30, 2007 and December 31, 2006. Assets held for sale at both September 30, 2007 and December 31, 2006 primarily relate to Duke Energy Indiana's Wabash River Power Station (see Note 4), as well as certain Duke Energy Ohio trading contracts that were sold in 2006 that have yet to be novated. Cinergy does not anticipate recognizing a material gain or loss on these transactions.

Summarized Balance Sheet Information for Assets and Associated Liabilities Held for Sale

	Successor ^(a)	
	September 30, 2007	December 31, 2006
	(in millions)	
Current assets	\$ 5	\$ 26
Investments and other assets	--	19
Property, plant and equipment, net	116	117
Total assets held for sale	\$ 121	\$ 162
Current liabilities	\$ 5	\$ 25
Deferred Credits and other liabilities	3	21
Total liabilities associated with assets held for sale	\$ 8	\$ 46

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

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

13. Risk Management Instruments

The following table shows the carrying value of Cinergy's derivative portfolio as of September 30, 2007, and December 31, 2006.

Derivative Portfolio Carrying Value

	Successor ^(a)	
	September 30, 2007	December 31, 2006
	(in millions)	
Hedging.....	\$ (21)	\$ (2)
Trading.....	—	2
Undesignated.....	(20)	(22)
Total.....	\$ (41)	\$ (22)

(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 MTM and hedging transactions on Cinergy's Consolidated Balance Sheets, excluding approximately \$5 million of derivative assets and \$5 million of derivative liabilities which are recorded as assets and liabilities held for sale. See Note 12 for additional information.

The \$19 million decrease in the hedging portfolio fair value is due primarily to declines in the fair value of certain commodity cash flow hedges.

14. 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 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 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 these rate reductions were passed through to customers during 2007. Approximately \$10 million and \$26 million of these rate reductions were passed through to customers during the three and nine months ended September 30, 2006, respectively.
- The KPSC required that Duke Energy Kentucky provide \$8 million in rate reductions to its customers over five years, ending when new rates are established in the next rate case after January 1, 2008. Approximately \$1 million and \$2 million of the rate reduction was passed through to customers during the three and nine months ended September 30, 2007, respectively. Approximately \$1 million was passed through to customers during the three and nine months ended September 30, 2006.
- 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 Utilities 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 \$13 million of the rate reduction was passed through to customers during 2007. Approximately \$12 million and \$17 million of the rate reduction was passed through to customers during the three and nine months ended September 30, 2006, respectively.
- 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' Counsel (OCC) appealed the PUCO's approval of the MBSSO to the Supreme Court of Ohio and the Court issued its decision in November 2006. It upheld the MBSSO in virtually every respect but remanded to the PUCO on two issues. The Court ordered the PUCO to support a certain portion of its order with reasoning and record evidence and to require Duke Energy Ohio to disclose certain confidential commercial agreements with other parties previously requested by the OCC. Duke Energy Ohio has complied with the disclosure order.

In October 2007, the PUCO issued its ruling affirming the MBSSO, with certain modifications, and maintained the current price. The ruling provides for continuation of the existing rate components, including the recovery of costs related to new pollution control equipment and capacity costs associated with power purchase contracts to meet customer demand, but provided

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

customers an enhanced opportunity to avoid certain pricing components if they are served by a competitive supplier. The ruling also rescinds the requirements that Duke Energy Ohio transfer its generating assets to an exempt wholesale generator and required Duke Energy Ohio to retain ownership for the remainder of the RSP period. On November 23, 2007, Duke Energy Ohio filed an application for rehearing of the PUCO's ruling. The ruling also discusses the termination of the RTC at the end of 2008. Duke Energy Ohio will seek further confirmation from the PUCO that the RTC termination in 2008 pertains only to residential customers pursuant to a 2004 order of the PUCO.

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

Duke Energy Ohio's MBSSO includes a fuel clause, reserve capacity (System Reliability Tracker or SRT) and an Annually Adjusted Component (AAC) to recover changes in environmental, tax and homeland security costs which are audited annually by the PUCO. In April 2007, Duke Energy Ohio entered into a settlement resolving all open issues identified in the 2006 audits and application to amend the 2007 AAC market price with some, but not all, of the parties. The PUCO held a hearing regarding the settlement and issued its order approving the settlement on November 20, 2007. Cinergy does not expect the order to have a material impact on its consolidated results of operations, cash flows or financial position.

Duke Energy Ohio Gas Rate Case. In July 2007, Duke Energy Ohio filed an application with the PUCO for an increase in its base rates for gas service. Duke Energy Ohio seeks an increase of approximately \$34 million in revenue, or approximately 5.7%, to be effective in the spring of 2008. The application also requests approval to continue tracker recovery of costs associated with an accelerated gas main replacement program. The PUCO accepted the application for filing in September 2007.

Duke Energy Kentucky Gas Rate Cases. In 2002, the KPSC approved Duke Energy Kentucky's gas base rate case which included, among other things, recovery of costs associated with an accelerated gas main replacement program. The approval authorized a tracking mechanism to recover certain costs including depreciation and a rate of return on the program's capital expenditures. The Kentucky Attorney General appealed to the Franklin Circuit Court the KPSC's approval of the tracking mechanism as well as the KPSC's subsequent approval of annual rate adjustments under this tracking mechanism. In 2005, both Duke Energy Kentucky and the KPSC requested that the court dismiss these cases.

In February 2005, Duke Energy Kentucky filed a gas base rate case with the KPSC requesting approval to continue the tracking mechanism and for a \$14 million annual increase in base rates. A portion of the increase is attributable to recovery of the current cost of the accelerated main replacement program in base rates. In December 2005, the KPSC approved an annual rate increase of \$8 million and re-approved the tracking mechanism through 2011. In February 2006, the Kentucky Attorney General appealed the KPSC's order to the Franklin Circuit Court, claiming that the order improperly allows Duke Energy Kentucky to increase its rates for gas main replacement costs in between general rate cases, and also claiming that the order improperly allows Duke Energy Kentucky to earn a return on investment for the costs recovered under the tracking mechanism which permits Duke Energy Kentucky to recover its gas main replacement costs.

In August 2007 the Franklin Circuit Court consolidated all the pending appeals and ruled that the KPSC lacks legal authority to approve the gas main replacement tracking mechanism, and any other annual rate adjustments under the tracking mechanism. To date, Duke Energy Kentucky has collected approximately \$9 million in annual rate adjustments under the tracking mechanism. Duke Energy Kentucky and the KPSC have appealed these cases to the Kentucky Court of Appeals and continues to utilize tracking mechanisms in its billed rates to customers. At this time, Cinergy and Duke Energy Kentucky cannot predict the outcome of these proceedings.

Energy Efficiency. On July 11, 2007, the PUCO approved Duke Energy Ohio's Demand Side Management/ Energy Efficiency Program (DSM Program). The DSM Program consists of ten residential and two commercial programs. Implementation of the programs will begin over the next several months. The programs were first proposed in 2006 and were endorsed by the Duke Energy Community Partnership, which is a collaborative group made up of representatives of organizations interested in energy conservation, efficiency and assistance to low-income customers. The program costs will be recouped through a cost recovery mechanism that will be adjusted annually to reflect the previous year's activity. Duke Energy Ohio is permitted to recover lost revenues, program costs and shared savings (once the programs reach 65% of the targeted savings level) through the cost recovery mechanism based upon impact studies to be provided to the Staff of the PUCO.

On October 29, 2007, Duke Energy Indiana filed its petition with the IURC requesting approval of an alternative regulatory plan to increase its energy efficiency efforts in the state. Duke Energy Indiana seeks approval of a plan that will be available to all customer groups and will compensate Duke Energy Indiana for verified reductions in energy usage. Under the plan, customers would pay for energy efficiency programs through an energy efficiency rider that would be included in their power bill and adjusted annually through a proceeding before the IURC. The energy efficiency rider will be based on the avoided cost of generation not needed as a result of the success of Duke Energy Indiana's energy efficiency programs. The IURC is expected to consider the petition in a hearing sometime in 2008.

New Legislation. On September 25, 2007, at the request of the Governor of Ohio, the Ohio Senate introduced a bill (SB 221) that proposes a comprehensive change to Ohio's 1999 electric energy industry restructuring legislation. If enacted, SB 221 would expand the PUCO's authority over generation to: implement the state's revised energy policy; regulate electric distribution utility prices for standard service; and permit the PUCO to implement rules for advanced energy portfolio and energy efficiency standards, greenhouse gas emission reporting requirements, and pilot project carbon sequestration activities in conjunction with other state agencies. Under SB 221, electric distribution utilities have the ability to apply for PUCO approval of one of two generation pricing alternatives – a market option or an Electric Security Plan (ESP) option. The market option is based upon a competitive bidding process. The ESP option will allow for the recovery of specified costs. The PUCO, however, would have authority to disallow the market option and compel the ESP option. SB 221, if enacted, would limit the ability of a utility to transfer its dedicated generating assets to an exempt wholesale generator absent PUCO approval. SB 221 passed the Ohio Senate on October 31, 2007, and is currently pending before the Ohio House.

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 OUCG 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

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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 states 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). 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). An evidentiary hearing was held June 18-22, 2007, and a public field hearing was held on August 29, 2007. On November 20, 2007, the IURC issued an order granting Duke Energy Indiana a CPCN for the proposed IGCC project and approved the timely recovery of costs related to the project.

In August 2007, Vectren withdrew its participation in the IGCC plant. Duke Energy Indiana is currently exploring its options, including assuming 100% of the plant capacity. Absent identification of an alternative joint owner, Duke Energy Indiana would own 100% of the IGCC plant capacity.

Duke Energy Indiana recovers its actual fuel costs quarterly through a rate adjustment mechanism. In two recent fuel clause proceedings, certain industrial customers and the CAC have intervened and sub-dockets have been established to address issues raised by the OUCG and the intervenors concerning the allocation of fuel costs between native load customers and non-native load sales, the reasonableness of various Midwest Independent Transmission System Operator (Midwest ISO) costs for which Duke Energy Indiana has sought recovery and Duke Energy Indiana's recovery of costs associated with certain power hedging activities. Duke Energy Indiana is defending its practices, its costs, and the allocation of such costs. A hearing was conducted in the first proceeding dealing with the allocation of fuel costs and Midwest ISO costs on September 20, 2006. The IURC issued an Order on September 13, 2007 approving of Duke Energy Indiana's practices and removing the subject to refund provisions, except for one outstanding issue. The IURC required Duke Energy Indiana to file a compliance report outlining its further analysis and quantification of the effects of not routinely designating its coal-fired units as "must-run" in the initial months of the Midwest ISO Day 2 markets. Duke Energy Indiana plans to file the compliance report in the fourth quarter of 2007 and the impact is not expected to be material. An evidentiary hearing in the second power hedging proceeding was held in June 2007 and a decision is expected in the fourth quarter 2007. The IURC has authorized Duke Energy Indiana to collect through rates the costs which it sought recovery in the two sub-docket proceedings, subject to refund pending the outcome of these proceedings. Duke Energy Indiana cannot predict the outcome of these proceedings but does not expect the outcome to be material to its consolidated results of operations, cash flows or financial position.

In April 2005, the PUCO issued an order opening a statewide investigation into riser leaks in gas pipeline systems throughout Ohio. The investigation followed four explosions since 2000 caused by gas riser leaks, including an April 2000 explosion in Duke Energy Ohio's service area. In November 2006, the PUCO Staff released the expert report, which concluded that certain types of risers are prone to leaks under various conditions, including over-tightening during initial installation. The PUCO Staff recommended that natural gas companies continue to monitor the situation and study the cause of any further riser leaks to determine whether further remedial action is warranted. Duke Energy Ohio has approximately 87,000 of these risers on its distribution system. If the PUCO orders natural gas companies to replace all of these risers, Duke Energy Ohio estimates a replacement cost of approximately \$40 million. As part of the rate case filed in July 2007 (see "Duke Energy Ohio Gas Rate Case" above), Duke Energy Ohio requested approval from the PUCO to accelerate its riser replacement program; however, at this time, Cinergy and Duke Energy Ohio cannot predict the outcome or the impact of the statewide Ohio investigation.

In December 2005, the PUCO initiated an investigation into implementing certain provisions of the Energy Policy Act of 2005, including whether to adopt a statewide standard for implementing smart metering. After an investigation, the PUCO issued a March 2007 order requiring all electric utilities to offer tariffs to all customer classes which are differentiated, at a minimum, based on on-peak and off-peak wholesale price periods. The PUCO noted that time-of-use meters should be available for customers subscribing to these tariffs. The order instructed PUCO Staff to conduct workshop meetings to study the costs/benefits of deploying smart metering. These workshop meetings are in progress. At this time, Duke Energy Ohio cannot predict the outcome of this proceeding.

FERC Issues Electric Reliability Standards. Consistent with reliability provisions of the Energy Policy Act of 2005, on July 20, 2006, FERC issued its Final Rule certifying the North American Electric Reliability Council (NERC) as the Electric Reliability Organization. NERC has filed over 100 proposed reliability standards with FERC. On March 16, 2007, FERC issued a final rule establishing mandatory, enforceable reliability standards for the nation's bulk power system. In the final rule, FERC approved 83 of the 107 mandatory reliability standards submitted by the NERC and compliance with these standards became mandatory on June 18, 2007. FERC will consider the remaining 24 proposed standards for approval once the necessary criteria and procedures are submitted. In the interim, compliance with these 24 standards is expected to continue on a voluntary basis as good utility practice. Cinergy does not believe that the issuance of these standards will have a material impact on its consolidated results of operations, cash flows, or financial position.

15. 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. 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. Cinergy 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 Rule 316(b). The U.S. Environmental Protection Agency (EPA) finalized its cooling water intake structures rule in July 2004. The rule established aquatic protection requirements for existing facilities that withdraw 50 million gallons or more of water per day from rivers, streams, lakes, reservoirs, estuaries, oceans, or other U.S. waters for cooling purposes. 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, although it is expected that costs will increase as a result of the court's decision. The magnitude of any such increase cannot be estimated at this time.

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 \$720 million between 2007 and 2011 to comply with Phase 1 of CAMR and CAIR and approximately \$450 million for the CAIR/CAMR Phase 2 compliance costs 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 compliance costs of CAIR/CAMR in Indiana. Duke Energy Ohio receives partial recovery of depreciation and financing costs related to environmental compliance projects for 2005-2008 through its RSP (see Note 14).

Coal Combustion Product (CCP) Management. Cinergy currently estimates that it will spend approximately \$90 million over the period 2007-2012 to install synthetic caps and liners at existing and new CCP landfills and to convert CCP handling systems from wet to dry systems.

Extended Environmental Activities and Accruals. Included in Other 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 September 30, 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. Cinergy believes that completion or resolution of these matters will have no material adverse effect on its consolidated results of operations, cash flows or financial position.

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 alleges that projects performed at various coal-fired units were major modifications, as defined in the CAA, and that the utilities violated the CAA when they undertook those projects without obtaining permits and installing the best available emission controls for SO₂, NO_x, and particulate matter. The complaints seek injunctive relief to require installation of pollution control technology on various allegedly violating generating units, and unspecified civil penalties in amounts of up to \$27,500 per day for each violation. 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 June 2007, the trial court ruled, as a matter of law, that 11 of 21 projects undertaken at the units do not qualify for the "routine" exception in the regulations. The court ruled further that the defendants had "fair notice" of the EPA's interpretation of the applicable regulations. The defendants have filed motions for reconsideration of the trial court's rulings. A jury trial has been set to commence on May 5, 2008.

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). A trial on liability issues was conducted in July 2005. On October 9, 2007, CSP announced a settlement of its case. The settlement includes commitments by CSP to construct environmental equipment or otherwise to reduce emissions at certain plants and the payment of penalties and money to

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

various environmental projects. Cinergy does not expect the settlement to have a material impact on its consolidated results of operations, cash flows, or financial position.

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 issue an order requiring compliance with the requirements of the Ohio SIP, or bring a civil action seeking injunctive relief and civil penalties of up to \$27,500 per day for each violation. In September 2004, Marilyn Wall and the Sierra Club brought a lawsuit against Duke Energy Ohio, DP&L and CSP for alleged violations of the CAA at this same generating station. This case is currently in discovery in front of the same judge who had 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 (CO₂) 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 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 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. Discovery in the case 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 purchased 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 on July 3, 2005 against Cinergy and approximately 20 other utility and power generation companies alleging various claims relating

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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. On August 30, 2007, the court dismissed the case. The plaintiffs have filed their notice of appeal to the Fifth Circuit Court of Appeals. 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. The impact on Cinergy's financial position, cash flows, or results of operations of these cases to date has not been material. Based on estimates under varying assumptions, concerning uncertainties, such as, among others: (i) the number of contractors potentially exposed to asbestos during construction or maintenance of Duke Energy Indiana and Duke Energy Ohio 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 foreseeable future is not material. This estimated range of exposure may change as additional settlements occur and claims are made and more case law is established.

Other Litigation and Legal Proceedings. 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. Cinergy believes that the final disposition of these proceedings will not have a material adverse effect on its consolidated results of operations, cash flows or financial position.

Cinergy has exposure to certain legal matters that are described herein. As of September 30, 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 (synfuel) 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 synfuel 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 during the three and nine months ended September 30, 2007 were approximately \$63 million and \$111 million, respectively. In July 2007, Cinergy was advised by a supplier of likely shortages in the availability of a key material used in the production of synfuel, which was expected to adversely impact the levels of synfuel production during the second half of 2007. In the third quarter of 2007, Cinergy successfully identified alternative suppliers for the material to continue synfuel production with minor disruption.

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 synfuel 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. The exposure to synfuel tax credit phase-out is monitored and Cinergy may choose to reduce or cease synfuel production depending on the expectation of any potential tax credit phase-out. 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 synfuel tax credits.

The Internal Revenue Service (IRS) has completed the audit of Cinergy for the 2002, 2003, and 2004 tax years including the synfuel facility owned during that period. That facility represents \$222 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.

Cinergy intends to cease production of synfuel upon expiration of the tax credits at the end of 2007.

In October 2006, Cinergy began an internal investigation into improper data reporting to the EPA 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 EPA and Virginia Department of Environmental Quality (VDEQ), and in January 2007, Cinergy made a full written disclosure of the investigation's findings to the EPA 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

16. Guarantees and Indemnifications

Cinergy has various financial and performance guarantees and indemnifications, discussed below, which are issued in the normal course of business. 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 other parties, including certain non-wholly-owned consolidated entities, as well as guarantees of debt of certain non-consolidated entities and less than wholly-owned consolidated entities. If such entities were to default on payments or performance, Cinergy would be required under the guarantees to make payment on the obligation of the less than wholly-owned entity. The maximum potential amount of future payments Cinergy could have been required to make under these performance guarantees as of September 30, 2007 was approximately \$375 million. Approximately \$281 million of the performance guarantees expire between 2008 and 2039, with the remaining performance guarantees expiring after 2039 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 September 30, 2007, the amounts recorded for the guarantees and indemnifications mentioned above are immaterial, both individually and in the aggregate.

17. 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 September 30, 2007 and December 31, 2006 are as follows:

	Successor ^{(a)(b)}	
	September 30, 2007	December 31, 2006
	(in millions)	
Current assets ^(c)	\$ 139	\$ 75
Non-current assets ^(d)	\$ -	\$ 1
Current liabilities ^(e)	\$ (109)	\$ (226)
Net deferred tax liabilities ^(f)	\$ (1,699)	\$ (1,573)

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

(b) Balances exclude assets or liabilities associated with Cinergy Receivables Company, LLC (Cinergy Receivables) and intercompany loan balances, as discussed below.

(c) The balance at September 30, 2007 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.

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

(e) The balance at September 30, 2007, 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.

(f) Of the balance at September 30, 2007, approximately (\$1,729) million is classified as Deferred income taxes, (\$36) million is classified as Investment tax credit and \$66 million is classified as Other current assets on the Consolidated Balance Sheets. Of the balance at December 31, 2006, approximately (\$1,570) million is classified as Deferred income taxes, (\$40) million is classified as Investment tax credit and \$37 million is classified as Other current assets on the Consolidated Balance Sheets.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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.

The recoveries and expenses associated with corporate governance and other service costs were as follows:

	Successor ^(a)				Predecessor ^(a)
	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2007	Three Months Ended September 30, 2006	Six Months Ended September 30, 2006	Three Months Ended March 31, 2006
	(in millions)				
Corporate governance and other service recoveries	\$ 29	\$ 87	\$ 40	\$ 61	\$ -
Corporate governance and other service expenses	\$ 65	\$ 192	\$ 72	\$ 124	\$ -

(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 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 \$210 million as of September 30, 2007 and December 31, 2006.

During the second quarter of 2007 Cinergy received a \$204 million capital contribution from its parent, Duke Energy.

See Note 3 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. See Note 5 for a discussion of dividends Cinergy paid to its parent, Duke Energy.

Since the termination of the Cinergy revolving credit facility and commercial paper program in June 2007, Cinergy receives support for its short-term borrowing needs primarily through an intercompany loan from its parent entity, Duke Energy. In addition, Cinergy participates with Duke Energy and other Duke Energy subsidiaries in a money pool arrangement to better manage cash and working capital requirements. As of September 30, 2007, Cinergy had an intercompany loan outstanding with Duke Energy of \$497 million classified within Notes payable and commercial paper in the accompanying Consolidated Balance Sheets. See Note 8 for further discussion of the money pool arrangement.

18. New Accounting Standards

The following new accounting standards were adopted by Cinergy subsequent to September 30, 2006 and the impact of such adoption, if applicable, has been presented in the accompanying Consolidated Financial Statements:

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 a 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. SFAS No. 156 requires recognition of a servicing asset or liability when an 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 a 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

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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 a 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 9.

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 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 a material impact on Cinergy's consolidated results of operations, cash flows or financial position.

FASB Interpretation (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 of a tax benefit in Cinergy's financial statements. FIN 48 prescribes the 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 adopted FIN 48 effective January 1, 2007. See Note 19 for additional information.

FASB Staff Position (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 considered effectively settled with the taxing authority. Cinergy's adoption of FIN 48 as of January 1, 2007 was consistent with the guidance in this FSP.

FSP No. FAS 123(R)-5, "Amendment of FSP 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 GAAP. 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 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 a material impact on Cinergy's consolidated results of operations, cash flows or financial position.

Emerging Issues Task Force (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 a 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

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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 a 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 September 30, 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.

19. 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 income tax returns. 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 were a separate company filing its own tax return as a C-Corporation.

On January 1, 2007, Cinergy adopted FIN 48. The following table shows the impacts of adoption of FIN 48 on Cinergy's Consolidated Balance Sheets.

	Increase/(Decrease) (in millions)
Assets	
Goodwill	\$ 6
Liabilities	
Other Liabilities (non-current) ^(a)	\$ 101
Interest Accrued (current)	(22)
Deferred Income Taxes	(73)
Total	<u>\$ 6</u>
Common Stockholder's Equity	
Retained Earnings – Cumulative Effect of Accounting Change	\$ -

^(a) Includes liability for unrecognized tax benefits and accrued interest and penalties, net of gain contingencies that were not recorded prior to the adoption of FIN 48.

The following table shows the accounting for the adoption of FIN 48 on January 1, 2007 and the increase/(decrease) in Cinergy's unrecognized tax benefits from January 1, 2007 to September 30, 2007.

	January 1, 2007	Changes in Balances (in millions)	September 30, 2007
Unrecognized Tax Benefits ^(a)	\$ 152	\$ (74)	\$ 78
Unrecognized Tax Benefits that, if recognized, would affect the effective tax rate	-	-	-
Interest Payable ^(b)	22	(16)	6
Penalties Payable	-	-	-

^(a) Decrease in the liability of \$74 million primarily relates to \$50 million of settlements and a \$36 million settlement offer, partially offset by a \$12 million increase primarily related to the timing of certain deductions taken on tax returns in prior years.

^(b) Reflects all interest related to income taxes. The decrease in the liability was primarily recorded as a reduction to goodwill of \$14 million.

It is reasonably possible that Cinergy will reflect an approximate \$50 million reduction in unrecognized tax benefits in the next twelve months due to expected settlements.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Cinergy has the following tax years open.

Jurisdiction	Tax Years
Federal	2000 and after
State	Closed through 2001, with the exception of any adjustments related to open federal years

Effective with the adoption of FIN 48, Cinergy records, as it relates to taxes, interest expense as Interest Expense, and interest income and penalties in Other Income and Expenses, net in the Consolidated Statements of Operations.

The decrease in the effective tax rate for the three and nine months ended September 30, 2007 compared to the same periods in 2006 is due primarily to the recognition of synfuel credits in 2007 of approximately \$63 million and \$111 million for the three and nine months ended September 30, 2007.

20. Subsequent Events

For information on subsequent events related to debt and credit facilities, regulatory matters, and commitments and contingencies, see Notes 8, 14 and 15, respectively.