

FIRM TRANSPORTATION GAS SUPPLIER PRESENTATIONS



GAS SUPPLIER CREDIT AND COLLATERAL REQUIREMENTS

CREDIT/COLLATERAL REQUIREMENTS

Suppliers desiring to receive Firm Transportation Service from Duke Energy Ohio, Inc. are evaluated to ensure they possess the financial resources to perform the responsibilities of a supplier. On the basis of the evaluation, a supplier's participation may be limited to a level specified by Duke Energy Ohio, Inc.

CREDIT/COLLATERAL REQUIREMENTS

In order to assist Duke Energy Ohio, Inc. in performing its evaluation, suppliers must:

- Complete and sign Duke Energy Ohio, Inc.'s Registration and Credit Application Form
- Provide Duke Energy Ohio, Inc. with the following information:
 - Current audited financial statements prepared during the last 12 months
 - Most recent annual report
 - List of parent company and other affiliates
 - Names, addresses, and telephone numbers of 3 trade references
 - Names, addresses, and telephone numbers of banking institution contacts

CREDIT/COLLATERAL REQUIREMENTS

Collateral Requirement = MDQ Exposure – Unsecured Credit

Notes:

- MDQ = Maximum Daily Quantity (interchangeable with Peak Day Usage).
- MDQ Exposure is reduced during the Summer Collateral Period (April 1 through September 30).

UNSECURED CREDIT

Duke Energy Ohio, Inc. establishes potential unsecured credit limits based on the following:

- The lowest debt rating from Standard & Poor's or Moody's Investors' Services
- Tangible net worth

Note: For non-public companies, Duke Energy Ohio, Inc. utilizes modeling to estimate a bond rating.

EXPOSURE CALCULATION

- Supplier exposure is calculated using 4 methods:
 - Duke Energy Ohio, Inc.'s exposure to a supplier where Duke Energy Ohio, Inc. bills on behalf of the supplier (consolidated billing)*
 - Duke Energy Ohio, Inc.'s exposure to a supplier where Duke Energy Ohio, Inc. bills on behalf of the supplier (consolidated billing)* and selects Duke Energy's Enhanced Firm Balancing option
 - Duke Energy Ohio, Inc.'s exposure to a supplier where the supplier bills on their own behalf (dual billing) and selects Duke Energy's Enhanced Firm Balancing option
 - Duke Energy Ohio, Inc.'s exposure to a supplier where the supplier bills on their own behalf (dual billing)
- These calculations are based on MDQ per \$50,000 of exposure to Duke Energy Ohio, Inc.

**Duke Energy Ohio, Inc. must have a first secured interest in the receivables billed on behalf of the supplier. Otherwise, the calculation for dual billing is used.*

EXPOSURE CALCULATION (cont.)

- The average MDQ per \$50,000 of exposure is :
 - 553 MDQ for consolidated billing
 - 301 MDQ for dual billing
- The number of \$50,000 blocks of exposure = Total Supplier Pool MDQ divided by either 553 or 301, as appropriate

Note: Average MDQ for consolidated billing will vary depending upon the average supplier sales rate for all customers billed by Duke Energy Ohio on behalf of the Supplier

MDQ EXPOSURE FOR CONSOLIDATED BILLING

Example:

Supplier Total Pool MDQ = 20,000 MDQ

Number of \$50,000 blocks = $(20,000 \text{ MDQ} \div 553 \text{ MDQ}) = 36.17 \text{ MDQ}$
Blocks

Exposure = 37 blocks x \$50,000 per block

Exposure = \$1,850,000

Note: Fractional blocks are rounded up to the next whole block.

SUPPLIER'S COLLATERAL REQUIREMENT

Example:

Exposure = \$1,850,000, unsecured credit = \$500,000, Total Pool MDQ = 20,000 MDQ

Collateral Requirement = MDQ Exposure – Unsecured Credit

Collateral Requirement = \$1,850,000 - \$500,000

Collateral Requirement = \$1,350,000

COLLATERAL REQUIREMENT

A supplier's collateral requirement may be met by one or more of the following:

- Parental guarantee
- Irrevocable letter of credit
- Cash deposit
- Another mutually agreeable financial instrument