

**Duke Energy Carolinas, LLC
Response to Department of Energy
Federal Loan Guarantee Application**

**PART I and II – SECTION F
Application Certifications
I-F-1 and II-F-1**

WLS/I/F/01/Application and Certifications

F.I.1 Certifications and Assurances: In submitting an application for a loan guarantee under Title XVII, applicants must provide certain certifications and assurances contained in the form entitled U.S. Department of Energy Loan Guarantee Certifications and Assurances. It may be downloaded from the DOE website:

http://www.management.energy.gov/business_doe/business_forms.htm

DOE may require that applicants provide additional certifications or supporting documentation as part of the project evaluation process.

Response:

The completed form is attached.

CERTIFICATIONS
FOR USE WITH APPLICATIONS FOR DEPARTMENT OF ENERGY LOAN GUARANTEES
UNDER TITLE XVII OF THE ENERGY POLICY ACT OF 2005

The following certifications must be completed and submitted by applicants with each application for a loan guarantee under Title XVII of the Energy Policy Act of 2005 (Public Law 109-58, August 8, 2005) ("Title XVII") pursuant to the authority of the Department of Energy under 10 CFR section 609.6(b)(29) and other applicable laws and regulations, as set forth herein. The name and title of the person responsible for making the certifications and assurances must be typed in the signature block on the certification form.

These certifications shall be treated as material representations of fact upon which reliance will be placed when the Department of Energy determines whether to issue a loan guarantee under Title XVII. If it is later determined that the applicant knowingly rendered an erroneous certification, in addition to other remedies available to the Federal Government, the Department of Energy may terminate the loan guarantee.

The applicant shall provide immediate written notice to the Loan Guarantee Program Office of the Department of Energy if at any time the applicant learns that its certification was erroneous when submitted or has become erroneous by reason of changed circumstances.

Additional certifications and assurances may be required of the applicant as a condition on the receipt of a loan guarantee under Title XVII.

1. LOBBYING

The undersigned states, to the best of his or her knowledge and belief, that:

If any funds have been paid or will be paid to any person for influencing or attempting to influence an officer or employee of any agency, a Member of Congress, an officer or employee of Congress, or an employee of a Member of Congress in connection with this commitment providing for the United States to insure or guarantee a loan, the undersigned shall complete and submit Standard Form-LLL, "Disclosure Form to Report Lobbying," in accordance with its instructions.

Submission of this statement is a prerequisite for making or entering into this transaction imposed by section 1352, title 31, U.S. Code. Any person who fails to file the required statement shall be subject to a civil penalty of not less than \$10,000 and not more than \$110,000 for each such failure.

2. DEBARMENT, SUSPENSION, AND OTHER RESPONSIBILITY MATTERS

(a) The applicant participant certifies to the best of its knowledge and belief, that it and its principals are in compliance with the Federal regulations providing Office of Management and Budget guidance for Federal agencies on the governmentwide debarment and suspension system for nonprocurement programs and activities at 2 CFR part 180, including any subsequent amendments of those regulations.

(b) The applicant certifies that it and its principals:

(i) Are not presently debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded from covered transactions by any Federal department or agency;

(ii) Have not within a three-year period preceding this proposal been convicted of or had a civil judgment rendered against them for commission of fraud or a criminal offense in connection with obtaining,

attempting to obtain, or performing a public or private agreement or transaction; violation of Federal or State antitrust statutes, including those proscribing price fixing between competitors, and bid rigging; commission of embezzlement, theft, forgery, bribery, falsification or destruction of records, making false statements, tax evasion, receiving stolen property, making false claims or obstruction of justice; or commission of any other offense indicating a lack of business integrity or business honesty that seriously and directly affects the applicant's present responsibility;

(iii) Are not presently indicted for or otherwise criminally or civilly charged by a governmental entity (Federal, State or local) with commission of any of the offenses enumerated in paragraph (ii) of this certification; and

(iv) Have not within a three-year period preceding this application had one or more public transactions (Federal, State or local) terminated for cause or default.

(3) Where the applicant is unable to certify to any of the statements in paragraph (b) of this certification, such prospective participant shall submit an explanation to the Loan Guarantee Program Office of the Department of Energy.

SIGNATURE

As the duly authorized representative of the applicant, I hereby certify that the applicant will comply with the above certifications.

Name of Applicant:

Duke Energy Carolinas, LLC

Printed Name and Title of
Authorized Representative:

Marc E. Manly, Group Executive and Chief Legal Officer

Marc E. Manly
SIGNATURE

9/19/08
DATE

EXPLANATION REQUIRED BY
CERTIFICATIONS FOR USE WITH APPLICATIONS FOR DEPARTMENT OF ENERGY
LOAN GUARANTEES UNDER TITLE XVII OF THE ENERGY POLICY ACT OF 2005,
SECTION (3).

1. The applicant is unable to certify to the statement in paragraph (b) (iii) of this certification because the former Duke Energy Corporation, a North Carolina corporation (now known as Duke Energy Carolinas, LLC) is a named defendant in two cases alleging violations of state antitrust statutes, in which governmental entities are plaintiffs:

a. The Missouri Public Service Commission is a plaintiff in *Missouri Public Service Commission v. ONEOK, Inc., et al.*, No. 0616-27565, Div. 6 (Mo. Cir. Ct.). This suit was filed on October 8, 2006, in the Circuit Court of Jackson County, Missouri, against Duke Energy Corporation (now know as Duke Energy Carolinas, LLC), Duke Energy Trading and Marketing, LLC and numerous other energy companies. Plaintiff claims it is the assignee of various local gas distribution companies (LDC's) and alleges that defendants, alone and in concert with others, manipulated the natural gas markets by various means, including providing false information to natural gas trade publications and unlawfully exchanging information, resulting in artificially high natural gas prices paid by the LDC's. In an attempt to avoid a statute of limitations defense, plaintiff alleges that defendants violated state antitrust laws and engaged in fraudulent concealment of their activities. Plaintiff seeks class certification, unspecified statutory damages, attorney's fees and costs, and other appropriate relief.

b. The Topeka Unified School District 501 is a plaintiff in *Learjet, Inc., et al. v. ONEOK, Inc., et al.*, No. 2:06-cv-00233-PMP-PAL (D. Nev.). On September 26, 2005, plaintiffs filed a class action petition in state court in Wyandotte County, Kansas against Duke Energy Corporation (now Duke Energy Carolinas, LLC), Duke Energy Trading and Marketing, L.L.C, as well as other energy companies, claiming that plaintiffs were harmed by defendants' alleged manipulation of the natural gas markets by various means in the 2000 through 2002 time frame, including providing false information to natural gas trade publications and entering into unlawful arrangements and agreements. The plaintiffs claim the defendants violated Kansas' antitrust laws and seek compensatory and statutory damages in unspecified amounts. This lawsuit was removed and transferred to Nevada in MDL 1566. Plaintiffs' motion to remand was denied on August 3, 2006.

On August 20, 2007 the judge granted the motion to dismiss Duke Energy Carolinas (formerly Duke Energy Corporation), finding lack of personal jurisdiction, but reversed that ruling on November 28, 2007 and has allowed limited jurisdictional discovery.

2. The applicant provides the following information in the interest of full disclosure and not as a requirement for this certificate or as any admission:

a. The applicant entered in the attached Offer of Settlement with the Securities Exchange Commission, executed on April 11, 2005.

b. An affiliate of applicant, DEGS of Narrows, LLC (formerly known as Cinergy Solutions of Narrows), owns and operates a power plant and ancillary assets located at the Celanese Acetate facility in Narrows, Virginia. The power plant operations are subject to a Title V permit issued by Virginia Department of Environmental Quality to DEGS of Narrows, LLC. The operation is also subject to the NOx Budget Trading Program, and the Leak Detection and Repair Program ("LDAR").

DEGS of Narrows is required by state and federal law to maintain a continuous emissions monitoring system ("CEMS") to monitor heat input and NOx emissions during the ozone season, including the performance of certain linearity tests. In the third quarter of 2006, while reviewing third quarter linearity test results generated by the Facility's trained Instrumentation & Controls Technician, the Air Management Group of Duke Energy's Environmental Department identified some irregularities in the information being reported. Because these potential violations involve both federal and state laws and regulations, voluntary self-disclosures were made to both the US Environmental Protection Agency ("EPA") and the Virginia Department of Environmental Quality on December 22, 2006.

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In addition, the United States Department of Justice is undertaking criminal investigations of DEGS of Narrows, LLC, its personnel and/or third party contractors in connection with both the CEMS and LDAR alleged violations.

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

ADMINISTRATIVE PROCEEDING

File No.

In the Matter of	:	
Duke Energy Corporation	:	OFFER OF SETTLEMENT
Respondent.	:	OF DUKE ENERGY
	:	CORPORATION
	:	

I.

Duke Energy Corporation ("Duke" or "Respondent"), pursuant to Rule 240(a) of the Rules of Practice of the Securities and Exchange Commission ("Commission") [17 C.F.R. § 201.240(a)], submits this Offer of Settlement ("Offer") in anticipation of cease-and-desist proceedings to be instituted against it by the Commission, pursuant to Section 21C of the Securities Exchange Act of 1934 ("Exchange Act").

II.

This Offer is submitted solely for the purpose of settling these proceedings, with the express understanding that it will not be used in any way in these or any other proceedings, unless the Offer is accepted by the Commission. If the Offer is not accepted by the Commission, the Offer is withdrawn without prejudice to Respondent and shall not become a part of the record in these or any other proceedings, except for the waiver expressed in Section V with respect to Rule 240(c)(5) of the Commission's Rules of Practice [17 C.F.R. § 201.240(c)(5)].

III.

On the basis of the foregoing, the Respondent hereby:

A. Admits the jurisdiction of the Commission over it and over the matters set forth in the Order Instituting Cease-and-Desist Proceedings, Making Findings, and Imposing a Cease-and-Desist Order Pursuant to Section 21C of the Securities Exchange Act of 1934 ("Order");

B. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission or in which the Commission is a party, prior to a

hearing pursuant to the Commission's Rules of Practice, 17 C.F.R. § 201.1 *et seq.*, and without admitting or denying the findings contained in the Order, except as to the Commission's jurisdiction over Respondent and the subject matter of these proceedings, which are admitted, consents to the entry of an Order by the Commission containing the following findings¹ set forth below:

1. Duke, a North Carolina corporation with its principal executive offices in Charlotte, North Carolina, is an integrated provider of energy and energy services. Duke's common stock is registered with the Commission under Section 12(b) of the Exchange Act and trades on the NYSE under the symbol DUK.
2. From at least June 1997 through at least November 2002, Duke traded electricity and natural gas products with other energy companies. The trading unit that is the focus of this matter was located in Houston, Texas.
3. Duke engaged in trading electricity and natural gas products for two principal purposes: (a) to hedge against Duke's exposure to the risk of unanticipated swings in the price of electricity and natural gas; and (b) to profit through speculative trading.
4. Duke maintained separate "books" for the company's hedging and speculative trading activities and, in conformity with Generally Accepted Accounting Principles ("GAAP"), the books were treated differently for accounting purposes. Under GAAP, only if a transaction was properly designated as a hedging transaction would it qualify for accrual accounting treatment in which at least a portion of the gain or loss on the transaction could be deferred until a later period. Conversely, in conformity with GAAP, the gain or loss on all speculative transactions should have been recognized currently in earnings, on a mark-to-market basis.
5. From approximately 1997 to 2002, Duke's internal accounting controls were insufficient to ensure that its traders properly recorded their trading activities in Duke's books and records. As a result, certain traders manipulated those books and records in order to maximize the size of their year-end bonuses and other performance-based compensation.
6. Duke's internal accounting controls deficiencies included the following: First, while Duke awarded year-end bonuses and other performance-based compensation primarily on the basis of traders' profitability for the past year, Duke allowed certain traders to have control over both accrual and mark-to-market accounted trading books, thereby giving these traders an opportunity improperly to shift losses into their accrual books where at least a portion of the losses would not be recognized until a

¹ The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

later period, after the traders' annual bonus determinations already had been made. Second, although Duke's policies and procedures required traders to enter their trades promptly into Duke's systems, Duke failed to monitor traders to ensure that, in practice, the traders actually assigned each trade to a particular book at the time that the trader entered into the trade. This failure allowed traders to assign trades based upon whether the trades resulted in gains (in which case, the trades could be assigned to a trader's mark-to-market book where the gains would be recognized in full in the current period), or losses (in which case, the trades could be assigned to a trader's accrual book where at least a portion of the losses could be deferred until later periods). Third, Duke did not require traders to maintain time-stamped trading tickets that recorded the time at which each trade was entered into, making it more difficult for Respondent to detect misclassifications of trading transactions because of the lack of an audit trail Duke could follow to determine the time at which a trade was entered into, relative to the time when the trader actually assigned the trade to a particular book. Fourth, Duke failed to establish a system whereby internal compliance personnel would monitor a trader's individual decision to move a trade from one book to another, which allowed traders to move losing positions from a mark-to-market book to an accrual book.

7. As a result of Duke's internal accounting controls deficiencies, between approximately January 1, 2001 and June 30, 2002, three individuals in Duke's trading operation misclassified approximately \$56.2 million of trading losses as hedge trading losses, to be accounted for in Respondent's books and records on an accrual basis, when, in fact, those trading losses were speculative trading losses that, under GAAP, should have been accounted for in Respondent's books and records on a mark-to-market basis. Further, as a result of these misclassifications, these three traders were awarded bonuses by Duke, for the year ended December 31, 2001, in amounts that the traders would not otherwise have been awarded.

8. Although the misclassifications detailed above did not have a material impact on Duke's financial statements, as a result of the conduct described above, Duke committed violations of Section 13(b)(2)(A) of the Exchange Act, which requires issuers to make and keep books, records, and accounts, which, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the issuer.

9. Also as a result of the conduct described above, Duke committed violations of Section 13(b)(2)(B) of the Exchange Act, which requires issuers to devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that transactions are executed in accordance with management's general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with GAAP, and to maintain accountability for assets, access to assets is permitted only in accordance with management's general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

Duke's Remedial Efforts

In determining to accept the Offer, the Commission considered remedial acts promptly undertaken by Respondent. Upon discovering the trading misclassifications described above, Duke commenced an extensive internal investigation, provided the results of its internal investigation to the Commission staff and cooperated with the Commission staff in the staff's investigation. Duke also took disciplinary action against those involved in the misconduct. Further, Duke took a charge to current period earnings to correct for the effect of the misclassifications on Duke's financial statements.

Duke also took remedial steps to prevent future misconduct. Respondent established procedures to prevent traders from manipulating Duke's books and records by prohibiting traders from having simultaneous control over both accrual and mark-to-market trading books (except in limited circumstances specifically approved by Duke's management), requiring any traders who trade in both accrual and mark-to-market trading books to designate a book for each trade at the time at which each trade is entered into, requiring traders to time-stamp every trading transaction, and instituting an oversight function requiring traders to obtain management approval for any transaction in which a trading position is shifted among accrual and mark-to-market trading books. Additionally, Duke has segregated its trading compliance function from its general trading operation by creating an independent trade operations compliance department that reports directly to the chief compliance officer, who reports to the audit committee of the board of directors and to the board of directors, itself. The trade operations compliance department both educates traders on appropriate trading activity, as well as monitors trading activities on a real-time basis.

IV.

On the basis of the foregoing, Respondent hereby consents to the entry of an Order by the Commission that Respondent Duke cease and desist from committing or causing any violations and any future violations of Sections 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act.

V.

By submitting this Offer, Respondent hereby acknowledges its waiver of those rights specified in Rules 240(c)(4) and (5) [17 C.F.R. §201.240(c)(4) and (5)] of the Commission's Rules of Practice. Respondent also hereby waives service of the Order.

VI.

Respondent understands and agrees to comply with the Commission's policy "not to permit a defendant or respondent to consent to a judgment or order that imposes a sanction while denying the allegations in the complaint or order for proceedings" (17 C.F.R. §202.5(e)). In compliance with this policy, Respondent agrees: (i) not to take any action or to make or permit to be made any public statement denying, directly or indirectly, any finding in the Order or creating the impression that the Order is without

factual basis; and (ii) that upon the filing of this Offer of Settlement, Respondent hereby withdraws any papers previously filed in this proceeding to the extent that they deny, directly or indirectly, any finding in the Order. If Respondent breaches this agreement, the Division of Enforcement may petition the Commission to vacate the Order and restore this proceeding to its active docket. Nothing in this provision affects Respondent's: (i) testimonial obligations; or (ii) right to take legal or factual positions in litigation or other legal proceedings in which the Commission is not a party.

VII.

Consistent with the provisions of 17 C.F.R. § 202.5(f), Respondent waives any claim of Double Jeopardy based upon the settlement of this proceeding, including the imposition of any remedy or civil penalty herein.

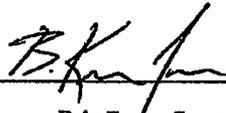
VIII.

Respondent hereby waives any rights under the Equal Access to Justice Act, the Small Business Regulatory Enforcement Fairness Act of 1996 or any other provision of law to pursue reimbursement of attorney's fees or other fees, expenses or costs expended by Respondent to defend against this action. For these purposes, Respondent agrees that Respondent is not the prevailing party in this action since the parties have reached a good faith settlement.

IX.

Respondent states that it has read and understands the foregoing Offer, that this Offer is made voluntarily, and that no promises, offers, threats, or inducements of any kind or nature whatsoever have been made by the Commission or any member, officer, employee, agent, or representative of the Commission in consideration of this Offer or otherwise to induce it to submit to this Offer.

11th day of April 2005



Duke Energy Corporation

STATE OF NORTH CAROLINA }
COUNTY OF Mecklenburg }

SS:

The foregoing instrument was acknowledged before me this 11th day of April, 2005 by B. Keith Trent, on behalf of Duke Energy Corporation, who personally known to me or who has produced a North Carolina driver's license as identification and who did take an oath.



Notary Public

State of North Carolina

Commission Number

Commission Expiration

:
: 10-29-07



WLS/II/F/01/Application and Certifications

F.II.1 Certifications and Assurances: In submitting an application for a loan guarantee under Title XVII, applicants must provide certain certifications and assurances contained in the form entitled U.S. Department of Energy Loan Guarantee Certifications and Assurances. It may be downloaded from the DOE website:

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Response:

The completed form is attached.

CERTIFICATIONS
FOR USE WITH APPLICATIONS FOR DEPARTMENT OF ENERGY LOAN GUARANTEES
UNDER TITLE XVII OF THE ENERGY POLICY ACT OF 2005

The following certifications must be completed and submitted by applicants with each application for a loan guarantee under Title XVII of the Energy Policy Act of 2005 (Public Law 109-58, August 8, 2005) ("Title XVII") pursuant to the authority of the Department of Energy under 10 CFR section 609.6(b)(29) and other applicable laws and regulations, as set forth herein. The name and title of the person responsible for making the certifications and assurances must be typed in the signature block on the certification form.

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Additional certifications and assurances may be required of the applicant as a condition on the receipt of a loan guarantee under Title XVII.

1. LOBBYING

The undersigned states, to the best of his or her knowledge and belief, that:

If any funds have been paid or will be paid to any person for influencing or attempting to influence an officer or employee of any agency, a Member of Congress, an officer or employee of Congress, or an employee of a Member of Congress in connection with this commitment providing for the United States to insure or guarantee a loan, the undersigned shall complete and submit Standard Form-LLL, "Disclosure Form to Report Lobbying," in accordance with its instructions.

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2. DEBARMENT, SUSPENSION, AND OTHER RESPONSIBILITY MATTERS

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(b) The applicant certifies that it and its principals:

(i) Are not presently debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded from covered transactions by any Federal department or agency;

(ii) Have not within a three-year period preceding this proposal been convicted of or had a civil judgment rendered against them for commission of fraud or a criminal offense in connection with obtaining, attempting to obtain, or performing a public or private agreement or transaction; violation of Federal or State antitrust statutes, including those proscribing price fixing between competitors, and bid rigging; commission of embezzlement, theft, forgery, bribery, falsification or destruction of records, making false statements, tax evasion, receiving stolen property, making false claims or obstruction of justice; or commission of any other offense indicating a lack of business integrity or business honesty that seriously

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(3) Where the applicant is unable to certify to any of the statements in paragraph (b) of this certification, such prospective participant shall submit an explanation to the Loan Guarantee Program Office of the Department of Energy.

SIGNATURE

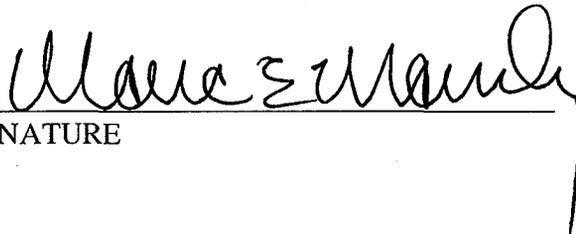
As the duly authorized representative of the applicant, I hereby certify that the applicant will comply with the above certifications.

Name of Applicant:

Duke Energy Carolinas, LLC

Printed Name and Title of
Authorized Representative:

Marc E. Manly, Group Executive, Chief Legal Officer and Corporate Secretary


SIGNATURE

12/15/08
DATE

EXPLANATION REQUIRED BY
CERTIFICATIONS FOR USE WITH APPLICATIONS FOR DEPARTMENT OF ENERGY
LOAN GUARANTEES UNDER TITLE XVII OF THE ENERGY POLICY ACT OF 2005,
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1. The applicant is unable to certify to the statement in paragraph (b) (iii) of this certification because the former Duke Energy Corporation, a North Carolina corporation (now known as Duke Energy Carolinas, LLC) is a named defendant in two cases alleging violations of state antitrust statutes, in which governmental entities are plaintiffs:

a. The Missouri Public Service Commission is a plaintiff in *Missouri Public Service Commission v. ONEOK, Inc., et al.*, No. 0616-27565, Div. 6 (Mo. Cir. Ct.). This suit was filed on October 8, 2006, in the Circuit Court of Jackson County, Missouri, against Duke Energy Corporation (now know as Duke Energy Carolinas, LLC), Duke Energy Trading and Marketing, LLC and numerous other energy companies. Plaintiff claims it is the assignee of various local gas distribution companies (LDC's) and alleges that defendants, alone and in concert with others, manipulated the natural gas markets by various means, including providing false information to natural gas trade publications and unlawfully exchanging information, resulting in artificially high natural gas prices paid by the LDC's. In an attempt to avoid a statute of limitations defense, plaintiff alleges that defendants violated state antitrust laws and engaged in fraudulent concealment of their activities. Plaintiff seeks class certification, unspecified statutory damages, attorney's fees and costs, and other appropriate relief.

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4. Duke maintained separate "books" for the company's hedging and speculative trading activities and, in conformity with Generally Accepted Accounting Principles ("GAAP"), the books were treated differently for accounting purposes. Under GAAP, only if a transaction was properly designated as a hedging transaction would it qualify for accrual accounting treatment in which at least a portion of the gain or loss on the transaction could be deferred until a later period. Conversely, in conformity with GAAP, the gain or loss on all speculative transactions should have been recognized currently in earnings, on a mark-to-market basis.
5. From approximately 1997 to 2002, Duke's internal accounting controls were insufficient to ensure that its traders properly recorded their trading activities in Duke's books and records. As a result, certain traders manipulated those books and records in order to maximize the size of their year-end bonuses and other performance-based compensation.
6. Duke's internal accounting controls deficiencies included the following: First, while Duke awarded year-end bonuses and other performance-based compensation primarily on the basis of traders' profitability for the past year, Duke allowed certain traders to have control over both accrual and mark-to-market accounted trading books, thereby giving these traders an opportunity improperly to shift losses into their accrual books where at least a portion of the losses would not be recognized until a

¹ The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

later period, after the traders' annual bonus determinations already had been made. Second, although Duke's policies and procedures required traders to enter their trades promptly into Duke's systems, Duke failed to monitor traders to ensure that, in practice, the traders actually assigned each trade to a particular book at the time that the trader entered into the trade. This failure allowed traders to assign trades based upon whether the trades resulted in gains (in which case, the trades could be assigned to a trader's mark-to-market book where the gains would be recognized in full in the current period), or losses (in which case, the trades could be assigned to a trader's accrual book where at least a portion of the losses could be deferred until later periods). Third, Duke did not require traders to maintain time-stamped trading tickets that recorded the time at which each trade was entered into, making it more difficult for Respondent to detect misclassifications of trading transactions because of the lack of an audit trail Duke could follow to determine the time at which a trade was entered into, relative to the time when the trader actually assigned the trade to a particular book. Fourth, Duke failed to establish a system whereby internal compliance personnel would monitor a trader's individual decision to move a trade from one book to another, which allowed traders to move losing positions from a mark-to-market book to an accrual book.

7. As a result of Duke's internal accounting controls deficiencies, between approximately January 1, 2001 and June 30, 2002, three individuals in Duke's trading operation misclassified approximately \$56.2 million of trading losses as hedge trading losses, to be accounted for in Respondent's books and records on an accrual basis, when, in fact, those trading losses were speculative trading losses that, under GAAP, should have been accounted for in Respondent's books and records on a mark-to-market basis. Further, as a result of these misclassifications, these three traders were awarded bonuses by Duke, for the year ended December 31, 2001, in amounts that the traders would not otherwise have been awarded.

8. Although the misclassifications detailed above did not have a material impact on Duke's financial statements, as a result of the conduct described above, Duke committed violations of Section 13(b)(2)(A) of the Exchange Act, which requires issuers to make and keep books, records, and accounts, which, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the issuer.

9. Also as a result of the conduct described above, Duke committed violations of Section 13(b)(2)(B) of the Exchange Act, which requires issuers to devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that transactions are executed in accordance with management's general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with GAAP, and to maintain accountability for assets, access to assets is permitted only in accordance with management's general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

Duke's Remedial Efforts

In determining to accept the Offer, the Commission considered remedial acts promptly undertaken by Respondent. Upon discovering the trading misclassifications described above, Duke commenced an extensive internal investigation, provided the results of its internal investigation to the Commission staff and cooperated with the Commission staff in the staff's investigation. Duke also took disciplinary action against those involved in the misconduct. Further, Duke took a charge to current period earnings to correct for the effect of the misclassifications on Duke's financial statements.

Duke also took remedial steps to prevent future misconduct. Respondent established procedures to prevent traders from manipulating Duke's books and records by prohibiting traders from having simultaneous control over both accrual and mark-to-market trading books (except in limited circumstances specifically approved by Duke's management), requiring any traders who trade in both accrual and mark-to-market trading books to designate a book for each trade at the time at which each trade is entered into, requiring traders to time-stamp every trading transaction, and instituting an oversight function requiring traders to obtain management approval for any transaction in which a trading position is shifted among accrual and mark-to-market trading books. Additionally, Duke has segregated its trading compliance function from its general trading operation by creating an independent trade operations compliance department that reports directly to the chief compliance officer, who reports to the audit committee of the board of directors and to the board of directors, itself. The trade operations compliance department both educates traders on appropriate trading activity, as well as monitors trading activities on a real-time basis.

IV.

On the basis of the foregoing, Respondent hereby consents to the entry of an Order by the Commission that Respondent Duke cease and desist from committing or causing any violations and any future violations of Sections 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act.

V.

By submitting this Offer, Respondent hereby acknowledges its waiver of those rights specified in Rules 240(c)(4) and (5) [17 C.F.R. §201.240(c)(4) and (5)] of the Commission's Rules of Practice. Respondent also hereby waives service of the Order.

VI.

Respondent understands and agrees to comply with the Commission's policy "not to permit a defendant or respondent to consent to a judgment or order that imposes a sanction while denying the allegations in the complaint or order for proceedings" (17 C.F.R. §202.5(e)). In compliance with this policy, Respondent agrees: (i) not to take any action or to make or permit to be made any public statement denying, directly or indirectly, any finding in the Order or creating the impression that the Order is without

factual basis; and (ii) that upon the filing of this Offer of Settlement, Respondent hereby withdraws any papers previously filed in this proceeding to the extent that they deny, directly or indirectly, any finding in the Order. If Respondent breaches this agreement, the Division of Enforcement may petition the Commission to vacate the Order and restore this proceeding to its active docket. Nothing in this provision affects Respondent's: (i) testimonial obligations; or (ii) right to take legal or factual positions in litigation or other legal proceedings in which the Commission is not a party.

VII.

Consistent with the provisions of 17 C.F.R. § 202.5(f), Respondent waives any claim of Double Jeopardy based upon the settlement of this proceeding, including the imposition of any remedy or civil penalty herein.

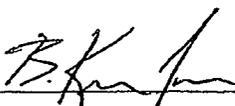
VIII.

Respondent hereby waives any rights under the Equal Access to Justice Act, the Small Business Regulatory Enforcement Fairness Act of 1996 or any other provision of law to pursue reimbursement of attorney's fees or other fees, expenses or costs expended by Respondent to defend against this action. For these purposes, Respondent agrees that Respondent is not the prevailing party in this action since the parties have reached a good faith settlement.

IX.

Respondent states that it has read and understands the foregoing Offer, that this Offer is made voluntarily, and that no promises, offers, threats, or inducements of any kind or nature whatsoever have been made by the Commission or any member, officer, employee, agent, or representative of the Commission in consideration of this Offer or otherwise to induce it to submit to this Offer.

11th day of April 2005

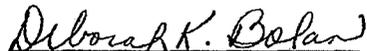


Duke Energy Corporation

STATE OF NORTH CAROLINA }
COUNTY OF Mecklenburg }

SS:

The foregoing instrument was acknowledged before me this 11th day of April, 2005 by B. Keith Trent, on behalf of Duke Energy Corporation, who is personally known to me or _____ who has produced a North Carolina driver's license as identification and who did take an oath.



Notary Public

State of North Carolina
Commission Number :
Commission Expiration : 10-29-07

