THIS FILING IS		
Item 1: [X] An Initial (Original) Submission	OR [ ]	Resubmission No. ____

Form 2 Approved
OMB No. 1902-0028
(Expires 6/30/2011)
Form 3-Q: Approved
OMB No.1902-0205
(Expires 1/31/2012)

FERC FINANCIAL REPORT
FERC FORM No. 2: Annual Report of Major Natural Gas Companies and Supplemental Form 3-Q: Quarterly Financial Report

These reports are mandatory under the Natural Gas Act, Sections 10(a), and 16 and 18 CFR Parts 260.1 and 260.300. Failure to report may result in criminal fines, civil penalties, and other sanctions as provided by law. The Federal Energy Regulatory Commission does not consider these reports to be of a confidential nature.

Exact Legal Name of Respondent (Company)	Year/Period of Report
Duke Energy Ohio, Inc.	End of 2008/Q4

Deloitte.

Deloitte & Touche LLP
1100 Carillon Building
227 West Trade Street
Charlotte, NC 28202
USA

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INDEPENDENT AUDITORS' REPORT

Duke Energy Ohio, Inc.

We have audited the balance sheet — regulatory basis of Duke Energy Ohio, Inc. (the "Company") as of December 31, 2008, and the related statements of income — regulatory basis; retained earnings — regulatory basis; cash flows — regulatory basis, and accumulated comprehensive income and hedging activities — regulatory basis for the year ended December 31, 2008, included on pages 110 through 122 of the accompanying Federal Energy Regulatory Commission Form 2. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed on page 122.1, these financial statements were prepared in accordance with the accounting requirements of the Federal Energy Regulatory Commission as set forth in its applicable Uniform System of Accounts and published accounting releases, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, such regulatory-basis financial statements present fairly, in all material respects, the assets, liabilities, and proprietary capital of the Company as of December 31, 2008, and the results of its operations and its cash flows for the year ended December 31, 2008, in accordance with the accounting requirements of the Federal Energy Regulatory Commission as set forth in its applicable Uniform System of Accounts and published accounting releases.

This report is intended solely for the information and use of the board of directors and management of the Company and for filing with the Federal Energy Regulatory Commission and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte + Touche LLP

April 17, 2009

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QUARTERLY/ANNUAL REPORT OF MAJOR NATURAL GAS COMPANIES

IDENTIFICATION

01 Exact Legal Name of Respondent Duke Energy Ohio, Inc.	Year/Period of Report End of 2008/Q4
03 Previous Name and Date of Change (If name changed during year)	
04 Address of Principal Office at End of Year (Street, City, State, Zip Code) 139 East Fourth Street, Cincinnati, Ohio 45202	
05 Name of Contact Person Theresa Miller	06 Title of Contact Person Manager Accounting
07 Address of Contact Person (Street, City, State, Zip Code) 526 South Church Street, Charlotte, NC 28202	

08 Telephone of Contact Person, Including Area Code 704-382-6084	This Report Is: (1) [X] An Original (2) [ ] A Resubmission	10 Date of Report *(Mo, Da, Yr)*

ANNUAL CORPORATE OFFICER CERTIFICATION

The undersigned officer certifies that:

I have examined this report and to the best of my knowledge, information, and belief all statements of fact contained in this report are correct statements of the business affairs of the respondent and the financial statements, and other financial information contained in this report, conform in all material respects to the Uniform System of Accounts.

11 Name David L. Hauser	12 Title Group Executive & CFO
13 Signature David L Hauser	14 Date Signed 4/17/09

Title 18, U.S.C. 1001, makes it a crime for any person knowingly and willingly to make to any Agency or Department of the United States any false, fictitious or fraudulent statements as to any matter within its jurisdiction.

Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
Duke Energy Ohio, Inc.	(1) [X] An Original (2) [ ] A Resubmission	/ /	End of 2008/Q4

List of Schedules (Natural Gas Company)

Enter in column (d) the terms "none," "not applicable," or "NA" as appropriate, where no information or amounts have been reported for certain pages. Omit pages where the responses are "none," "not applicable," or "NA."

Line No.	Title of Schedule (a)	Reference Page No. (b)	Date Revised (c)	Remarks (d)
	GENERAL CORPORATE INFORMATION AND FINANCIAL STATEMENTS			
1	General Information	101		
2	Control Over Respondent	102		
3	Corporations Controlled by Respondent	103		
4	Security Holders and Voting Powers	107		
5	Important Changes During the Year	108		
6	Comparative Balance Sheet	110-113		
7	Statement of Income for the Year	114-116		
8	Statement of Accumulated Comprehensive Income and Hedging Activities	117		
9	Statement of Retained Earnings for the Year	118-119		
10	Statements of Cash Flows	120-121		
11	Notes to Financial Statements	122		
	BALANCE SHEET SUPPORTING SCHEDULES (Assets and Other Debits)			
12	Summary of Utility Plant and Accumulated Provisions for Depreciation, Amortization, and Depletion	200-201		
13	Gas Plant in Service	204-209		
14	Gas Property and Capacity Leased from Others	212		
15	Gas Property and Capacity Leased to Others	213		N/A
16	Gas Plant Held for Future Use	214		N/A
17	Construction Work in Progress-Gas	216		
18	Non-Traditional Rate Treatment Afforded New Projects	217		
19	General Description of Construction Overhead Procedure	218		
20	Accumulated Provision for Depreciation of Gas Utility Plant	219		
21	Gas Stored	220		
22	Investments	222-223		
23	Investments in Subsidiary Companies	224-225		
24	Prepayments	230		N/A
25	Extraordinary Property Losses	230		N/A
26	Unrecovered Plant and Regulatory Study Costs	230		
27	Other Regulatory Assets	232		
28	Miscellaneous Deferred Debits	233		
29	Accumulated Deferred Income Taxes	234-235		
	BALANCE SHEET SUPPORTING SCHEDULES (Liabilities and Other Credits)			
30	Capital Stock	250-251		
31	Capital Stock Subscribed, Capital Stock Liability for Conversion, Premium on Capital Stock, and Installments Received on Capital Stock	252		N/A
32	Other Paid-in Capital	253		
33	Discount on Capital Stock	254		
34	Capital Stock Expense	254		
35	Securities issued or Assumed and Securities Refunded or Retired During the Year	255		
36	Long-Term Debt	256-257		
37	Unamortized Debt Expense, Premium, and Discount on Long-Term Debt	258-259		

Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
Duke Energy Ohio, Inc.	(1) [X] An Original (2) [ ] A Resubmission	/ /	End of 2008/Q4

List of Schedules (Natural Gas Company) (continued)

Enter in column (d) the terms "none," "not applicable," or "NA" as appropriate, where no information or amounts have been reported for certain pages. Omit pages where the responses are "none," "not applicable," or "NA."

Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
Duke Energy Ohio, Inc.	(1) [X] An Original (2) [ ] A Resubmission	/ /	End of 2008/Q4

General Information

1. Provide name and title of officer having custody of the general corporate books of account and address of office where the general corporate books are kept and address of office where any other corporate books of account are kept, if different from that where the general corporate books are kept.

Corporate Books:
Steven K. Young, Senior Vice President & Controller
526 South Church Street
Charlotte, NC 28202

Other Corporate Books of Account:
139 East Fourth Street, Room 202
Cincinnati, Ohio 45202

2. Provide the name of the State under the laws of which respondent is incorporated and date of incorporation. If incorporated under a special law, give reference to such law. If not incorporated, state that fact and give the type of organization and the date organized.

State of Ohio
Date of Incorporation - April 3, 1837

3. If at any time during the year the property of respondent was held by a receiver or trustee, give (a) name of receiver or trustee, (b) date such receiver or trustee took possession, (c) the authority by which the receivership or trusteeship was created, and (d) date when possession by receiver or trustee ceased.

Not applicable

4. State the classes of utility and other services furnished by respondent during the year in each State in which the respondent operated.

State of Ohio- Gas and Electric

5. Have you engaged as the principal accountant to audit your financial statements an accountant who is not the principal accountant for your previous year's certified financial statements?

(1) [ ] Yes... Enter the date when such independent accountant was initially engaged:
(2) [X] No

Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
Duke Energy Ohio, Inc.	(1) [X] An Original (2) [ ] A Resubmission	/ /	End of 2008/Q4

Control Over Respondent

1. Report in column (a) the names of all corporations, partnerships, business trusts, and similar organizations that directly, indirectly, or jointly held control (see page 103 for definition of control) over the respondent at the end of the year. If control is in a holding company organization, report in a footnote the chain of organization.
2. If control is held by trustees, state in a footnote the names of trustees, the names of beneficiaries for whom the trust is maintained, and the purpose of the trust.
3. In column (b) designate type of control over the respondent. Report an "M" if the company is the main parent or controlling company having ultimate control over the respondent. Otherwise, report a "D" for direct, an "I" for indirect, or a "J" for joint control.

Line No.	Company Name (a)	Type of Control (b)	State of Incorporation (c)	Percent Voting Stock Owned (d)
1	Cinergy Corp.	M	DE	100.00
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Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
Duke Energy Ohio, Inc.	(1) [X] An Original (2) [ ] A Resubmission	/ /	End of 2008/Q4

Corporations Controlled by Respondent

1. Report below the names of all corporations, business trusts, and similar organizations, controlled directly or indirectly by respondent at any time during the year. If control ceased prior to end of year, give particulars (details) in a footnote.
2. If control was by other means than a direct holding of voting rights, state in a footnote the manner in which control was held, naming any intermediaries involved.
3. If control was held jointly with one or more other interests, state the fact in a footnote and name the other interests.
4. In column (b) designate type of control of the respondent as "D" for direct, an "I" for indirect, or a "J" for joint control.

DEFINITIONS

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1. See the Uniform System of Accounts for a definition of control.
2. Direct control is that which is exercised without interposition of an intermediary.
3. Indirect control is that which is exercised by the interposition of an intermediary that exercises direct control.
4. Joint control is that in which neither interest can effectively control or direct action without the consent of the other, as where the voting control is equally divided between two holders, or each party holds a veto power over the other. Joint control may exist by mutual agreement or understanding between two or more parties who together have control within the meaning of the definition of control in the Uniform System of Accounts, regardless of the relative voting rights of each party.

Line No.	Name of Company Controlled (a)	Type of Control (b)	Kind of Business (c)	Percent Voting Stock Owned (d)	Footnote Reference (e)
1	Cinergy Power Investments, Inc.	D	Inactive	100	Not used
2	Duke Energy Kentucky, Inc.	D	Public Utility	100	Not used
3	KO Transmission Company	D	Transportation of Energy	100	Not used
4	Miami Power Corporation	D	Transmission of Electric	100	Not used
5	Tri-State Improvement Company	D	Real Estate	100	Not used
6	Sugartree Timber LLC	D	Real Estate	100	Not used
7	Ohio Valley Electric Corporation	J	Owns Generating Facility	9	Not used
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Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
Duke Energy Ohio, Inc.	(1) [X] An Original (2) [ ] A Resubmission	/ /	End of 2008/Q4

Security Holders and Voting Powers

1. Give the names and addresses of the 10 security holders of the respondent who, at the date of the latest closing of the stock book or compilation of list of stockholders of the respondent, prior to the end of the year, had the highest voting powers in the respondent, and state the number of votes that each could cast on that date if a meeting were held. If any such holder held in trust, give in a footnote the known particulars of the trust (whether voting trust, etc.), duration of trust, and principal holders of beneficiary interests in the trust. If the company did not close the stock book or did not compile a list of stockholders within one year prior to the end of the year, or if since it compiled the previous list of stockholders, some other class of security has become vested with voting rights, then show such 10 security holders as of the close of the year. Arrange the names of the security holders in the order of voting power, commencing with the highest. Show in column (a) the titles of officers and directors included in such list of 10 security holders.
2. If any security other than stock carries voting rights, explain in a supplemental statement how such security became vested with voting rights and give other important details concerning the voting rights of such security. State whether voting rights are actual or contingent; if contingent, describe the contingency.
3. If any class or issue of security has any special privileges in the election of directors, trustees or managers, or in the determination of corporate action by any method, explain briefly in a footnote.
4. Furnish details concerning any options, warrants, or rights outstanding at the end of the year for others to purchase securities of the respondent or any securities or other assets owned by the respondent, including prices, expiration dates, and other material information relating to exercise of the options, warrants, or rights. Specify the amount of such securities or assets any officer, director, associated company, or any of the 10 largest security holders is entitled to purchase. This instruction is inapplicable to convertible securities or to any securities substantially all of which are outstanding in the hands of the general public where the options, warrants,

1. Give date of the latest closing of the stock book prior to end of year, and, in a footnote, state the purpose of such closing:	2. State the total number of votes cast at the latest general meeting prior to the end of year for election of directors of the respondent and number of such votes cast by proxy.	3. Give the date and place of such meeting:
	Total: 89663086 By Proxy:	

Line No.	Name (Title) and Address of Security Holder (a)	VOTING SECURITIES 4. Number of votes as of (date): Total Votes (b)	Common Stock (c)	Preferred Stock (d)	Other (e)
5	TOTAL votes of all voting securities	89,663,086	89,663,086		
6	TOTAL number of security holders	1	1		
7	TOTAL votes of security holders listed below	89,663,086	89,663,086		
8					
9	Cinergy Corp.				
10	139 East Fourth Street				
11	Cincinnati, OH 45202				
12					
13					
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Important Changes During the Quarter/Year

Give details concerning the matters indicated below. Make the statements explicit and precise, and number them in accordance with the inquiries. Answer each inquiry. Enter "none" or "not applicable" where applicable. If the answer is given elsewhere in the report, refer to the schedule in which it appears.

1. Changes in and important additions to franchise rights: Describe the actual consideration and state from whom the franchise rights were acquired. If the franchise rights were acquired without the payment of consideration, state that fact.
2. Acquisition of ownership in other companies by reorganization, merger, or consolidation with other companies: Give names of companies involved, particulars concerning the transactions, name of the Commission authorizing the transaction, and reference to Commission authorization.
3. Purchase or sale of an operating unit or system: Briefly describe the property, and the related transactions, and cite Commission authorization, if any was required. Give date journal entries called for by Uniform System of Accounts were submitted to the Commission.
4. Important leaseholds (other than leaseholds for natural gas lands) that have been acquired or given, assigned or surrendered: Give effective dates, lengths of terms, names of parties, rents, and other conditions. State name of Commission authorizing lease and give reference to such authorization.
5. Important extension or reduction of transmission or distribution system: State territory added or relinquished and date operations began or ceased and cite Commission authorization, if any was required. State also the approximate number of customers added or lost and approximate annual revenues of each class of service.
Each natural gas company must also state major new continuing sources of gas made available to it from purchases, development, purchase contract or otherwise, giving location and approximate total gas volumes available, period of contracts, and other parties to any such arrangements, etc.
6. Obligations incurred or assumed by respondent as guarantor for the performance by another of any agreement or obligation, including ordinary commercial paper maturing on demand or not later than one year after date of issue: State on behalf of whom the obligation was assumed and amount of the obligation. Cite Commission authorization if any was required.
7. Changes in articles of incorporation or amendments to charter: Explain the nature and purpose of such changes or amendments.
8. State the estimated annual effect and nature of any important wage scale changes during the year.
9. State briefly the status of any materially important legal proceedings pending at the end of the year, and the results of any such proceedings culminated during the year.
10. Describe briefly any materially important transactions of the respondent not disclosed elsewhere in this report in which an officer, director, security holder, voting trustee, associated company or known associate of any of these persons was a party or in which any such person had a material interest.
11. Estimated increase or decrease in annual revenues caused by important rate changes: State effective date and approximate amount of increase or decrease for each revenue classification. State the number of customers affected.
12. Describe fully any changes in officers, directors, major security holders and voting powers of the respondent that may have occurred during the reporting period.
13. In the event that the respondent participates in a cash management program(s) and its proprietary capital ratio is less than 30 percent please describe the significant events or transactions causing the proprietary capital ratio to be less than 30 percent, and the extent to which the respondent has amounts loaned or money advanced to its parent, subsidiary, or affiliated companies through a cash management program(s). Additionally, please describe plans, if any to regain at least a 30 percent proprietary ratio.

1. None

2. See Note 2 of the "Notes to Financial Statements"

3. See Note 2 of the "Notes to Financial Statements"

4. None

5. An extension of 93,780 ft. of 12" SWPC transmision pipeline comprised of pipeline designations "C338", "C340" and C343" was made operational on November 18, 2008. This project was installed due to the potential for failure of an existing pipeline (16" F/L D) near the Little Miami River where erosion of the river banks could cause significant capacity and pressure decline in the area. This project will serve the planned and anticipated growth in the eastern part of Clermont County and the western part of Brown County.

6. No guarantees or letters of credit were issued by Duke Energy Ohio during the fourth quarter of 2008.

7. None

8. There are no wage scale changes during the year for non-union or union employees.

9. See Notes 3 & 16 of the "Notes to Financial Statements"

10. N/A

11. The Ohio Public Utilities Commission (PUCO) approved an $18.2 million rate increase (3.0%) on May 28, 2008. New rates are effective June 4, 2008 and affect all gas customers. In addition to the $18.2 million rate increase, amounts previously collected in the Company's Accelerated Main Replacement Program Rider were moved into base rates and a new AMRP Rider designed to collect $11.1 million annually were also approved by the PUCO as part of this proceeding.

12. Duke Energy Ohio, Inc. Officer and/or Director Changes:

Resignations:

Effective: 10/8/2008
Kay E. Pashos, Vice President, Regulatory Strategy

Effective: 12/1/2008
Julia S. Janson, Senior Vice President & Corporate Secretary
David S. Maltz, Assistant Secretary

Effective: 12/8/2008
Brett C. Carter, Vice President, Customer Services

Effective: 12/10/2008
Theopolis Holeman, Senior Vice President, Power Delivery
Sandra P. Meyer, President

Effective: 12/31/2008
Theopolis Holeman, Senior Vice President

Appointments:

Effective: 11/10/2008
Kodwo Ghartey-Tagoe, Vice President, Legal & Assistant Secretary
Jennifer L. Weber, Chief Human Resources Officer & Senior Vice President

Effective: 12/1/2008
Julia S. Janson, President
David S. Maltz, Vice President & Corporate Secretary

Effective: 12/8/2008
Gianna Manes, Senior Vice President, Retail Customer Service

Effective: 12/10/2008
Theopolis Holeman, Senior Vice President
Sandra P. Meyer, Senior Vice President, Power Delivery
Robert J. Ringel, Assistant Corporate Secretary

13. N/A

Name of Respondent Duke Energy Ohio, Inc.	This Report Is: (1) [X] An Original (2) [ ] A Resubmission	Date of Report (Mo, Da, Yr) / /	Year/Period of Report End of 2008/Q4

Comparative Balance Sheet (Assets and Other Debits)

Line No.	Title of Account (a)	Reference Page Number (b)	Current Year End of Quarter/Year Balance (c)	Prior Year End Balance 12/31 (d)
1	**UTILITY PLANT**			
2	Utility Plant (101-106, 114)	200-201	8,965,906,440	8,765,866,619
3	Construction Work in Progress (107)	200-201	776,477,747	543,990,746
4	TOTAL Utility Plant (Total of lines 2 and 3)	200-201	9,742,384,187	9,309,857,365
5	(Less) Accum. Provision for Depr., Amort., Depl. (108, 111, 115)		3,110,427,251	2,933,111,018
6	Net Utility Plant (Total of line 4 less 5)		6,631,956,936	6,376,746,347
7	Nuclear Fuel (120.1 thru 120.4, and 120.6)		0	0
8	(Less) Accum. Provision for Amort., of Nuclear Fuel Assemblies (120.5)		0	0
9	Nuclear Fuel (Total of line 7 less 8)		0	0
10	Net Utility Plant (Total of lines 6 and 9)		6,631,956,936	6,376,746,347
11	Utility Plant Adjustments (116)	122	0	0
12	Gas Stored-Base Gas (117.1)	220	0	0
13	System Balancing Gas (117.2)	220	0	0
14	Gas Stored in Reservoirs and Pipelines-Noncurrent (117.3)	220	0	0
15	Gas Owed to System Gas (117.4)	220	0	0
16	**OTHER PROPERTY AND INVESTMENTS**			
17	Nonutility Property (121)		5,435,733	5,435,733
18	(Less) Accum. Provision for Depreciation and Amortization (122)		640,108	543,364
19	Investments in Associated Companies (123)	222-223	0	0
20	Investments in Subsidiary Companies (123.1)	224-225	575,586,787	568,027,341
21	(For Cost of Account 123.1 See Footnote Page 224, line 40)			
22	Noncurrent Portion of Allowances		213,928,400	330,140,359
23	Other Investments (124)	222-223	973,046	792,878
24	Sinking Funds (125)		0	0
25	Depreciation Fund (126)		0	0
26	Amortization Fund - Federal (127)		0	0
27	Other Special Funds (128)		0	0
28	Long-Term Portion of Derivative Assets (175)		17,089,075	16,625,296
29	Long-Term Portion of Derivative Assets - Hedges (176)		329,783	0
30	TOTAL Other Property and Investments (Total of lines 17-20, 22-29)		812,702,716	920,478,243
31	**CURRENT AND ACCRUED ASSETS**			
32	Cash (131)		15,114,557	23,143,368
33	Special Deposits (132-134)		10,353,267	61,963,146
34	Working Funds (135)		16,639	17,169
35	Temporary Cash Investments (136)	222-223	0	0
36	Notes Receivable (141)		0	0
37	Customer Accounts Receivable (142)		19,400,697	15,264,555
38	Other Accounts Receivable (143)		97,699,988	69,368,327
39	(Less) Accum. Provision for Uncollectible Accounts - Credit (144)		17,976,465	3,020,731
40	Notes Receivable from Associated Companies (145)		145,803,391	159,533,631
41	Accounts Receivable from Associated Companies (146)		33,688,878	74,297,835
42	Fuel Stock (151)		79,720,301	69,934,265
43	Fuel Stock Expenses Undistributed (152)		0	0

Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
Duke Energy Ohio, Inc.	(1) [X] An Original (2) [ ] A Resubmission	/ /	End of 2008/Q4

Comparative Balance Sheet (Assets and Other Debits)(continued)

Line No.	Title of Account (a)	Reference Page Number (b)	Current Year End of Quarter/Year Balance (c)	Prior Year End Balance 12/31 (d)
44	Residuals (Elec) and Extracted Products (Gas) (153)		0	0
45	Plant Materials and Operating Supplies (154)		66,279,201	56,698,540
46	Merchandise (155)		0	0
47	Other Materials and Supplies (156)		0	0
48	Nuclear Materials Held for Sale (157)		0	0
49	Allowances (158.1 and 158.2)		228,379,139	357,179,550
50	(Less) Noncurrent Portion of Allowances		213,928,400	330,140,359
51	Stores Expense Undistributed (163)		855,671	249,800
52	Gas Stored Underground-Current (164.1)	220	0	58,112,204
53	Liquefied Natural Gas Stored and Held for Processing (164.2 thru 164.3)	220	0	0
54	Prepayments (165)	230	102,207,328	37,140,204
55	Advances for Gas (166 thru 167)		0	0
56	Interest and Dividends Receivable (171)		10,102,280	0
57	Rents Receivable (172)		0	0
58	Accrued Utility Revenues (173)		0	0
59	Miscellaneous Current and Accrued Assets (174)		124,591,568	3,281,518
60	Derivative Instrument Assets (175)		68,355,908	38,454,522
61	(Less) Long-Term Portion of Derivative Instrument Assets (175)		17,089,075	16,625,296
62	Derivative Instrument Assets - Hedges (176)		329,783	0
63	(Less) Long-Term Portion of Derivative Instrument Assests - Hedges (176)		329,783	0
64	TOTAL Current and Accrued Assets (Total of lines 32 thru 63)		753,574,873	674,852,248
65	**DEFERRED DEBITS**			
66	Unamortized Debt Expense (181)		8,952,034	9,086,309
67	Extraordinary Property Losses (182.1)	230	0	0
68	Unrecovered Plant and Regulatory Study Costs (182.2)	230	0	0
69	Other Regulatory Assets (182.3)	232	470,452,381	496,790,823
70	Preliminary Survey and Investigation Charges (Electric)(183)		2,521,933	1,189,438
71	Preliminary Survey and Investigation Charges (Gas)(183.1 and 183.2)		0	0
72	Clearing Accounts (184)		358,306	(273,124)
73	Temporary Facilities (185)		(558,590)	(304,401)
74	Miscellaneous Deferred Debits (186)	233	2,452,658,114	2,371,275,478
75	Deferred Losses from Disposition of Utility Plant (187)		0	0
76	Research, Development, and Demonstration Expend. (188)		0	0
77	Unamortized Loss on Reacquired Debt (189)		6,646,809	7,210,883
78	Accumulated Deferred Income Taxes (190)	234-235	16,733,211	14,619,398
79	Unrecovered Purchased Gas Costs (191)		(11,996,806)	(4,352,528)
80	TOTAL Deferred Debits (Total of lines 66 thru 79)		2,945,767,392	2,895,242,276
81	TOTAL Assets and Other Debits (Total of lines 10-15,30,64,and 80)		11,144,001,917	10,867,319,114

Schedule Page: 110 Line No.: 28 Column: d
Restated for FIN 39, "Offsetting of Amounts Related to Certain Contracts"

Schedule Page: 110 Line No.: 54 Column: d
Restated for FIN 39, "Offsetting of Amounts Related to Certain Contracts"

Schedule Page: 110 Line No.: 59 Column: d
Restated for FIN 39, "Offsetting of Amounts Related to Certain Contracts"

Schedule Page: 110 Line No.: 60 Column: d
Restated for FIN 39, "Offsetting of Amounts Related to Certain Contracts"

Schedule Page: 110 Line No.: 61 Column: d
Restated for FIN 39, "Offsetting of Amounts Related to Certain Contracts"

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Comparative Balance Sheet (Liabilities and Other Credits)

Line No.	Title of Account (a)	Reference Page Number (b)	Current Year End of Quarter/Year Balance	Prior Year End Balance 12/31 (d)
1	**PROPRIETARY CAPITAL**			
2	Common Stock Issued (201)	250-251	762,136,231	762,136,231
3	Preferred Stock Issued (204)	250-251	0	0
4	Capital Stock Subscribed (202, 205)	252	0	0
5	Stock Liability for Conversion (203, 206)	252	0	0
6	Premium on Capital Stock (207)	252	0	0
7	Other Paid-In Capital (208-211)	253	5,569,933,157	5,569,933,157
8	Installments Received on Capital Stock (212)	252	0	0
9	(Less) Discount on Capital Stock (213)	254	0	0
10	(Less) Capital Stock Expense (214)	254	0	0
11	Retained Earnings (215, 215.1, 216)	118-119	340,355,226	193,271,061
12	Unappropriated Undistributed Subsidiary Earnings (216.1)	118-119	40,098,343	33,600,045
13	(Less) Reacquired Capital Stock (217)	250-251	0	0
14	Accumulated Other Comprehensive Income (219)	117	(42,097,340)	(24,853,793)
15	TOTAL Proprietary Capital (Total of lines 2 thru 14)		6,670,425,617	6,534,086,701
16	**LONG TERM DEBT**			
17	Bonds (221)	256-257	226,800,000	226,800,000
18	(Less) Reacquired Bonds (222)	256-257	0	0
19	Advances from Associated Companies (223)	256-257	0	0
20	Other Long-Term Debt (224)	256-257	1,291,270,887	1,391,270,887
21	Unamortized Premium on Long-Term Debt (225)	258-259	7,858,138	8,601,986
22	(Less) Unamortized Discount on Long-Term Debt-Dr (226)	258-259	46,301,622	48,504,143
23	(Less) Current Portion of Long-Term Debt		0	0
24	TOTAL Long-Term Debt (Total of lines 17 thru 23)		1,479,627,403	1,578,168,730
25	**OTHER NONCURRENT LIABILITIES**			
26	Obligations Under Capital Leases-Noncurrent (227)		31,734,146	38,832,770
27	Accumulated Provision for Property Insurance (228.1)		0	0
28	Accumulated Provision for Injuries and Damages (228.2)		0	0
29	Accumulated Provision for Pensions and Benefits (228.3)		65,352,051	124,791,934
30	Accumulated Miscellaneous Operating Provisions (228.4)		9,437,961	5,812,706
31	Accumulated Provision for Rate Refunds (229)		0	0

Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
Duke Energy Ohio, Inc.	(1) [X] An Original (2) [ ] A Resubmission	/ /	End of 2008/Q4

Comparative Balance Sheet (Liabilities and Other Credits)(continued)

Line No.	Title of Account (a)	Reference Page Number (b)	Current Year End of Quarter/Year Balance	Prior Year End Balance 12/31 (d)
32	Long-Term Portion of Derivative Instrument Liabilities		8,000,013	14,718,862
33	Long-Term Portion of Derivative Instrument Liabilities - Hedges		0	8,445,936
34	Asset Retirement Obligations (230)		26,779,048	25,303,644
35	TOTAL Other Noncurrent Liabilities (Total of lines 26 thru 34)		141,303,219	217,905,852
36	**CURRENT AND ACCRUED LIABILITIES**			
37	Current Portion of Long-Term Debt		0	0
38	Notes Payable (231)		279,364,773	0
39	Accounts Payable (232)		295,072,837	320,506,223
40	Notes Payable to Associated Companies (233)		60,121,334	161,207,999
41	Accounts Payable to Associated Companies (234)		125,207,015	234,282,462
42	Customer Deposits (235)		22,470,791	19,993,785
43	Taxes Accrued (236)	262-263	139,675,179	153,942,350
44	Interest Accrued (237)		25,462,547	28,124,144
45	Dividends Declared (238)		0	0
46	Matured Long-Term Debt (239)		0	0
47	Matured Interest (240)		0	0
48	Tax Collections Payable (241)		350,598	405,838
49	Miscellaneous Current and Accrued Liabilities (242)	268	85,436,627	41,589,181
50	Obligations Under Capital Leases-Current (243)		6,464,513	5,529,270
51	Derivative Instrument Liabilities (244)		45,521,731	27,168,945
52	(Less) Long-Term Portion of Derivative Instrument Liabilities		8,000,013	14,718,862
53	Derivative Instrument Liabilities - Hedges (245)		8,951,585	19,506,003
54	(Less) Long-Term Portion of Derivative Instrument Liabilities - Hedges		0	8,445,936
55	TOTAL Current and Accrued Liabilities (Total of lines 37 thru 54)		1,086,099,517	989,091,402
56	**DEFERRED CREDITS**			
57	Customer Advances for Construction (252)		4,073,159	4,191,422
58	Accumulated Deferred Investment Tax Credits (255)		9,290,681	10,723,668
59	Deferred Gains from Disposition of Utility Plant (256)		0	0
60	Other Deferred Credits (253)	269	335,135,507	197,090,434
61	Other Regulatory Liabilities (254)	278	12,745,431	34,095,939
62	Unamortized Gain on Reacquired Debt (257)	260	611,889	653,373
63	Accumulated Deferred Income Taxes - Accelerated Amortization (281)		0	0
64	Accumulated Deferred Income Taxes - Other Property (282)		1,235,391,967	1,187,518,736
65	Accumulated Deferred Income Taxes - Other (283)		169,297,527	113,792,857
66	TOTAL Deferred Credits (Total of lines 57 thru 65)		1,766,546,161	1,548,066,429
67	TOTAL Liabilities and Other Credits (Total of lines 15,24,35,55,and 66)		11,144,001,917	10,867,319,114

Schedule Page: 112 Line No.: 32 Column: d
Restated for FIN 39, "Offsetting of Amounts Related to Certain Contracts"

Schedule Page: 112 Line No.: 51 Column: d
Restated for FIN 39, "Offsetting of Amounts Related to Certain Contracts"

Schedule Page: 112 Line No.: 52 Column: d
Restated for FIN 39, "Offsetting of Amounts Related to Certain Contracts"

Schedule Page: 112 Line No.: 53 Column: d
Restated for FIN 39, "Offsetting of Amounts Related to Certain Contracts"

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Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
Duke Energy Ohio, Inc.	(1) [X] An Original (2) [ ] A Resubmission	/ /	End of 2008/Q4

Statement of Income

Quarterly
1. Enter in column (d) the balance for the reporting quarter and in column (e) the balance for the same three month period for the prior year.
2. Report in column (f) the quarter to date amounts for electric utility function; in column (h) the quarter to date amounts for gas utility, and in (j) the quarter to date amounts for other utility function for the current year quarter.
3. Report in column (g) the quarter to date amounts for electric utility function; in column (i) the quarter to date amounts for gas utility, and in (k) the quarter to date amounts for other utility function for the prior year quarter.
4. If additional columns are needed place them in a footnote.

Annual or Quarterly, if applicable
5. Do not report fourth quarter data in columns (e) and (f)
6. Report amounts for accounts 412 and 413, Revenues and Expenses from Utility Plant Leased to Others, in another utility columnin a similar manner to a utility department. Spread the amount(s) over lines 2 thru 26 as appropriate. Include these amounts in columns (c) and (d) totals.
7. Report amounts in account 414, Other Utility Operating Income, in the same manner as accounts 412 and 413 above.
8. Report data for lines 8, 10 and 11 for Natural Gas companies using accounts 404.1, 404.2, 404.3, 407.1 and 407.2.
9. Use page 122 for important notes regarding the statement of income for any account thereof.
10. Give concise explanations concerning unsettled rate proceedings where a contingency exists such that refunds of a material amount may need to be made to the utility's customers or which may result in material refund to the utility with respect to power or gas purchases. State for each year effected the gross revenues or costs to which the contingency relates and the tax effects together with an explanation of the major factors which affect the rights of the utility to retain such revenues or recover amounts paid with respect to power or gas purchases.
11 Give concise explanations concerning significant amounts of any refunds made or received during the year resulting from settlement of any rate proceeding affecting revenues received or costs incurred for power or gas purches, and a summary of the adjustments made to balance sheet, income, and expense accounts.
12. If any notes appearing in the report to stokholders are applicable to the Statement of Income, such notes may be included at page 122.
13. Enter on page 122 a concise explanation of only those changes in accounting mehods made during the year which had an effect on net income, including the basis of allocations and apportionments from those used in the preceding year. Also, give the appropriate dollar effect of such changes.
14. Explain in a footnote if the previous year's/quarter's figures are different from that reported in prior reports.
15. If the columns are insufficient for reporting additional utility departments, supply the appropriate account titles report the information in a footnote to this schedule.

Line No.	Title of Account (a)	Reference Page Number (b)	Total Current Year to Date Balance for Quarter/Year (c)	Total Prior Year to Date Balance for Quarter/Year (d)	Current Three Months Ended Quarterly Only No Fourth Quarter (e)	Prior Three Months Ended Quarterly Only No Fourth Quarter (f)
1	UTILITY OPERATING INCOME					
2	Gas Operating Revenues (400)	300-301	3,167,351,988	3,416,395,891	0	0
3	Operating Expenses					
4	Operation Expenses (401)	317-325	1,949,584,778	2,190,995,693	0	0
5	Maintenance Expenses (402)	317-325	154,348,502	144,325,247	0	0
6	Depreciation Expense (403)	336-338	206,512,276	204,208,347	0	0
7	Depreciation Expense for Asset Retirement Costs (403.1)	336-338	93,977	94,042	0	0
8	Amortization and Depletion of Utility Plant (404-405)	336-338	25,770,289	29,596,985	0	0
9	Amortization of Utility Plant Acu. Adjustment (406)	336-338	22,737,144	20,727,144	0	0
10	Amort. of Prop. Losses, Unrecovered Plant and Reg. Study Costs (407.1)		0	0	0	0
11	Amortization of Conversion Expenses (407.2)		0	0	0	0
12	Regulatory Debits (407.3)		123,240,603	104,331,753	0	0
13	(Less) Regulatory Credits (407.4)		1,478,124	1,478,095	0	0
14	Taxes Other than Income Taxes (408.1)	262-263	229,804,294	234,034,879	0	0
15	Income Taxes-Federal (409.1)	262-263	113,379,674	131,288,158	0	0
16	Income Taxes-Other (409.1)	262-263	8,170,101	16,283,886	0	0
17	Provision of Deferred Income Taxes (410.1)	234-235	387,868,920	62,410,832	0	0
18	(Less) Provision for Deferred Income Taxes-Credit (411.1)	234-235	287,669,526	57,643,463	0	0
19	Investment Tax Credit Adjustment-Net (411.4)		(1,432,987)	(1,540,921)	0	0
20	(Less) Gains from Disposition of Utility Plant (411.6)		0	0	0	0
21	Losses from Disposition of Utility Plant (411.7)		0	0	0	0
22	(Less) Gains from Disposition of Allowances (411.8)		58,206,021	(7,097,497)	0	0
23	Losses from Disposition of Allowances (411.9)		0	0	0	0
24	Accretion Expense (411.10)		428,013	414,062	0	0
25	TOTAL Utility Operating Expenses (Total of lines 4 thru 24)		2,873,151,913	3,085,146,046	0	0
26	Net Utility Operating Income (Total of lines 2 less 25) (Carry forward to page 116, line 27)		294,200,075	331,249,845	0	0

Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
Duke Energy Ohio, Inc.	(1) [X] An Original (2) [ ] A Resubmission	/ /	End of 2008/Q4

Statement of Income

Line No.	Elec. Utility Current Year to Date (in dollars) (g)	Elec. Utility Previous Year to Date (in dollars) (h)	Gas Utility Current Year to Date (in dollars) (i)	Gas Utility Previous Year to Date (in dollars) (j)	Other Utility Current Year to Date (in dollars) (k)	Other Utility Previous Year to Date (in dollars) (l)
1						
2	2,526,195,598	2,829,859,980	641,156,390	586,535,911	0	0
3						
4	1,486,216,890	1,736,976,539	463,367,888	454,019,154	0	0
5	147,469,295	138,378,705	6,879,207	5,946,542	0	0
6	177,896,802	174,443,470	28,615,474	29,764,877	0	0
7	93,977	94,042	0	0	0	0
8	23,411,083	26,840,492	2,359,206	2,756,493	0	0
9	22,737,144	20,727,144	0	0	0	0
10	0	0	0	0	0	0
11	0	0	0	0	0	0
12	123,092,164	104,211,589	148,439	120,164	0	0
13	1,478,124	1,478,095	0	0	0	0
14	169,534,318	179,693,697	60,269,976	54,341,182	0	0
15	102,004,876	124,555,273	11,374,798	6,732,885	0	0
16	7,356,621	16,291,377	813,480	(7,491)	0	0
17	320,359,793	44,371,772	67,509,127	18,039,060	0	0
18	245,107,691	38,639,145	42,561,835	19,004,318	0	0
19	(1,213,941)	(1,318,357)	(219,046)	(222,564)	0	0
20	0	0	0	0	0	0
21	0	0	0	0	0	0
22	58,206,021	(7,097,497)	0	0	0	0
23	0	0	0	0	0	0
24	428,013	414,062	0	0	0	0
25	2,274,595,199	2,532,660,062	598,556,714	552,485,984	0	0
26	251,600,399	297,199,918	42,599,676	34,049,927	0	0

Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
Duke Energy Ohio, Inc.	(1) [X] An Original (2) [ ] A Resubmission	/ /	End of 2008/Q4

Statement of Income(continued)

Line No.	Title of Account (a)	Reference Page Number (b)	Total Current Year to Date Balance for Quarter/Year (c)	Total Prior Year to Date Balance for Quarter/Year (d)	Current Three Months Ended Quarterly Only No Fourth Quarter (e)	Prior Three Months Ended Quarterly Only No Fourth Quarter (f)
27	Net Utility Operating Income (Carried forward from page 114)		294,200,075	331,249,845	0	0
28	**OTHER INCOME AND DEDUCTIONS**					
29	Other Income					
30	Nonutility Operating Income					
31	Revenues form Merchandising, Jobbing and Contract Work (415)		1,124,710	2,044,506	0	0
32	(Less) Costs and Expense of Merchandising, Job & Contract Work (416)		1,542,849	1,105,774	0	0
33	Revenues from Nonutility Operations (417)		14,154,473	100,236,168	0	0
34	(Less) Expenses of Nonutility Operations (417.1)		(76,216,125)	99,916,166	0	0
35	Nonoperating Rental Income (418)		(96,745)	(19,170)	0	0
36	Equity in Earnings of Subsidiary Companies (418.1)	119	36,498,298	32,191,994	0	0
37	Interest and Dividend Income (419)		23,440,469	25,330,355	0	0
38	Allowance for Other Funds Used During Construction (419.1)		6,604,695	3,389,364	0	0
39	Miscellaneous Nonoperating Income (421)		96,261,850	(857,587,568)	0	0
40	Gain on Disposition of Property (421.1)		1,004,839	0	0	0
41	TOTAL Other Income (Total of lines 31 thru 40)		253,665,865	(795,436,291)	0	0
42	Other Income Deductions					
43	Loss on Disposition of Property (421.2)		62	836,768	0	0
44	Miscellaneous Amortization (425)		0	0	0	0
45	Donations (426.1)	340	217,870	255,458	0	0
46	Life Insurance (426.2)		861,551	142,218	0	0
47	Penalties (426.3)		4,380	162,539	0	0
48	Expenditures for Certain Civic, Political and Related Activities (426.4)		1,213,741	535,934	0	0
49	Other Deductions (426.5)		253,640,141	(792,079,748)	0	0
50	TOTAL Other Income Deductions (Total of lines 43 thru 49)	340	255,937,745	(790,146,831)	0	0
51	Taxes Applic. to Other Income and Deductions					
52	Taxes Other than Income Taxes (408.2)	262-263	860,582	1,522,336	0	0
53	Income Taxes-Federal (409.2)	262-263	(788,782)	(10,942,676)	0	0
54	Income Taxes-Other (409.2)	262-263	858,092	(3,530,597)	0	0
55	Provision for Deferred Income Taxes (410.2)	234-235	(25,400,805)	1,393,135	0	0
56	(Less) Provision for Deferred Income Taxes-Credit (411.2)	234-235	42,683,471	4,763,867	0	0
57	Investment Tax Credit Adjustments-Net (411.5)		0	0	0	0
58	(Less) Investment Tax Credits (420)		0	0	0	0
59	TOTAL Taxes on Other Income and Deductions (Total of lines 52-58)		(67,154,384)	(16,321,669)	0	0
60	Net Other Income and Deductions (Total of lines 41, 50, 59)		64,882,504	11,032,209	0	0
61	**INTEREST CHARGES**					
62	Interest on Long-Term Debt (427)		83,447,424	87,601,716	0	0
63	Amortization of Debt Disc. and Expense (428)	258-259	2,531,022	3,190,827	0	0
64	Amortization of Loss on Reacquired Debt (428.1)		564,075	877,127	0	0
65	(Less) Amortization of Premium on Debt-Credit (429)	258-259	431,974	1,999,931	0	0
66	(Less) Amortization of Gain on Reacquired Debt-Credit (429.1)		41,484	41,484	0	0
67	Interest on Debt to Associated Companies (430)	340	2,547,607	10,344,219	0	0
68	Other Interest Expense (431)	340	3,854,247	9,449,705	0	0
69	(Less) Allowance for Borrowed Funds Used During Construction-Credit (432)		20,261,149	30,683,688	0	0
70	Net Interest Charges (Total of lines 62 thru 69)		72,209,768	78,738,491	0	0
71	Income Before Extraordinary Items (Total of lines 27,60 and 70)		286,872,811	263,543,563	0	0
72	**EXTRAORDINARY ITEMS**					
73	Extraordinary Income (434)		103,298,107	0	0	0
74	(Less) Extraordinary Deductions (435)		0	0	0	0
75	Net Extraordinary Items (Total of line 73 less line 74)		103,298,107	0	0	0
76	Income Taxes-Federal and Other (409.3)	262-263	36,588,455	0	0	0
77	Extraordinary Items after Taxes (Total of line 75 less line 76)		66,709,652	0	0	0
78	Net Income (Total of lines 71 and 77)		353,582,463	263,543,563	0	0

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Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
Duke Energy Ohio, Inc.	(1) [X] An Original (2) [ ] A Resubmission	/ /	End of 2008/Q4

Statement of Accumulated Comprehensive Income and Hedging Activities

1. Report in columns (b) (c) and (e) the amounts of accumulated other comprehensive income items, on a net-of-tax basis, where appropriate.

2. Report in columns (f) and (g) the amounts of other categories of other cash flow hedges.

3. For each category of hedges that have been accounted for as "fair value hedges", report the accounts affected and the related amounts in a footnote.

Line No.	Item (a)	Unrealized Gains and Losses on available-for-sale securities (b)	Minimum Pension liabililty Adjustment (net amount) (c)	Foreign Currency Hedges (d)	Other Adjustments (e)
1	Balance of Account 219 at Beginning of Preceding Year		(2,455,001)		
2	Preceding Quarter/Year to Date Reclassifications from Account 219 to Net Income				
3	Preceding Quarter/Year to Date Changes in Fair Value		9,418,805		
4	Total (lines 2 and 3)		9,418,805		
5	Balance of Account 219 at End of Preceding Quarter/Year		6,963,804		
6	Balance of Account 219 at Beginning of Current Year		6,963,804		
7	Current Quarter/Year to Date Reclassifications from Account 219 to Net Income				
8	Current Quarter/Year to Date Changes in Fair Value		(34,912,563)		
9	Total (lines 7 and 8)		(34,912,563)		
10	Balance of Account 219 at End of Current Quarter/Year		(27,948,759)		

Name of Respondent Duke Energy Ohio, Inc.	This Report Is: (1) [X] An Original (2) [ ] A Resubmission	Date of Report (Mo, Da, Yr) / /	Year/Period of Report End of 2008/Q4

Statement of Accumulated Comprehensive Income and Hedging Activities(continued)

Line No.	Other Cash Flow Hedges Interest Rate Swaps (f)	Other Cash Flow Hedges (Insert Category) (g)	Totals for each category of items recorded in Account 219 (h)	Net Income (Carried Forward from Page 116, Line 78) (i)	Total Comprehensive Income (j)
1	(36,183,225)		(38,638,226)		
2					
3	35,149,415	(30,783,787)	13,784,433		
4	35,149,415	(30,783,787)	13,784,433	263,543,563	277,327,996
5	(1,033,810)	(30,783,787)	(24,853,793)		
6	(1,033,810)	(30,783,787)	(24,853,793)		
7		15,336,853	15,336,853		
8	1,033,810	1,298,353	(32,580,400)		
9	1,033,810	16,635,206	(17,243,547)	353,582,463	336,338,916
10		**(14,148,581)**	(42,097,340)		

Schedule Page: 117 Line No.: 10 Column: g

Duke Energy Ohio, Inc. has outstanding financial capacity swaps that hedge the future cash flow volatility related to forecasted sales of capacity from its generation assets within PJM Interconnect. Under the provisions of the swaps, Duke Energy Ohio, Inc. receives a fixed amount and pays the PJM capacity auction price. With respect to the underlying hedged physical capacity sales Duke Energy Ohio, Inc. receives the PJM capacity auction price. These swaps qualify as cash flow hedges under the provisions of statement 133. Changes in fair value of these swaps are recorded in Accumulated Other Comprehensive Income.

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Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
Duke Energy Ohio, Inc.	(1) [X] An Original (2) [ ] A Resubmission	/ /	End of 2008/Q4

Statement of Retained Earnings

1. Report all changes in appropriated retained earnings, unappropriated retained earnings, and unappropriated undistributed subsidiary earnings for the year.
2. Each credit and debit during the year should be identified as to the retained earnings account in which recorded (Accounts 433, 436-439 inclusive). Show the contra primary account affected in column (b).
3. State the purpose and amount for each reservation or appropriation of retained earnings.
4. List first Account 439, Adjustments to Retained Earnings, reflecting adjustments to the opening balance of retained earnings. Follow by credit, then debit items, in that order.
5. Show dividends for each class and series of capital stock.

Line No.	Item (a)	Contra Primary Account Affected (b)	Current Quarter Year to Date Balance (c)	Previous Quarter Year to Date Balance (d)
	UNAPPROPRIATED RETAINED EARNINGS			
1	Balance-Beginning of Period		193,271,061	53,218,068
2	Changes (Identify by prescribed retained earnings accounts)			
3	Adjustments to Retained Earnings (Account 439)			
4	TOTAL Credits to Retained Earnings (Account 439) (footnote details)			
5	TOTAL Debits to Retained Earnings (Account 439) (footnote details)			2,019,862
6	Balance Transferred from Income (Acct 433 less Acct 418.1)		317,084,165	231,351,569
7	Appropriations of Retained Earnings (Account 436)			
8	TOTAL Appropriations of Retained Earnings (Account 436) (footnote details)			
9	Dividends Declared-Preferred Stock (Account 437)			
10	TOTAL Dividends Declared-Preferred Stock (Account 437) (footnote details)			
11	Dividends Declared-Common Stock (Account 438)			
12	TOTAL Dividends Declared-Common Stock (Account 438) (footnote details)	131 CY / 238 PY	200,000,000	89,278,714
13	Transfers from Account 216.1, Unappropriated Undistributed Subsidiary Earnings		30,000,000	
14	Balance-End of Period (Total of lines 1, 4, 5, 6, 8, 10, 12, and 13)		340,355,226	193,271,061
15	APPROPRIATED RETAINED EARNINGS (Account 215)			
16	TOTAL Appropriated Retained Earnings (Account 215) (footnote details)			
17	APPROPRIATED RETAINED EARNINGS-AMORTIZATION RESERVE, FEDERAL (Account			
18	TOTAL Appropriated Retained Earnings-Amortization Reserve, Federal (Account			
19	TOTAL Appropriated Retained Earnings (Accounts 215, 215.1) (Total of lines			
20	TOTAL Retained Earnings (Accounts 215, 215.1, 216) (Total of lines 14 and 1		340,355,226	193,271,061
21	UNAPPROPRIATED UNDISTRIBUTED SUBSIDIARY EARNINGS (Account 216.1)			
	Report only on an Annual Basis no Quarterly			
22	Balance-Beginning of Year (Debit or Credit)		33,600,045	1,178,700
23	Equity in Earnings for Year (Credit) (Account 418.1)		36,498,298	32,191,994
24	(Less) Dividends Received (Debit)		30,000,000	
25	Other Changes (Explain)			229,351
26	Balance-End of Year		40,098,343	33,600,045

FOOTNOTE DATA

Schedule Page: 118 Line No.: 5 Column: d
FAS158 Remeasurement

Schedule Page: 118 Line No.: 12 Column: d
Payable to Cinergy Corp.

Schedule Page: 118 Line No.: 25 Column: d
Adjustments to intercompany transactions with subsidiaries.

Schedule Page: 118 Line No.: 12 Column: c
Payable to Cinergy Corp.

Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
Duke Energy Ohio, Inc.	(1) [X] An Original (2) [ ] A Resubmission	/ /	End of 2008/Q4

Statement of Cash Flows

(1) Codes to be used:(a) Net Proceeds or Payments;(b)Bonds, debentures and other long-term debt; (c) Include commercial paper; and (d) Identify separately such items as investments, fixed assets, intangibles, etc.
(2) Information about noncash investing and financing activities must be provided in the Notes to the Financial statements. Also provide a reconciliation between "Cash and Cash Equivalents at End of Period" with related amounts on the Balance Sheet.
(3) Operating Activities - Other: Include gains and losses pertaining to operating activities only. Gains and losses pertaining to investing and financing activities should be reported in those activities. Show in the Notes to the Financials the amounts of interest paid (net of amount capitalized) and income taxes paid.
(4) Investing Activities: Include at Other (line 25) net cash outflow to acquire other companies. Provide a reconciliation of assets acquired with liabilities assumed in the Notes to the Financial Statements. Do not include on this statement the dollar amount of leases capitalized per the USofA General Instruction 20; instead provide a reconciliation of the dollar amount of leases capitalized with the plant cost.

Line No.	Description (See Instructions for explanation of codes) (a)	Current Year to Date Quarter/Year	Previous Year to Date Quarter/Year
1	Net Cash Flow from Operating Activities		
2	Net Income (Line 78(c) on page 116)	353,582,463	263,543,563
3	Noncash Charges (Credits) to Income:		
4	Depreciation and Depletion	206,606,253	204,302,389
5	Amortization of (Specify) (footnote details)	51,129,072	52,350,668
6	Deferred Income Taxes (Net)	32,115,118	1,396,637
7	Investment Tax Credit Adjustments (Net)	(1,432,987)	(1,540,921)
8	Net (Increase) Decrease in Receivables	28,394,810	(16,893,217)
9	Net (Increase) Decrease in Inventory	(39,898,807)	3,414,021
10	Net (Increase) Decrease in Allowances Inventory	128,800,411	125,054,640
11	Net Increase (Decrease) in Payables and Accrued Expenses	(118,527,173)	(11,570,055)
12	Net (increase) Decrease in Other Regulatory Assets	38,984,561	110,048,634
13	Net Increase (Decrease) in Other Regulatory Liabilities	6,625,359	1,044,310
14	(Less) Allowance for Other Funds Used During Construction	6,604,695	3,389,364
15	(Less) Undistributed Earnings from Subsidiary Companies	6,498,298	32,421,345
16	Other (footnote details):	(140,723,829)	(14,635,165)
17	Net Cash Provided by (Used in) Operating Activities		
18	(Total of Lines 2 thru 16)	532,552,258	680,704,795
19			
20	Cash Flows from Investment Activities:		
21	Construction and Acquisition of Plant (including land):		
22	Gross Additions to Utility Plant (less nuclear fuel)	(458,027,690)	(521,368,590)
23	Gross Additions to Nuclear Fuel		
24	Gross Additions to Common Utility Plant	(23,684,566)	(11,808,042)
25	Gross Additions to Nonutility Plant		
26	(Less) Allowance for Other Funds Used During Construction	(6,604,695)	(3,389,364)
27	Other (footnote details):		
28	Cash Outflows for Plant (Total of lines 22 thru 27)	(475,107,561)	(529,787,268)
29			
30	Acquisition of Other Noncurrent Assets (d)		
31	Proceeds from Disposal of Noncurrent Assets (d)	3,500,000	
32			
33	Investments in and Advances to Assoc. and Subsidiary Companies		
34	Contributions and Advances from Assoc. and Subsidiary Companies		
35	Disposition of Investments in (and Advances to)		
36	Associated and Subsidiary Companies		
37			
38	Purchase of Investment Securities (a)		
39	Proceeds from Sales of Investment Securities (a)		

Name of Respondent	This Report Is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
Duke Energy Ohio, Inc.	(1) [X] An Original (2) [ ] A Resubmission	/ /	End of 2008/Q4

Statement of Cash Flows (continued)

Line No.	Description (See Instructions for explanation of codes) (a)	Current Year to Date Quarter/Year	Previous Year to Date Quarter/Year
40	Loans Made or Purchased		
41	Collections on Loans		
42			
43	Net (Increase) Decrease in Receivables		
44	Net (Increase) Decrease in Inventory		
45	Net (Increase) Decrease in Allowances Held for Speculation		
46	Net Increase (Decrease) in Payables and Accrued Expenses		
47	Other (footnote details):	53,153,326	(31,117,392)
48	Net Cash Provided by (Used in) Investing Activities		
49	(Total of lines 28 thru 47)	(418,454,235)	(560,904,660)
50			
51	Cash Flows from Financing Activities:		
52	Proceeds from Issuance of:		
53	Long-Term Debt (b)		191,848,505
54	Preferred Stock		
55	Common Stock		
56	Other (footnote details):		
57	Net Increase in Short-term Debt (c)	279,364,773	
58	Other (footnote details):		25,800,000
59	Cash Provided by Outside Sources (Total of lines 53 thru 58)	279,364,773	217,648,505
60			
61	Payments for Retirement of:		
62	Long-Term Debt (b)	(100,000,000)	(146,700,000)
63	Preferred Stock		
64	Common Stock		
65	Other (footnote details):	(101,492,137)	(70,265,074)
66	Net Decrease in Short-Term Debt (c)		
67			
68	Dividends on Preferred Stock		
69	Dividends on Common Stock	(200,000,000)	(135,000,000)
70	Net Cash Provided by (Used in) Financing Activities		
71	(Total of lines 59 thru 69)	(122,127,364)	(134,316,569)
72			
73	Net Increase (Decrease) in Cash and Cash Equivalents		
74	(Total of line 18, 49 and 71)	(8,029,341)	(14,516,434)
75			
76	Cash and Cash Equivalents at Beginning of Period	23,160,537	37,676,971
77			
78	Cash and Cash Equivalents at End of Period	15,131,196	23,160,537

Schedule Page: 120 Line No.: 5 Column: b

Amortization of:	
Plant items	48,507,433
Debt discount, premium, exp, loss on reacq. debt	2,621,639
	51,129,072

Schedule Page: 120 Line No.: 5 Column: c

Amortization of:	
Plant items	50,324,129
Debt discount, premium, exp, loss on reacq. debt	2,026,539
	52,350,668

Schedule Page: 120 Line No.: 16 Column: b

OTHER:	
Special deposits	(1,723,615)
Prepayments	(160,791,135)
Miscellaneous current and accrued assets	(32,272,947)
Preliminary survey and investigation charges	(1,332,495)
Clearing accounts	(631,430)
Temporary facilities	254,189
Miscellaneous deferred debits	(23,450,604)
Unrecovered purchased gas costs	7,644,278
Accumulated other comprehensive income	(37,401,111)
Obligations under capital leases - noncurrent	(7,098,624)
Accumulated provisions	5,681,110
Derivative instrument liabilities - hedges	(12,027,240)
Customer advances for construction	(118,263)
Other deferred credits	6,308,913
Derivative instruments	69,889,807
Net utility plant and nonutility property	(1,987,724)
Cost of removal	(7,822,361)
Debt expenses	(100,629)
Deferred income taxes-OCI	56,256,052
Total Other	(140,723,829)

Schedule Page: 120 Line No.: 16 Column: c

OTHER:	
Special deposits	(940,029)
Prepayments	29,155,110
Miscellaneous current and accrued assets	2,324,999
Preliminary survey and investigation charges	(510,711)
Clearing accounts	590,332
Temporary facilities	(764,393)
Miscellaneous deferred debits	84,905,233
Unrecovered purchased gas costs	(2,424,919)
Accumulated other comprehensive income	13,784,433
Obligations under capital leases - noncurrent	2,364,899
Accumulated provisions	6,434,526
Derivative instrument liabilities - hedges	19,733,952
Customer advances for construction	(938,233)
Other deferred credits	(82,856,157)
Contribution to pension plan	(82,064,148)
Derivative instruments	1,152,362
Net utility plant and nonutility property	(6,515,409)
Cost of removal	(5,225,793)

Debt expenses	(1,787,768)
Deferred income taxes-OCI	8,946,549
Total Other	(14,635,165)

Schedule Page: 120 Line No.: 47 Column: b

Other investments	(180,168)
Withdrawal of restricted funds held in trust	53,333,494
	53,153,326

Schedule Page: 120 Line No.: 47 Column: c

Other investments	(351,314)
Withdrawal of restricted funds held in trust	(30,766,078)
	(31,117,392)

Schedule Page: 120 Line No.: 58 Column: c

Contribution from parent	25,800,000

Schedule Page: 120 Line No.: 65 Column: b

Money pool - net intercompany borrowing	(101,086,665)
Premium payments and fees on deferred debt	(405,472)
Total	(101,492,137)

Schedule Page: 120 Line No.: 65 Column: c

Money pool - Net intercompany borrowing

Schedule Page: 120 Line No.: 78 Column: b

	2008	2007
Supplemental Disclosures:		
Cash paid for interest, net of amount capitalized	$ 73M	$ 73M
Cash paid for income taxes	$ 172M	$ 157M
Significant non-cash transactions:		
Accrued capital expenditures	$ 75M	$ 60M

Notes to Financial Statements

1. Provide important disclosures regarding the Balance Sheet, Statement of Income for the Year, Statement of Retained Earnings for the Year, and Statement of Cash Flow, or any account thereof. Classify the disclosures according to each financial statement, providing a subheading for each statement except where a disclosure is applicable to more than one statement. The disclosures must be on the same subject matters and in the same level of detail that would be required if the respondent issued general purpose financial statements to the public or shareholders.
2. Furnish details as to any significant contingent assets or liabilities existing at year end, and briefly explain any action initiated by the Internal Revenue Service involving possible assessment of additional income taxes of material amount, or a claim for refund of income taxes of a material amount initiated by the utility. Also, briefly explain any dividends in arrears on cumulative preferred stock.
3. Furnish details on the respondent's pension plans, post-retirement benefits other than pensions (PBOP) plans, and post-employment benefit plans as required by instruction no. 1 and, in addition, disclose for each individual plan the current year's cash contributions. Furnish details on the accounting for the plans and any changes in the method of accounting for them. Include details on the accounting for transition obligations or assets, gains or losses, the amounts deferred and the expected recovery periods. Also, disclose any current year's plan or trust curtailments, terminations, transfers, or reversions of assets. Entities that participate in multiemployer postretirement benefit plans (e.g. parent company sponsored pension plans) disclose in addition to the required disclosures for the consolidated plan, (1) the amount of cost recognized in the respondent's financial statements for each plan for the period presented, and (2) the basis for determining the respondent's share of the total plan costs.
4. Furnish details on the respondent's asset retirement obligations (ARO) as required by instruction no. 1 and, in addition, disclose the amounts recovered through rates to settle such obligations. Identify any mechanism or account in which recovered funds are being placed (i.e. trust funds, insurance policies, surety bonds). Furnish details on the accounting for the asset retirement obligations and any changes in the measurement or method of accounting for the obligations. Include details on the accounting for settlement of the obligations and any gains or losses expected or incurred on the settlement.
5. Provide a list of all environmental credits received during the reporting period.
6. Provide a summary of revenues and expenses for each tracked cost and special surcharge.
7. Where Account 189, Unamortized Loss on Reacquired Debt, and 257, Unamortized Gain on Reacquired Debt, are not used, give an explanation, providing the rate treatment given these item. See General Instruction 17 of the Uniform System of Accounts.
8. Explain concisely any retained earnings restrictions and state the amount of retained earnings affected by such restrictions.
9. Disclose details on any significant financial changes during the reporting year to the respondent or the respondent's consolidated group that directly affect the respondent's gas pipeline operations, including: sales, transfers or mergers of affiliates, investments in new partnerships, sales of gas pipeline facilities or the sale of ownership interests in the gas pipeline to limited partnerships, investments in related industries (i.e., production, gathering), major pipeline investments, acquisitions by the parent corporation(s), and distributions of capital.
10. Explain concisely unsettled rate proceedings where a contingency exists such that the company may need to refund a material amount to the utility's customers or that the utility may receive a material refund with respect to power or gas purchases. State for each year affected the gross revenues or costs to which the contingency relates and the tax effects and explain the major factors that affect the rights of the utility to retain such revenues or to recover amounts paid with respect to power and gas purchases.
11. Explain concisely significant amounts of any refunds made or received during the year resulting from settlement of any rate proceeding affecting revenues received or costs incurred for power or gas purchases, and summarize the adjustments made to balance sheet, income, and expense accounts.
12. Explain concisely only those significant changes in accounting methods made during the year which had an effect on net income, including the basis of allocations and apportionments from those used in the preceding year. Also give the approximate dollar effect of such changes.
13. For the 3Q disclosures, respondent must provide in the notes sufficient disclosures so as to make the interim information not misleading. Disclosures which would substantially duplicate the disclosures contained in the most recent FERC Annual Report may be omitted.
14. For the 3Q disclosures, the disclosures shall be provided where events subsequent to the end of the most recent year have occurred which have a material effect on the respondent. Respondent must include in the notes significant changes since the most recently completed year in such items as: accounting principles and practices; estimates inherent in the preparation of the financial statements; status of long-term contracts; capitalization including significant new borrowings or modifications of existing financing agreements; and changes resulting from business combinations or dispositions. However were material contingencies exist, the disclosure of such matters shall be provided even though a significant change since year end may not have occurred.
15. Finally, if the notes to the financial statements relating to the respondent appearing in the annual report to the stockholders are applicable and furnish the data required by the above instructions, such notes may be included herein.

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SEE NEXT PAGE FOR REQUIRED INFORMATION

This Federal Energy Regulatory Commission (FERC) Form 2 represents the financial statements of Duke Energy Ohio, Inc. at December 31, 2008. Duke Energy Ohio's financial statements have been prepared in conformity with the requirements of the FERC as set forth in its applicable Uniform System of Accounts and published accounting releases, which is a comprehensive basis of accounting other than generally accepted accounting principles. The following areas represent the significant differences between the Uniform System of Accounts and generally accepted accounting principles: (1) the presentation of significant non-cash transactions, (2) the presentation of current and non-current poprtions of long-term debt, preferred stock and other liabilities, (3) the presentation of extraordinary deductions, (4) the presentation of removal costs, and (5) the presentation of deferred gains related to emission allowance transactions.

Generally accepted accounting principles (GAAP) require that the current and non-current portions of long-term debt, preferred stock and other liabilities be appopriately identified and reported on the Balance Sheet. FERC requires that these items be reported as set forth in the Uniform System of Accounts and published accounting releases, which does not recognize any segregation between the current and non-current portions of these items for reporting purposes.

Generally accepted accounting principles require that public business enterprises report certain information about operating segments in complete sets of financial statements of the enterprise and certain information about their products and services, which are not included in the FERC reporting purposes. The item reported differently due to these guidelines is the non-current portion of profits from wholesale power sales to be shared with customers, reported as a deferred credit per GAAP and as a current liability under FERC.

FERC requires that losses of unusual nature and infrequent occurrence, which would significantly distort the current year's income, be recorded as extraordinary deductions.

Generally accepted accounting principles requires that removal costs for property that does not have an associated legal retirement obligation be presented as a liability on the Balance Sheet. These costs are presented as accumulated depreciation on the Balance Sheet for FERC reporting purposes. The portion of accumulated depreciation related to removal costs was $174 million at December 31, 2008 and $167 million at December 31, 2007.

On May 25, 2007, in Docket No. AI07-2-000, the FERC issued accounting and financial reporting guidance related to the implementation of FASB interpretation No. 48, "Accounting for Uncertainity in Income Taxes - an interpretation of FASB Statement No. 109" (FIN 48). Duke Energy Ohio reflected this guidance beginning with the 2007 FERC Form 2 filed in 2008, as required.

Duke Energy Ohio's Notes to Financial Statements have been prepared in conformity with generally accepted accounting principles. Accordingly, certain footnotes are not reflective of Duke Energy Ohio's Financial Statements contained herein.

1. Summary of Significant Accounting Policies

Nature of Operations and Basis of Consolidation. Duke Energy Ohio, Inc. (Duke Energy Ohio), an Ohio corporation organized in 1837, is a wholly-owned subsidiary of Cinergy Corp. (Cinergy). Cinergy is a wholly-owned subsidiary of Duke Energy Corporation (Duke Energy). Duke Energy Ohio is a combination electric and gas public utility company that provides service in the southwestern portion of Ohio and electric generation in parts of Ohio, Illinois, Indiana and Pennsylvania through Duke Energy Ohio's Commercial Power business segment operations, which are discussed further below. Duke Energy Ohio's principal lines of business include generation, transmission and distribution of electricity, the sale of and/or transportation of natural gas and energy marketing.

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.

These Financial Statements include, represent stand-alone financial statements of Duke Energy Ohio. Accordingly they do not reflect consolidation of any majority-owned subsidiaries where Duke Energy Ohio has control. These Financial Statements also reflect Duke Energy Ohio's proportionate share of certain generation and transmission facilities.

Use of Estimates. To conform to generally accepted accounting principles (GAAP) in the United States (U.S.), 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 information at the time, actual results could differ.

Reapplication of SFAS No. 71 to Portions of Generation in Ohio. Duke Energy Ohio's generation operations within its Commercial Power business segment include generation assets located in Ohio that are dedicated to serve Ohio native load customers. These assets, as excess capacity allows, also generate revenues through sales outside the native load customer base, and such revenue is termed non-native.

Prior to December 17, 2008, Duke Energy Ohio's Commercial Power business segment did not apply the provisions of SFAS No. 71 due to the comprehensive electric deregulation legislation passed by the state of Ohio in 1999. As described further below, effective December 17, 2008, the Public Utilities Commission of Ohio (PUCO) approved Duke Energy Ohio's Electric Security Plan (ESP), which resulted in the reapplication of SFAS No. 71 to certain portions of Commercial Power's operations as of that date.

From January 1, 2005 through December 31, 2008, Duke Energy Ohio, including its Commercial Power business segment, had been operating under a rate stabilization plan (RSP), which was a market-based standard service offer. See "Cost-Based Regulation" section below for further information on the RSP and the market-based standard service offer. Although the RSP contained certain trackers that enhanced the potential for cost recovery, there was no assurance of stranded cost recovery upon the expiration of the RSP on December 31, 2008 since it was initially anticipated that, upon the expiration of the RSP, there would be a move to full competitive markets. Accordingly, Duke Energy Ohio's Commercial Power business segment did not apply the provisions of SFAS No. 71 to any of its generation operations prior to December 17, 2008. As discussed further in Note 4, in April 2008, new legislation (SB 221) was passed in Ohio and signed by the Governor of Ohio on May 1, 2008. The new law codified the PUCO's authority to approve an electric utility's standard service offer either through an ESP or a Market Rate Option (MRO). The MRO is a price determined through a competitive bidding process. On July 31, 2008, Duke Energy Ohio filed an ESP, and with certain amendments, the ESP was approved by the PUCO on December 17, 2008. The ESP became effective on January 1, 2009.

In connection with the approval of the ESP, Duke Energy Ohio reassessed the applicability of SFAS No. 71 to Commercial Power's generation operations as SB 221 substantially increased the PUCO's oversight authority over generation in the state of Ohio, including giving the PUCO complete approval of generation rates and the establishment of an earnings test to determine if a utility has earned significantly excessive earnings. Duke Energy Ohio determined that certain costs and related rates (riders) of Commercial Power's operations related to generation serving native load meet the criteria established by SFAS No. 71 for regulatory accounting treatment as SB 221 and Duke Energy Ohio's approved ESP solidified the automatic recovery of certain costs of its generation serving native load within its Commercial Power business segment and increased the likelihood that Commercial Power's operations will remain under a cost recovery model for certain costs for the foreseeable future.

Under the ESP, Duke Energy Ohio will bill for its native load generation via numerous riders. SB 221 and the ESP resulted in the approval of the automatic recovery of certain of these riders, which includes, but is not limited to, a fuel and purchased power (FPP) rider and certain portions of a cost of environmental compliance (AAC) rider. Accordingly, Duke Energy Ohio's Commercial Power business segment began applying SFAS No. 71 to the corresponding RSP riders granting automatic recovery under the ESP on December 17, 2008. The remaining portions of Commercial Power's native load generation operations, revenues from which are reflected in rate riders for which the ESP does not specifically allow automatic cost recovery, as well as all generation operations associated with non-native customers, including Commercial Power's Midwest gas-fired generation assets, continue to not apply regulatory accounting as those operations do not meet the criteria of SFAS No. 71. Moreover, generation remains a competitive market in Ohio and native load customers continue to have the ability to switch to alternative suppliers for their electric generation service. As customers switch, there is a risk that some or all of the regulatory assets will not be recovered through the established riders. Duke Energy Ohio will continue to monitor the amount of native load customers that have switched to alternative suppliers when assessing the recoverability of its regulatory assets established for its native load generation operations within its Commercial Power business segment.

Despite certain portions of the Ohio native load operations not being subject to the accounting provisions of SFAS No. 71, all of Duke Energy Ohio's native load operations' rates are subject to approval by the PUCO, and thus these operations are referred to herein as Duke Energy Ohio's regulated operations.

Extraordinary item. The reapplication of SFAS No. 71 to certain portions of generation in Ohio on December 17, 2008, as discussed above, resulted in an approximate $67 million after-tax (approximately $103 million pre-tax) extraordinary gain related to mark-to-market losses previously recorded in earnings associated with open forward native load economic hedge contracts for fuel, purchased power and emission allowances, which the RSP and ESP allow to be recovered through a FPP rider. There were no other immediate income statement impacts on the date of reapplication of SFAS No. 71. A corresponding regulatory asset was established for the value of these contracts.

Cash and Cash Equivalents. All highly liquid investments with maturities of three months or less at the date of acquisition are considered cash equivalents.

Restricted Funds Held in Trust. At December 31, 2008 and 2007, Duke Energy Ohio had approximately $10 million and $62 million, respectively, of restricted cash related primarily to proceeds from debt issuances that are held in trust, primarily for the purpose of funding future environmental expenditures.

Inventory. Inventory consists primarily of coal held for electric generation, materials and supplies and natural gas held in storage for transmission and sales commitments, and is recorded primarily using the average cost method. Inventory related to Duke Energy Ohio's regulated operations is valued at historical cost consistent with ratemaking treatment. Materials and supplies are recorded as inventory when purchased and subsequently charged to expense or capitalized to plant when installed. Inventory related to Duke Energy Ohio's non-regulated operations is valued at the lower of cost or market.

Components of Inventory

	December 31,	
	2008	2007
	(in millions)	
Inventory		
Fuel for use in electric generation	$ 70	$ 68
Materials and supplies	75	57
Gas held in storage	2	60
Total Inventory	$147	$ 185

Effective November 1, 2008, Duke Energy Ohio executed an agreement with a third party to transfer title of natural gas inventory purchased by Duke Energy Ohio to the third party. Under the agreements, the gas inventory will be stored and managed for Duke Energy Ohio and will be delivered on demand. The gas storage agreements will expire on October 31, 2009, unless extended by the third party for an additional 12 months. As a result of the agreements, the combined natural gas inventory of approximately $71 million being held by a third party as of December 31, 2008 has been classified as Other within Current Assets on the Consolidated Balance Sheets. At December 31, 2008, this balance exceeded 5% of total current assets.

Cost-Based Regulation. Duke Energy Ohio accounts for certain of its regulated operations under the provisions of SFAS No. 71. The economic effects of regulation can result in a regulated company recording assets for costs that have been or are expected to be approved for recovery from customers in a future period or recording liabilities for amounts that are expected to be returned to customers in the rate-setting process in a period different from the period in which the amounts would be recorded by an unregulated enterprise. Accordingly, Duke Energy Ohio records assets and liabilities that result from the regulated ratemaking process that would not be recorded under GAAP for non-regulated entities. Regulatory assets and liabilities are amortized consistent with the treatment of the related costs in the ratemaking process. Management continually assesses whether regulatory assets are probable of future recovery by considering factors such as applicable regulatory changes, recent rate orders applicable to other regulated entities and the status of any pending or potential deregulation legislation. Additionally, management continually assesses whether any regulatory liabilities have been incurred. Based on this continual assessment, management believes the existing regulatory assets are probable of recovery and that no regulatory liabilities, other than those recorded, have been incurred. These regulatory assets and liabilities are primarily classified in the Consolidated Balance Sheets as Regulatory Assets and Deferred Debits, and Deferred Credits and Other Liabilities. Duke Energy Ohio periodically evaluates the applicability of SFAS No. 71, and considers factors such as regulatory changes and the impact of competition. If cost-based regulation ends or competition increases, Duke Energy Ohio may have to reduce its asset balances to reflect a market basis less than cost and write off the associated regulatory assets and liabilities. For further information see Note 3.

In order to apply the accounting provisions of SFAS No. 71 and record regulatory assets and liabilities, the scope criteria in SFAS No. 71 must be met. Management makes significant judgments in determining whether the scope criteria of SFAS No. 71 are met for its operations, including determining whether revenue rates for services provided to customers are subject to approval by an independent, third-party regulator, whether the regulated rates are designed to recover specific costs of providing the regulated service, and a determination of whether, in view of the demand for the regulated services and the level of competition, it is reasonable to assume that rates set at levels that will recover the operations' costs can be charged to and collected from customers. This final criterion requires consideration of anticipated changes in levels of demand or competition, direct and indirect, during the recovery period for any capitalized costs. If facts and circumstances change so that a portion of Duke Energy Ohio's regulated operations meet all of the scope criteria set forth in SFAS No. 71 when such criteria had not been previously met, SFAS No. 71 would be reapplied to all or a separable portion of the operations. Such reapplication includes adjusting the balance sheet for amounts that meet the definition of a regulatory asset or regulatory liability of SFAS No. 71. Refer to the above section titled, "Reapplication of SFAS No. 71 to Portions of Generation in Ohio."

From January 1, 2005 through December 31, 2008, Duke Energy Ohio operated under a RSP, a market-based standard service offer which was approved by the PUCO in November 2004, and which provided price certainty through December 31, 2008. See Note 3 for additional information. The RSP consisted of the following discrete charges:

- Annually Adjusted Component—intended to provide cost recovery primarily for environmental compliance expenditures. This component was avoidable (or by-passable) for the first 25% of residential load and 50% of non-residential load to switch to an alternative electric service provider.
- Infrastructure Maintenance Fund Charge—intended to compensate Duke Energy Ohio for committing its physical capacity. This charge was unavoidable (or non-by-passable).
- System Reliability Tracker—intended to provide actual cost recovery for capacity purchases, purchased power, reserve capacity, and related market costs for purchases to meet capacity needs. This charge was non-by-passable for residential load and by-passable for non-residential load under certain circumstances.
- Rate Stabilization Charge—intended to compensate Duke Energy Ohio for maintaining a fixed price through 2008. This charge was by-passable by the first 25% of residential load and 50% of non-residential load to switch.
- Generation Prices and Fuel Recovery—A market price has been established for generation service. A component of the market price was a fuel cost recovery mechanism that was adjusted quarterly for fuel, emission allowances, and certain purchased power costs, that exceed the amount originally included in the rates frozen in the Duke Energy Ohio transition plan. These new prices were applied to non-residential customers beginning January 1, 2005 and to residential customers beginning January 1, 2006.
- Transmission Cost Recovery—A transmission cost recovery mechanism was established beginning January 1, 2005 for non-residential customers and beginning January 1, 2006 for residential customers. The transmission cost recovery mechanism was designed to permit Duke Energy Ohio to recover certain Midwest Independent Transition System Operator, Inc. (Midwest ISO) charges, all Federal Energy Regulatory Commission (FERC) approved transmission costs, and all congestion costs allocable to retail ratepayers that are provided service by Duke Energy Ohio.

Energy Purchases and Fuel Costs. A cost tracking recovery mechanism is used to recover costs of retail fuel and emission allowances that exceed the amount originally included in the rates frozen in the Duke Energy Ohio transition plan. Also, Duke Energy Ohio began utilizing a tracking mechanism approved by the PUCO for the recovery of system reliability capacity costs related to certain specified purchases of power.

Accounting for Risk Management and Hedging Activities and Financial Instruments. Duke Energy Ohio may use a number of different derivative and non-derivative instruments in connection with its commodity price and interest rate risk management activities, including swaps, futures, forwards and options. All derivative instruments not designated and qualifying for the normal purchases and normal sales exception under SFAS No. 133, "*Accounting for Derivative Instruments and Hedging Activities,*" as amended (SFAS No. 133), are recorded on the Balance Sheets at their fair value. Cash inflows and outflows related to derivative instruments, except those that contain financing elements and those related to other investing activities, are presented as a component of operating cash flows in the accompanying Statements of Cash Flows. Cash inflows and outflows related to derivative instruments containing financing elements are presented as a component of financing cash flows in the accompanying Statements of Cash Flows while cash inflows and outflows from derivatives related to investing activities are presented as a component of investing cash flows in the accompanying Statements of Cash Flows.

Duke Energy Ohio has designated all energy commodity derivatives as non-trading subsequent to the October 2006 sale of Cinergy Marketing and Trading, LP, and Cinergy Canada, Inc. (collectively CMT). Gains and losses for all derivative contracts that do not represent physical delivery contracts are reported on a net basis in the Consolidated Statements of Operations. For each of Duke Energy Ohio's physical delivery contracts that are derivatives, the accounting model and presentation of gains and losses, or revenue and expense in the Statements of Operations is shown below.

Classification of Contract	Duke Energy Ohio Accounting Model	Presentation of Gains & Losses or Revenue & Expense
Trading derivatives	Mark-to-market[(a)]	Net basis in Non-regulated electric and other
Non-trading derivatives:		
Cash flow hedge	Accrual[(b)]	Gross basis in the same Statement of Operations category as the related hedged item
Fair value hedge	Accrual[(b)]	Gross basis in the same Statement of Operations category as the related hedged item

Normal purchase or sale	Accrual(b)	Gross basis upon settlement in the corresponding Statement of Operations category based on commodity type
Undesignated	Mark-to-market(a)	Net basis in the related Statement of Operations category for interest rate and commodity derivatives in the non-regulated business. For derivatives related to the regulated business, gains and losses are deferred as regulatory liabilities and assets, respectively.

(a) An accounting term used by Duke Energy Ohio to refer to derivative contracts for which an asset or liability is recognized at fair value and the change in the fair value of that asset or liability is generally recognized in the Statements of Operations for the non-regulated business and the Balance Sheets within regulatory assets or regulatory liabilities for the regulated business. This term is applied to trading and undesignated non-trading derivative contracts. As this term is not explicitly defined within GAAP, Duke Energy Ohio's application of this term could differ from that of other companies.

(b) An accounting term used by Duke Energy Ohio to refer to contracts for which there is generally no recognition in the Statements of Operations for any changes in fair value until the service is provided, the associated delivery period occurs or there is hedge ineffectiveness. As discussed further below, this term is applied to derivative contracts that are accounted for as cash flow hedges, fair value hedges, and normal purchases or sales, as well as to non-derivative contracts used for commodity risk management purposes. As this term is not explicitly defined within GAAP, Duke Energy Ohio's application of this term could differ from that of other companies.

On January 1, 2008, Duke Energy Ohio adopted FASB Staff Position (FSP) No. FIN 39-1, "*Amendment of FASB Interpretation No. (FIN) 39, Offsetting of Amounts Related to Certain Contracts*" (FSP No. FIN 39-1). In accordance with FSP No. FIN 39-1, Duke Energy Ohio offsets fair value amounts (or amounts that approximate fair value) recognized on its Consolidated Balance Sheets related to cash collateral amounts receivable or payable against fair value amounts recognized for derivative instruments executed with the same counterparty under the same master netting agreement. Prior to the adoption of FSP No. FIN 39-1, Duke Energy Ohio offset the fair value amounts recognized for derivative instruments executed with the same counterparty under the same master netting agreement in accordance with FIN 39, "*Offsetting of Amounts Related to Certain Contracts*," but presented cash collateral on a gross basis within the Balance Sheets. At December 31, 2008 and 2007, Duke Energy Ohio had receivables related to the right to reclaim cash collateral of approximately $85 million and $5 million, respectively, and had payables related to obligations to return cash collateral of an insignificant amount at each balance sheet date that have been offset against net derivative positions in the Balance Sheets. Additionally, Duke Energy Ohio had cash collateral receivables of approximately $53 million and $15 million under master netting arrangements that have not been offset against net derivative positions at December 31, 2008 and 2007, respectively, as these amounts primarily represent initial margin deposits related to New York Mercantile Exchange (NYMEX) futures contracts. Duke Energy Ohio had insignificant cash collateral payables under master netting arrangements that have not been offset against net derivative positions at December 31, 2008 and December 31, 2007.

Cash Flow and Fair Value Hedges. Qualifying energy commodity and other derivatives may be designated as either a hedge of a forecasted transaction or future cash flows (cash flow hedge) or a hedge of a recognized asset, liability or firm commitment (fair value hedge). For all contracts accounted for as a hedge, Duke Energy Ohio prepares formal documentation of the hedge in accordance with SFAS No. 133. In addition, at inception and at least every three months thereafter, Duke Energy Ohio formally assesses whether the hedge contract is highly effective in offsetting changes in cash flows or fair values of hedged items. Duke Energy Ohio documents hedging activity by transaction type (futures/swaps) and risk management strategy (commodity price risk/interest rate risk).

Changes in the fair value of a derivative designated and qualified as a cash flow hedge, to the extent effective, are included in the Statements of Common Stockholder's Equity and Comprehensive Income as Accumulated Other Comprehensive Income (Loss) (AOCI) until earnings are affected by the hedged item. Duke Energy Ohio discontinues hedge accounting prospectively when it has determined that a derivative no longer qualifies as an effective hedge, or when it is no longer probable that the hedged forecasted transaction will occur. When hedge accounting is discontinued because the derivative no longer qualifies as an effective hedge, the derivative is subject to the Mark-to-Market model of accounting (MTM Model) prospectively. Gains and losses related to discontinued hedges that were previously accumulated in AOCI will remain in AOCI until the underlying contract is reflected in earnings, unless it is probable that the hedged forecasted transaction will not occur, at which time associated deferred amounts in AOCI are immediately recognized in earnings.

For derivatives designated as fair value hedges, Duke Energy Ohio recognizes the gain or loss on the derivative instrument, as well as the offsetting loss or gain on the hedged item in earnings, to the extent effective, in the current period. All derivatives designated and accounted for as hedges are classified in the same category as the item being hedged in the Consolidated Statements of Cash Flows. In addition, all components of each derivative gain or loss are included in the assessment of hedge effectiveness.

Normal Purchases and Normal Sales (NPNS). On a limited basis, Duke Energy Ohio applies the NPNS exception to certain contracts. If contracts cease to meet this exception, the fair value of the contracts is recognized on the Consolidated Balance Sheets and the contracts are accounted for prospectively using the MTM Model unless immediately designated as a cash flow or fair value hedge.

Valuation. When available, quoted market prices or prices obtained through external sources are used to measure a contract's fair value. For contracts with a delivery location or duration for which quoted market prices are not available, fair value is determined based on internally developed valuation techniques or models. For derivatives recognized under the MTM Model, valuation adjustments are also recognized in the Statements of Operations.

Goodwill. Duke Energy Ohio evaluates goodwill for potential impairment under the guidance of SFAS No. 142, "*Goodwill and Other Intangible Assets*" (SFAS No. 142). Under this provision, goodwill is subject to an annual test for impairment. Duke Energy Ohio has designated August 31 as the date it performs the annual review for goodwill impairment for its reporting units. Under the provisions of SFAS No. 142, Duke Energy Ohio performs the annual review for goodwill impairment at the reporting unit level, which Duke Energy Ohio has determined to be an operating segment.

Impairment testing of goodwill consists of a two-step process. The first step involves a comparison of the determined fair value of a reporting unit with its carrying amount. If the carrying amount of the reporting unit exceeds its fair value, the second step of the process involves a comparison of the fair value and carrying value of the goodwill of that reporting unit. If the carrying value of the goodwill of a reporting unit exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to the excess. Additional impairment tests are performed between the annual reviews if events or changes in circumstances make it more likely than not that the fair value of a reporting unit is below its carrying amount.

Duke Energy Ohio primarily uses a discounted cash flow analysis to determine fair value. Key assumptions in the determination of fair value include the use of an appropriate discount rate, estimated future cash flows and estimated run rates of operation, maintenance, and general and administrative costs. In estimating cash flows, Duke Energy Ohio incorporates expected growth rates, regulatory stability and ability to renew contracts as well as other factors into its revenue and expense forecasts. See Note 9 for further information.

Property, Plant and Equipment. Recorded balances for property, plant and equipment existing as of April 3, 2006 were adjusted to reflect fair values as of that date. Due to rate-setting and recovery provisions currently in place for regulated operations, the fair values of property plant and equipment of the regulated operations were considered to approximate their carrying values as of the date of Duke Energy's merger with Cinergy. Accumulated depreciation was not reset to zero as of the merger date for the regulated property, plant and equipment due primarily to regulatory reporting implications. Unregulated property, plant and equipment were recorded at respective fair values and accumulated depreciation was reset to zero as of the merger date. Otherwise, property, plant and equipment are stated at the lower of historical cost less accumulated depreciation or fair value, if impaired. Duke Energy Ohio capitalizes all construction-related direct labor and material costs, as well as indirect construction costs. Indirect costs include general engineering, taxes and the cost of funds used during construction (see "Allowance for Funds Used During Construction (AFUDC)," discussed below). The cost of renewals and betterments that extend the useful life of property, plant and equipment are also capitalized. The cost of repairs, replacements and major maintenance projects, which do not extend the useful life or increase the expected output of the asset, is expensed as incurred. Depreciation is generally computed over the asset's estimated useful life using the composite straight-line method. The composite weighted-average depreciation rates were 2.6% for 2008 and 2007.

Depreciation studies are conducted periodically to update the composite rates and are approved by the PUCO.

When Duke Energy Ohio retires its regulated property, plant and equipment, it charges the original cost plus the cost of retirement, less salvage value, to accumulated depreciation. When it sells entire regulated operating units, or retires or sells non-regulated properties, the cost is removed from the property account and the related accumulated depreciation and amortization accounts are reduced. Any gain or loss is recorded in earnings, unless otherwise required by the applicable regulatory body.

See Note 13 for further information on the components and estimated useful lives of Duke Energy Ohio's property, plant and equipment balance.

Asset Retirement Obligations. Duke Energy Ohio recognizes asset retirement obligations in accordance with SFAS No. 143, "*Accounting For Asset Retirement Obligations*" (SFAS No. 143), for legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or normal use of the asset and FIN No. 47, "*Accounting for Conditional Asset Retirement Obligations*" (FIN 47), for conditional asset retirement obligations. The term conditional asset retirement obligation as used in SFAS No. 143 and FIN 47 refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and (or) method of settlement. Thus, the timing and (or) method of settlement may be conditional on a future event. Both SFAS No. 143 and FIN 47 require that the present value of the projected liability for an asset retirement obligation be recognized in the period in which it is incurred, if a reasonable estimate of fair value can be made. The present value of the liability is added to the carrying amount of the associated asset. This additional carrying amount is then depreciated over the estimated useful life of the asset. See Note 6 for further information regarding Duke Energy Ohio's asset retirement obligations.

Unamortized Debt Premium, Discount and Expense. Premiums, discounts and expenses incurred with the issuance of outstanding long-term debt are amortized over the terms of the debt issues. Any call premiums or unamortized expenses associated with refinancing higher-cost debt obligations to finance regulated assets and operations are amortized consistent with regulatory treatment of those items, where appropriate. The amortization expense is recorded as a component of interest expense in the Consolidated Statements of Operations and is reflected as Depreciation and amortization within Net cash provided by operating activities on the Statements of Cash Flows.

Loss Contingencies. Duke Energy Ohio is involved in certain legal and environmental matters that arise in the normal course of business. Loss contingencies are accounted for under SFAS No. 5, "*Accounting for Contingencies*" (SFAS No. 5). Under SFAS No. 5, contingent losses are recorded when it is determined that it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. When a range of the probable loss exists and no amount within the range is a better estimate than any other amount, Duke Energy Ohio records a loss contingency at the minimum amount in the range. Unless otherwise required by GAAP, legal fees are expensed as incurred. See Note 16 for further information.

Environmental Expenditures. Duke Energy Ohio expenses environmental expenditures related to conditions caused by past operations that do not generate current or future revenues. Environmental expenditures related to operations that generate current or future revenues are expensed or capitalized, as appropriate. Liabilities are recorded on an undiscounted basis when the necessity for environmental remediation becomes probable and the costs can be reasonably estimated, or when other potential environmental liabilities are reasonably estimable and probable.

Revenue Recognition and Unbilled Revenue. Revenues on sales of electricity and gas are recognized when either the service is provided or the product is delivered. Unbilled revenues are estimated by applying an average revenue per kilowatt-hour or per thousand cubic feet (Mcf) for all customer classes to the number of estimated kilowatt-hours or Mcfs delivered but not billed. The amount of unbilled revenues can vary significantly from period to period as a result of factors, including seasonality, weather, customer usage patterns and customer mix. Unbilled revenues, which are included in Receivables on the Balance Sheets, primarily relate to wholesale sales at Commercial Power and were approximately $40 million and $38 million, at December 31, 2008 and 2007, respectively. Additionally, receivables for unbilled revenues of approximately $123 million and $120 million at December 31, 2008 and 2007, respectively, related to retail accounts receivable at Duke Energy Ohio are included in the sales of accounts receivable to Cinergy Receivables Company, LLC (Cinergy Receivables). See Note 12 for additional information.

Fuel Cost Deferrals. Fuel expense includes fuel costs or other recoveries that are deferred through fuel clauses established by Duke Energy Ohio's regulators. These clauses allow Duke Energy Ohio to recover fuel costs, fuel-related costs and portions of purchased power costs through surcharges on customer rates. These deferred fuel costs are recognized in revenues and fuel expenses as they are billable to customers.

AFUDC. In accordance with regulatory treatment, Duke Energy Ohio records AFUDC, which represents the estimated debt and equity costs of capital funds necessary to finance the construction of new regulated facilities. Both the debt and equity components of AFUDC are non-cash amounts within the Statements of Operations. AFUDC is capitalized as a component of the cost of Property, Plant and Equipment, with an offsetting credit to Other Income and Expenses, net on the Statements of Operations for the equity component and as an offset to Interest Expense on the Statements of Operations for the debt component. After construction is completed, Duke Energy Ohio is permitted to recover these costs through inclusion in the rate base and the corresponding depreciation expense. The total amount of AFUDC included in the Statements of Operations was $25 million in 2008, which consisted of an after-tax equity component of $6 million and a before-tax interest expense component of $19 million. The total amount of AFUDC included in the Consolidated Statements of Operations was $32 million in 2007, which consisted of an after-tax equity component of $3 million and a before-tax interest expense component of $29 million.

AFUDC equity is recorded in the Consolidated Statements of Operations on an after-tax basis and is a permanent difference item for income tax purposes (i.e., a permanent difference between financial statement and income tax reporting), thus reducing Duke Energy Ohio's income tax expense and effective tax rate during the construction phase in which AFUDC equity is being recorded. The effective tax rate is subsequently increased in future periods when the completed property, plant and equipment is placed in service and depreciation of the AFUDC equity commences.

Accounting For Purchases and Sales of Emission Allowances. Emission allowances are issued by the Environmental Protection Agency (EPA) at zero cost and permit the holder of the allowance to emit certain gaseous by-products of fossil fuel combustion, including sulfur dioxide (SO_2) and nitrogen oxide (NO_X). Allowances may also be bought and sold via third party transactions or consumed as the emissions are generated. Allowances allocated to or acquired by Duke Energy Ohio are held primarily for consumption. Duke Energy Ohio records emission allowances as Intangibles, net on its Balance Sheets and recognizes the allowances in earnings as they are consumed or sold. Gains or losses on sales of emission allowances for non-regulated businesses are presented on a net basis in Gains (Losses) on Sales of Other Assets and Other, net, in the accompanying Statements of Operations. For regulated businesses that provide for direct recovery of emission allowances, any gain or loss on sales of recoverable emission allowances are included in the rate structure of the regulated entity and are deferred as a regulatory asset or liability. Future rates charged to retail customers are impacted by any gain or loss on sales of recoverable emission allowances and, therefore, as the recovery of the gain or loss is recognized in operating revenues, the regulatory asset or liability related to the emission allowance activity is recognized as a component of Fuel Used in Electric Generation and Purchased Power—Regulated in the Statements of Operations. Purchases and sales of emission allowances are presented gross as investing activities on the Statements of Cash Flows. See Note 10 for discussion regarding the impairment of the carrying value of certain emission allowances in 2008.

Income Taxes. As a result of Duke Energy's merger with Cinergy, Duke Energy Ohio 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 or benefits. The accounting for income taxes essentially represents the income taxes that Duke Energy Ohio would incur if Duke Energy Ohio were a separate company filing its own federal tax return as a C-Corporation. The current tax sharing agreement Duke Energy Ohio has with Duke Energy is substantially the same as the tax sharing agreement between Duke Energy Ohio and Cinergy prior to the merger. Deferred income taxes have been provided for temporary differences between the GAAP and tax carrying amounts of assets and liabilities. These differences create taxable or tax-deductible amounts for future periods. Investment tax credits have been deferred and are being amortized over the estimated useful lives of the related properties in Duke Energy Ohio's regulated operations.

Management evaluates and records uncertain tax positions in accordance with FIN 48, "*Accounting For Uncertainty in Income Taxes—an Interpretation of FASB Statement 109*" (FIN 48), which was adopted by Duke Energy Ohio on January 1, 2007. Duke Energy Ohio records tax benefits for uncertain positions taken or expected to be taken on tax returns, including the decision to exclude certain income or transactions from a return, when a more-likely-than-not threshold is met for a tax position and management believes that the position will be sustained upon examination by the taxing authorities. Management evaluates each position based solely on the technical merits and facts and circumstances of the position, assuming the position will be examined by a taxing authority having full knowledge of all relevant information. In accordance with FIN 48, Duke Energy Ohio records the largest amount of the uncertain tax benefit that is greater than 50% likely of being realized upon settlement or effective settlement. Management considers a tax position effectively settled for the purpose of recognizing previously unrecognized tax benefits when the following conditions exist: (i) the taxing authority has completed its examination procedures, including all appeals and administrative reviews that the taxing authority is required and expected to perform for the tax positions, (ii) Duke Energy Ohio does not intend to appeal or litigate any aspect of the tax position included in the completed examination, and (iii) it is remote that the taxing authority would examine or reexamine any aspect of the tax position. See Note 5 for further information.

Duke Energy Ohio records, as it relates to taxes, interest expense as Interest Expense and interest income and penalties in Other Income and Expenses, net, in the Statements of Operations.

Excise Taxes. Certain excise taxes levied by state or local governments are collected by Duke Energy Ohio from its customers. These taxes, which are required to be paid regardless of Duke Energy Ohio's ability to collect from the customer, are accounted for on a gross basis. When Duke Energy Ohio acts as an agent, and the tax is not required to be remitted if it is not collected from the customer, the taxes are accounted for on a net basis. Duke Energy Ohio's excise taxes accounted for on a gross basis and recorded as revenues in the accompanying Statements of Operations at December 31, 2008 and 2007, was $119 million and $116 million, respectively.

New Accounting Standards. The following new accounting standards were adopted by Duke Energy Ohio during the year ended December 31, 2008 and the impact of such adoption, if applicable, has been presented in the accompanying Consolidated Financial Statements:

SFAS No. 157, "Fair Value Measurements" (SFAS No. 157). Refer to Note 8 for a discussion of Duke Energy Ohio's adoption of SFAS No. 157.

SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities- including an amendment of FASB Statement No. 115" (SFAS No. 159). Refer to Note 8 for a discussion of Duke Energy Ohio's adoption of SFAS No. 159.

FASB Staff Position (FSP) No. FIN 39-1, "Amendment of FASB Interpretation No 39, Offsetting of Amounts Related to Certain Contracts" (FSP No. FIN 39-1). Refer to "Accounting for Risk Management and Hedging Activities and Financial Instruments" above for a discussion of Duke Energy Ohio's adoption of FSP No. FIN 39-1.

The following new accounting standards were adopted by Duke Energy Ohio during the year ended December 31, 2007 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 Statements 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 Duke

Energy Ohio 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 Duke Energy Ohio'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 Duke Energy Ohio 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 Duke Energy Ohio'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 post-retirement 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 loss, 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. Duke Energy Ohio recognized the funded status of its defined benefit pension and other post-retirement plans and provided the required additional disclosures as of December 31, 2006. The adoption of SFAS No. 158 did not have a material impact on Duke Energy Ohio'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, Duke Energy Ohio has measured its plan assets and obligations up to three months prior to the fiscal year-end, as allowed under the authoritative accounting literature. Duke Energy Ohio 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. Net periodic benefit cost of approximately $3 million for the three-month period between September 30, 2006 and December 31, 2006 was recognized, net of tax, as a separate adjustment of retained earnings as of January 1, 2007. Additionally, in the first quarter of 2007, the changes in plan assets and plan obligations between the September 30, 2006 and December 31, 2006 measurement dates not related to net periodic benefit cost was required to be recognized, net of tax, as a separate adjustment of the opening balance of AOCI and regulatory assets. This adjustment was not material. During the second quarter of 2007, Duke Energy Ohio completed these calculations. The finalization of these actuarial calculations resulted in a $2 million adjustment to AOCI and an insignificant adjustment to regulatory assets.

FIN 48. In July 2006, the FASB issued FIN 48, which provides guidance on accounting for income tax positions about which Duke Energy Ohio has concluded there is a level of uncertainty with respect to the recognition of a tax benefit in Duke Energy Ohio'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. Duke Energy Ohio adopted FIN 48 effective January 1, 2007. See Note 5 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. Duke Energy Ohio's adoption of FIN 48 as of January 1, 2007 was consistent with the guidance in this FSP.

The following new accounting standard was adopted by Duke Energy Ohio during the year ended December 31, 2006 and the impact of such adoption, if applicable, has been presented in the accompanying Consolidated Financial Statements:

The following new accounting standards have been issued, but have not yet been adopted by Duke Energy Ohio as of December 31, 2008:

SFAS No. 141 (revised 2007), "Business Combinations" (SFAS No. 141(R)). In December 2007, the FASB issued SFAS No. 141(R), which replaces SFAS

No. 141, "*Business Combinations*." SFAS No. 141(R) retains the fundamental requirements in SFAS No. 141 that the acquisition method of accounting be used for all business combinations and that an acquirer be identified for each business combination. This statement also establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling (minority) interests in an acquiree, and any goodwill acquired in a business combination or gain recognized from a bargain purchase. For Duke Energy Ohio, SFAS No. 141(R) must be applied prospectively to business combinations for which the acquisition date occurs on or after January 1, 2009. The impact to Duke Energy Ohio of applying SFAS No. 141(R) for periods subsequent to implementation will be dependent upon the nature of any transactions within the scope of SFAS No. 141(R). SFAS No. 141(R) changes the accounting for income taxes related to prior business combinations, such as Duke Energy's merger with Cinergy. Subsequent to the effective date of SFAS No. 141(R), the resolution of tax contingencies relating to Cinergy that existed as of the date of the merger will be required to be reflected in the Consolidated Statements of Operations instead of being reflected as an adjustment to the purchase price via an adjustment to goodwill.

SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities—an amendment to FASB Statement No. 133" (SFAS No. 161). In March 2008, the FASB issued SFAS No. 161, which amends and expands the disclosure requirements for derivative instruments and hedging activities prescribed by SFAS No. 133, "*Accounting for Derivative Instruments and Hedging Activities*." SFAS No. 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. Duke Energy Ohio will adopt SFAS No. 161 as of January 1, 2009 and SFAS No. 161 encourages, but does not require, comparative disclosure for earlier periods at initial adoption. The adoption of SFAS No. 161 will not have any impact on Duke Energy Ohio's consolidated results of operations, cash flows or financial position.

2. Merger, Transfer of Generating Assets and Sales of Other Assets

Acquisitions. Duke Energy Ohio consolidates assets and liabilities from acquisitions as of the purchase date, and includes earnings from acquisitions in consolidated earnings after the purchase date. Assets acquired and liabilities assumed are recorded at estimated fair values on the date of acquisition. The purchase price minus the estimated fair value of the acquired assets and liabilities meeting the definition of a business as defined in EITF Issue No. 98-3, "*Determining Whether a Nonmonetary Transaction Involves Receipt of Productive Assets or of a Business*" (EITF 98-3), is recorded as goodwill. The allocation of the purchase price may be adjusted if additional, requested information is received during the allocation period, which generally does not exceed one year from the consummation date, however, it may be longer for certain income tax items. As discussed in Note 1, effective January 1, 2009, Duke Energy Ohio adopted SFAS No. 141(R) and will apply the provisions of this standard to any future acquisitions.

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

Based on the market price of Duke Energy common stock during the period, including the two trading days before, through the two trading days after, May 9, 2005, the date Duke Energy and Cinergy announced the merger, the transaction was valued at approximately $9,115 million and resulted in goodwill recorded at Duke Energy Ohio at the time of the merger of approximately $2,348 million.

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 MW. 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.

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 on a quarterly basis during 2008 and 2007, Duke Energy Ohio did not incur any qualifying shortfalls related to the performance of the five plants and thus no cash reimbursement was required from Duke Energy.

Other Asset Sales. For the year ended December 31, 2008, the sale of other assets resulted in approximately $77 million in proceeds and net pre-tax gains of approximately $58 million, which is recorded in Gains (Losses) on Sales of Other Assets and Other, net in the Statements of Operations. These gains primarily relate to Commercial Power's sales of zero cost basis emission allowances.

For the year ended December 31, 2007, the sale of other assets resulted in proceeds of approximately $29 million, and net pre-tax losses of approximately $7, recorded in Gains (Losses) on Sales of Other Assets and Other, net in the Statements of Operations. These losses primarily relate to Commercial Power's sales of emission allowances that were written up to fair value in purchase accounting in connection with Duke Energy's merger with Cinergy in April 2006.

3. Regulatory Matters

Regulatory Assets and Liabilities. Substantially all of Franchised Electric and Gas' operations and certain portions of Commercial Power's operations apply the provisions of SFAS No. 71. Accordingly, these businesses record assets and liabilities that result from the regulated ratemaking process that would not be recorded under GAAP for non-regulated entities. See Note 1 for further information.

	As of December 31,		Recovery/Refund Period Ends
	2008	2007	
	(in millions)		
Regulatory Assets[(a)]			
Regulatory Transition Charges (RTC)[(d)(e)]	$ 138	$239	2011
Accrued pension and post-retirement[(e)]	161	107	(b)
Net regulatory asset related to income taxes	102	90	(i)
Capital-related distribution costs[(e)]	15	22	(m)
Unamortized costs of reacquiring debt [(f)]	7	7	2025
Vacation accrual[(g)]	10	8	2009
Deferred operating expense[(e)(c)]	8	7	2067
Hedge costs and other deferrals[(h)(n)]	100	5	2009
Storm cost deferrals[(e)]	—	—	(b)
Other[(h)]	34	4	(b)
Total Regulatory Assets	$ 575	$489	
Regulatory Liabilities[(a)]			
Removal costs[(c)(k)]	$ 156	$150	(j)
Accrued pension and post-retirement[(k)]	—	27	(b)

Over-recovery of fuel costs(l)	36		2009
Other(l)	19	5	(b)
Total Regulatory Liabilities	$ 211	$182	

(a) All regulatory assets and liabilities are excluded from rate base unless otherwise noted.

(b) Recovery/Refund period currently unknown.

(c) Included in rate base.

(d) The state of Ohio passed comprehensive electric deregulation legislation in 1999, and in 2000, the PUCO approved a stipulation agreement relating to Duke Energy Ohio's transition plan creating a RTC designed to recover Duke Energy Ohio's generation-related regulatory assets and transition costs over a ten-year period beginning January 1, 2001.

(e) Included in Other within Regulatory Assets and Deferred Debits on the Balance Sheets.

(f) Included in Deferred Debt Expense on the Balance Sheets.

(g) Included in Other within Current Assets on the Balance Sheets.

(h) Included in Other within Current Assets and Other within Regulatory Assets and Deferred Debits on the Balance Sheet.

(i) Recovery/refund is over the life of the associated asset or liability.

(j) Liability is extinguished over the lives of the associated assets.

(k) Included in Other within Deferred Credits and Other Liabilities on the Balance Sheets.

(l) Included in Accounts Payable or Other within Deferred Credits and Other Liabilities on the Balance Sheets.

(m) Recovered via revenue rider.

(n) Approximately $95 million of the balance at December 31, 2008 relates to mark-to-market deferrals associated with open hedge positions at Commercial Power as a result of the reapplication of SFAS No. 71.

Regulatory Merger Approvals. 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 required that certain merger related savings be shared with consumers in Ohio. The commissions also required Duke Energy Ohio to meet additional 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 and (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. During the first quarter of 2007, Duke Energy Ohio completed its merger related rate reductions and filed a report with the PUCO to terminate the merger credit riders. Approximately $2 million of the rate reductions was passed through to customers during the year ended December 31, 2007.
- The FERC approved the merger without conditions.

Restrictions on the Ability of Duke Energy Ohio to Make Dividends, Advances and Loans to Duke Energy Corporation. As discussed above, on April 3, 2006, the merger between Duke Energy and Cinergy was consummated. As a condition of the merger approval the state utility commissions imposed conditions (the Merger Conditions) on the ability of Duke Energy Ohio to transfer funds to Duke Energy through loans or advances, as well as restricted amounts available to pay dividends to Duke Energy. Pursuant to the Merger Conditions, Duke Energy Ohio will not declare and pay dividends out of capital or unearned surplus without the prior authorization of the PUCO. At December 31, 2008, Duke Energy Ohio had restricted net assets of approximately $6.3 billion that may not be transferred to Duke Energy without appropriate approval based on the aforementioned Merger Conditions.

Franchised Electric and Gas.

Rate Related Information. The PUCO approves rates and market prices for retail gas and electric service within the state of Ohio, except that non-regulated sellers of gas and electric generation also are allowed to operate in Ohio (see "Commercial Power" below). The FERC approves rates for electric sales to wholesale customers served under cost-based rates.

Duke Energy Ohio Electric Rate Filings. Duke Energy Ohio operated under a RSP, a market-based standard service approved by the PUCO in November 2004, from January 1, 2005 through December 31, 2008. In March 2005, the Office of the Ohio Consumers' Counsel (OCC) appealed the PUCO's approval of the RSP to the Supreme Court of Ohio which issued its decision in November 2006. It upheld the RSP in virtually every respect but remanded to the PUCO on two issues. The Supreme Court of Ohio 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 RSP, with certain modifications, and maintained the then current price. The ruling provided 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 customers an enhanced opportunity to avoid certain pricing components if they are served by a competitive supplier. The ruling also attempted to modify the statutory requirement that Duke Energy Ohio transfer its generating assets to an exempt wholesale generator (EWG) and ordered Duke Energy Ohio to retain ownership for the remainder of the RSP period. The ruling also incorrectly implied that Duke Energy Ohio's non-residential RTC will terminate at the end of 2008. On November 23, 2007, Duke Energy Ohio filed an application for rehearing on the portions of the PUCO's ruling relating to whether certain pricing components may be avoided by customers, the right to transfer generating assets, and the termination date of the RTC. On December 19, 2007, the PUCO issued its Entry on Rehearing granting in part and denying in part Duke Energy Ohio's Application for Rehearing. Among other things, the PUCO modified and clarified the applicability of various rate riders during customer shopping situations. It also clarified that the residential RTC terminates at the end of 2008 and that the non-residential RTC terminates at the end of 2010 and agreed to give further consideration to whether Duke Energy Ohio may transfer its generating assets to an EWG.

On February 15, 2008, Duke Energy Ohio filed a notice of appeal with the Ohio Supreme Court challenging a portion of the PUCO's decision on remand regarding Duke Energy Ohio's RSP. The October 2007 order permits non-residential customers to avoid certain charges associated with the costs of Duke Energy Ohio standing ready to serve such customers if they return after being served by another supplier. Duke Energy Ohio believes the PUCO exceeded its authority in modifying the charges that may be avoided, resulting in Duke Energy Ohio having to subsidize Ohio's competitive electric market. Duke Energy Ohio asked the Ohio Supreme Court to reverse the PUCO ruling and require that non-residential customers pay the charges associated with Duke Energy Ohio standing ready to serve them should they return from a competitive supplier. On March 28, 2008, Duke Energy Ohio voluntarily withdrew its appeal. The OCC filed a notice of appeal challenging the PUCO's October 2007 decision as unlawful and unreasonable. The OCC and Ohio Partners for Affordable Energy (OPAE) also filed appeals from the PUCO's November 20, 2007 order approving Duke Energy Ohio's RSP riders. Duke Energy

Ohio intervened in each appeal. Pending the Ohio Supreme Court's consideration of its initial appeal, the OCC requested that the PUCO stay implementation of the Infrastructure Maintenance Fund charge to be collected from customers approved in the October 2007 order. The Commission denied the OCC's request and the OCC filed a similar request with the Ohio Supreme Court. On July 9, 2008, the court denied the OCC's request to stay implementation of the Infrastructure Maintenance Fund. On April 30, 2008, the Ohio Supreme Court granted Duke Energy Ohio's motion to intervene in the OCC's appeal. Oral arguments were conducted on November 18, 2008. On January 2, 2009, the PUCO filed a motion to dismiss the action as moot. The PUCO argued that the rates at issue in this matter expired on January 1, 2009, with the implementation of Duke Energy Ohio's ESP. On February 19, 2009, the Ohio Supreme Court issued its decision on OCC's appeal. The Ohio Supreme Court granted the PUCO's motion to dismiss ruling that because the challenged rate structure is no longer in effect, it can neither order lower prospective rates nor order a refund.

New legislation (SB 221) was passed on April 23, 2008 and signed by the Governor of Ohio on May 1, 2008. The new law codifies the PUCO's authority to approve an electric utility's standard service offer through an ESP, which would allow for pricing structures similar to the current RSP. Electric utilities are required to file an ESP and may also file an application for a market rate option (MRO) at the same time. The MRO is a price determined through a competitive bidding process. If a MRO price is approved, the utility would blend in the RSP or ESP price with the MRO price over a six- to ten-year period, subject to the PUCO's discretion. SB 221 provides for the PUCO to approve non-by-passable charges for new generation, including construction work-in-process from the outset of construction, as part of an ESP. The new law grants the PUCO discretion to approve single issue rate adjustments to distribution and transmission rates and establishes new alternative energy resources (including renewable energy) portfolio standards, such that the utility's portfolio must consist of at least 25% of these resources by 2025. SB 221 also provides a separate requirement for energy efficiency, which must reduce 22% of a utility's load by 2025. The utility's earnings under the ESP can be subject to an annual earnings test and the PUCO must order a refund if it finds that the utility's earnings significantly exceed the earnings of benchmark companies with similar business and financial risks. The earnings test acts as a cap to the ESP price. SB 221 also limits the ability of a utility to transfer its designated generating assets to an EWG absent PUCO approval.

On July 31, 2008, Duke Energy Ohio filed a new generation pricing formula to be effective January 1, 2009, when the current RSP expired. Among other things, the plan provides pricing mechanisms for compensation related to the advanced energy, renewables and energy efficiency portfolio standards established by SB 221.

On October 27, 2008, Duke Energy Ohio filed a Stipulation and Recommendation (Stipulation) for consideration by the PUCO regarding Duke Energy Ohio's July 31, 2008 ESP filing. The Stipulation reflects agreement on all but two issues in this proceeding and was filed with the support of most of the parties to this proceeding. In addition to the Stipulation, the ability for residential governmental aggregation customers to avoid certain charges and to receive a shopping credit will be presented to the PUCO for a ruling. Parties to this proceeding who do not support the Stipulation were free to litigate any, or all, issues.

The Stipulation agrees to a net increase in base generation revenues of approximately $36 million, $74 million and $98 million in 2009, 2010 and 2011, respectively, including termination of the residential and non-residential RTC. Such amounts result in a residential net rate increase of 2% in 2009 and in 2010, and a non-residential net rate increase of 2% in 2009, 2010 and 2011. The Stipulation also allows the recovery of expenditures incurred to deploy SmartGrid infrastructure modernization technology on the distribution system. The recovery of such expenditures, net of savings, is subject to an annual residential revenue cap. Further, the Stipulation allows for the implementation of a new energy efficiency compensation model, referred to as Save-A-Watt, to achieve the energy efficiency mandate pursuant to the recent electric energy legislation. The criteria customers must meet to be exempt from Duke Energy Ohio's program will also presented to the PUCO for a ruling in this case. Also, under the Stipulation, Duke Energy Ohio may defer up to $50 million of certain operation and maintenance costs incurred at the W.C. Beckjord generating station and amortize such costs over a three-year period.

The ESP hearing occurred on November 10, 2008. On December 17, 2008, the PUCO issued its finding and order resolving the two litigated issues and adopting a modified Stipulation. Specifically, the PUCO modified the Stipulation to permit certain non-residential customers to opt out of utility-sponsored energy efficiency initiatives and to allow residential governmental aggregation customers who leave Duke Energy Ohio's system to avoid some charges. Applications for rehearing of the PUCO's decision have been filed by environmental groups and a residential customer advocate group. On February 11, 2009 the PUCO issued an Entry denying the rehearing requests.

As discussed further below within "Commercial Power" and in Note 1, as a result of the approval of the ESP, effective December 17, 2008, Commercial Power reapplied the provisions of SFAS No. 71 to certain portions of its operations.

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 sought an increase of approximately $34 million in revenue, or approximately 5.7%, to be effective in the spring of 2008. The application also requested approval to continue tracker recovery of costs associated with the accelerated gas main replacement program. The staff of the PUCO issued a Staff Report in December 2007 recommending an increase of approximately $14 million to $20 million in revenue. The Staff Report also recommended approval for Duke Energy Ohio to continue tracker recovery of costs associated with the accelerated gas main replacement program. On February 28, 2008, Duke Energy Ohio reached a settlement agreement with the PUCO Staff and all of the intervening parties on its request for an increase in natural gas base rates. The settlement called for an annual revenue increase of approximately $18 million in base revenue, or 3% over current revenue, permitted continued recovery of costs through 2018 for Duke Energy Ohio's accelerated gas main replacement program and permitted recovery of carrying costs on gas stored underground via its monthly gas cost adjustment filing. The settlement did not resolve a proposed rate design for residential customers, which involved moving more of the fixed charges of providing gas service, such as capital investment in pipes and regulating equipment, billing and meter reading, from the per unit charges to the monthly charge. On May 28, 2008, the PUCO approved the settlement in its entirety and the proposed rate design. On June 28, 2008, the OCC and OPAE filed Applications for Rehearing opposing the rate design. On July 23, 2008, the Ohio Commission issued an Entry denying the rehearing requests of OCC and OPAE. On September 16 and 19, 2008 respectively, OCC and OPAE filed their notices of appeal to the Ohio Supreme Court opposing the residential rate design issue. Merit briefs were filed with the Ohio Supreme Court on February 2, 2009. At this time, Duke Energy Ohio cannot predict whether the Ohio Supreme Court will reverse the PUCO's decision of May 28, 2008.

Duke Energy Ohio Electric Distribution Rate Case. On June 25, 2008, Duke Energy Ohio filed notice with the PUCO that it will seek a rate increase for electric delivery service of approximately $86 million, or 4.8% on total electric revenues, to be effective in the second quarter of 2009. Among other things, the rate request includes a proposal to increase the monthly residential customer charge from $4.50 to $10, with an offsetting reduction in the usage-based charge. This change in rate design will make customer bills more even throughout the year. Duke Energy Ohio also proposes a distribution modernization tracker that would allow smaller annual increases to reflect increased investment in the delivery system. On December 22, 2008, Duke Energy Ohio filed an application requesting deferral of approximately $31 million related to damage to its distribution system from a September 14, 2008 windstorm. On January 14, 2009, the PUCO granted Duke Energy Ohio's deferral request. Accordingly, a regulatory asset was recorded as of December 31, 2008 for $31 million. The staff of the PUCO issued a Staff Report in January 2009 recommending an increase of approximately $54 million to $62 million associated with the Ohio distribution rate case. The staff report did not recommend approval of the distribution modernization tracker. The report also recommended approval of a rider to recover the deferred storm costs from the September 14, 2008 windstorm and recommended a future hearing be established to evaluate the windstorm related costs and implement a rider. On March 31, 2009, Duke Energy Ohio and Parties to the case filed a Stipulation and Recommendation which settles all issues in the case. The Stipulation provides for a revenue increase of $55.3 Million, or a 2.9 percent overall increase. The Parties also agreed that Duke Energy Ohio will recover any approved costs associated with the September 14, 2008 wind storm restoration through a separate rider recovery mechanism. Duke Energy Ohio agreed to a file a separate application to set the rider and the PUCO will review the request and determine the appropriate amount of storm costs that should be recovered. The Stipulation, includes, among other things, a weatherization and energy efficiency program, and recovery of uncollectible expenses through a rider mechanism. The Stipulation is subject to approval by the PUCO.

Energy Efficiency. On July 11, 2007, the PUCO approved Duke Energy Ohio's Demand Side Management/Energy Efficiency Program (DSM Program). The DSM 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 are 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. Duke Energy Ohio filed the Save-A-Watt Energy Efficiency Plan as part of its ESP filed with the PUCO on July 31, 2008 (discussed above). A Stipulation and Recommendation for consideration by the PUCO regarding Duke Energy Ohio's ESP filing, including implementation of Save-A-Watt, was filed on October 27, 2008. The ESP hearing occurred on November 10, 2008. On December 17, 2008, the PUCO approved the ESP, including allowing for the implementation of a new Save-A-Watt energy efficiency compensation model. However, the PUCO determined that certain non-residential customers may opt out of Duke Energy Ohio's energy efficiency initiative. Applications for rehearing of this decision have been filed by environmental groups and a residential customer advocate group.

Other Franchised Electric and Gas Matters.

Ohio Riser Leak Investigation. 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. As of January 1, 2008, Duke Energy Ohio had 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. The riser replacement program is contained in the settlement reached with all intervenors and expected to be completed at the end of 2012.

Midwest Independent Transmission System Operator, Inc. (Midwest ISO) Resource Adequacy Filing. On December 28, 2007, the Midwest ISO filed its Electric Tariff Filing Regarding Resource Adequacy in compliance with the FERC's request of Midwest ISO to file Phase II of its long-term Resource Adequacy plan by December 2007. The proposal includes establishment of a resource adequacy requirement in the form of planning reserve margin. On March 26, 2008, the FERC ruled on the Midwest ISO's Resource Adequacy filing and ordered that the new Module E tariff be effective March 27, 2008. This action established a Midwest ISO-wide resource adequacy requirement for the first Planning Year, which begins June 2009. In the Order, the FERC, among other things, clarified that States have the authority to set their own Planning Reserve Margins, as long as they are not inconsistent with any reliability standard approved by the FERC.

Midwest ISO's Establishment of an Ancillary Services Market. On February 25, 2008, the FERC conditionally accepted the Midwest ISO proposal to implement a day-ahead and real-time ancillary services market (ASM), including a scarcity pricing proposal. By approving the ASM proposal, the FERC essentially approved the transfer and consolidation of Balancing Authority for the entire Midwest ISO area. This will allow the Midwest ISO to determine operating reserve requirements and procure operating reserves from all qualified resources from an organized market, in place of the current system of local management and procurement of reserves by the 24 Balancing Authorities. The Midwest ISO launched the ASM on January 6, 2009.

Commercial Power.

As discussed in Note 1, effective December 17, 2008, Commercial Power reapplied the provisions of SFAS No. 71 to certain portions of its operations due to the passing of SB 221 and the PUCO's approval of the ESP. However, since certain portions of Commercial Power's operations are not subject to regulatory accounting pursuant to SFAS No. 71, reported results for Commercial Power are subject to volatility due to the over- or under-collection of certain costs for which recovery is not automatic under the ESP. Commercial Power may be impacted by certain of the regulatory matters discussed above, including the Duke Energy Ohio electric rate filings.

FERC 203 Application. On April 23, 2008 (supplemented on May 6, 2008), Duke Energy Ohio and certain affiliates filed an application with the FERC requesting approval to transfer Duke Energy Ohio's electric generating facilities, some of which are designated to serve Ohio customers, to affiliate companies. The FERC filing, if approved, does not obligate Duke Energy to make the transfer of the electric generating facilities, and does not impact Duke Energy Ohio's current rates. On October 10, 2008, Duke Energy Ohio and affiliates filed a notice with the FERC reporting that Duke Energy Ohio was in settlement discussions with all parties in the Ohio proceeding regarding Duke Energy Ohio's application to establish an ESP, as discussed above. Duke Energy Ohio advised the FERC that it believes that in light of those discussions good cause exists for the FERC to extend the time to consider Duke Energy Ohio's Section 203 application. On October 17, 2008, the FERC issued an order extending the time for the FERC to act on the application by 180 additional days, and ordered Duke Energy Ohio to inform the FERC of the status of settlement discussions by November 16, 2008. As part of the settlement that was approved by the PUCO on December 17, 2008 (see discussion above) Duke Energy Ohio agreed to withdraw that portion of its application for approval related to the transfer of its generating facilities designated to serve Ohio customers and the PUCO approved of the transfer for the remaining generating facilities. Duke Energy Ohio filed a new application requesting FERC approval to transfer to affiliate companies only the remaining generating facilities not designated to serve Ohio customers, which was conditionally approved by the FERC on February 19, 2009. As a condition of approval, the FERC requires that all acquisition premiums related to generating assets being transferred to Cinergy Power be removed from Duke Energy Ohio's financial statements when Duke Energy Ohio submits its final accounting entries and that any debt associated with the generation assets being transferred be transferred to the generating facility before Duke Energy Ohio submits its final accounting entries. In addition, the FERC will hold Duke Energy Ohio to its commitments to have the affiliate company receiving assets pay taxes associated with the proposed transaction rather than Duke Energy Ohio, to maintain a minimum equity to total capital ratio of 30%, and to retain an amount of debt that will accommodate the preservation of Duke Energy Ohio's current credit ratings.

PJM Interconnection Reliability Pricing Model (RPM) Buyers' Complaint. On May 30, 2008, a group of public utility commissions, state consumer counsels, industrial power customers and load serving entities, known collectively as the RPM Buyers, filed a complaint at FERC. The complaint asks FERC to find that the results of the three transitional base residual auctions conducted by PJM to procure capacity for its RPM capacity market during the years 2008-2011 are unjust and unreasonable because, allegedly, they have produced excessive capacity prices, have failed to prevent suppliers from exercising market power, and have not produced benefits commensurate with costs. In their complaint, the RPM Buyers propose revised, administratively determined auction clearing prices. Certain Duke Energy Ohio revenues during the years 2008-2011 are at risk, as Duke Energy Ohio planned to supply capacity to this market. On July 11, 2008, Duke Energy Ohio filed a response to the complaint with the FERC. On September 19, 2008, the FERC issued an Order denying and dismissing the RPM Buyer's complaint, finding that, for the transition auctions, no party violated PJM's tariff and the prices determined during the auctions were in accordance with the tariff provisions governing the auctions. On October 20, 2008, the RPM Buyers filed a Request for Rehearing with the FERC that raised the same issues as in the initial complaint that was denied by the FERC.

4. Joint Ownership of Generating and Transmission Facilities

Duke Energy Ohio, Columbus Southern Power Company (CSP), and Dayton Power & Light (DP&L) jointly own electric generating units and related transmission facilities in Ohio. Duke Energy Ohio and Wabash Valley Power Association Inc. jointly own the Vermillion generating station in Indiana.

Duke Energy Ohio's share of jointly-owned plant or facilities included on the December 31, 2008 Consolidated Balance Sheet were as follows:

	Ownership Share	Property, Plant, and Equipment	Accumulated Depreciation	Construction Work in Progress
		(in millions)		
Duke Energy Ohio				
Production:				
Miami Fort Station (Units 7 and 8)(b)	64.0%	$ 591	$ 160	$ 4
W.C. Beckjord Station (Unit 6)(b)	37.5	55	31	1
J.M. Stuart Station(a)(b)	39.0	426	200	342
Conesville Station (Unit 4)(a)(b)	40.0	82	56	174
W.M. Zimmer Station(b)	46.5	1,321	509	10
Killen Station(a)(b)	33.0	207	128	96
Vermillion(b)	75.0	197	47	—
Transmission(c)	Various	90	51	—

(a) Station is not operated by Duke Energy Ohio.

(b) Included in Commercial Power segment.

(c) Included in Franchised Electric and Gas segment.

Duke Energy Ohio's share of revenues and operating costs of the above jointly owned generating facilities are included within the corresponding line on the Statements of Operations. Each participant in the jointly owned facilities must provide its own financing.

5. Income Taxes from Continuing Operations

Prior to the merger of Cinergy and Duke Energy on April 3, 2006, the taxable income of Duke Energy Ohio was reflected in Cinergy's U.S. federal and state income tax returns. After the merger, the taxable income of Duke Energy Ohio is reflected in Duke Energy's U.S. federal and state income tax returns. As a result of Duke Energy's merger with Cinergy, Duke Energy Ohio 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 Duke Energy Ohio would incur if Duke Energy Ohio were a separate company filing its own tax return as a C-Corporation. The current tax sharing agreement Duke Energy Ohio has with Duke Energy is substantially the same as the tax sharing agreement between Duke Energy Ohio and Cinergy prior to the merger.

The following details the components of income tax expense from continuing operations:

Income Tax Expense from Continuing Operations

	Year Ended December 31, 2008	Year Ended December 31, 2007
	(in millions)	
Current income taxes		
Federal	$98	$109
State	7	11
Total current income taxes (a)	105	120
Deferred income taxes		
Federal	47	15
State	1	(1)
Total deferred income taxes	48	14
Investment tax credit amortization	(1)	(2)
Total income tax expense from continuing operations	152	132
Total income tax benefit from discontinued operations	—	—
Total income tax expense from extraordinary item	37	—
Total income tax expense included in Consolidated Statements of	$189	

Operations	$ 132

(a) Included are FIN 48 benefits of approximately $17 million in 2008 and $13 million in 2007.

Reconciliation of Income Tax Expense at the U.S. Federal Statutory Tax Rate to the Actual Tax Expense from Continuing Operations (Statutory Rate Reconciliation)

	Year Ended December 31, 2008	Year Ended December 31, 2007
	(in millions)	
Income tax expense, computed at the statutory rate of 35%	$141	$139
State income tax, net of federal income tax effect	5	7
Depreciation and other PP&E related differences	7	9
ITC amortization	(1)	(2)
Manufacturing deduction	(5)	(10)
Equity in Subs		(11)
Other items, net	5	—
Total income tax expense from continuing operations	$ 152	$ 132
Effective Tax Rates	37.8 %	33.5 %

The manufacturing deduction was created by the American Job Creation Act of 2004 (the Act). The Act provides a deduction for income from qualified domestic production activities. During the years ended December 31, 2008 and 2007, the deduction increased to 6% on qualified production activities.

Net Deferred Income Tax Liability Components

	As of December 31, 2008	As of December 31, 2007
	(in millions)	
Deferred credits and other liabilities	$ 13	$ 94
Other	42	51
Total deferred income tax assets	55	145
Investments and other assets	(102)	(59)
Accelerated depreciation rates	(1,210)	(1,155)
Regulatory assets and deferred debits	(142)	(197)
Total deferred income tax liabilities	(1,454)	(1,411)
Total net deferred income tax liabilities	$ (1,399)	$ (1,266)

The above amounts have been classified in the Consolidated Balance Sheets as follows:

Net Deferred Income Tax Liabilities

	As of December 31, 2008	As of December 31, 2007
	(in millions)	
Current deferred tax assets, included in other current assets	$ 56	$ 26
Current deferred tax liabilities, included in other current liabilities	(7)	(8)
Non-current deferred tax liabilities	(1,448)	(1,284)

Total net deferred income tax liabilities	$ (1,399)	$ (1,266)

Changes to Unrecognized Tax Benefits

	2008 Increase/ (Decrease) (in millions)	2007 Increase/ (Decrease) (in millions)
Unrecognized Tax Benefits—January 1	$ 47	$ 63
Unrecognized Tax Benefits Changes		
Gross increases—tax positions in prior periods	—	9
Gross decreases—tax positions in prior periods	(22)	(19)
Settlements	(10)	(6)
Total Changes	(32)	(16)
Unrecognized Tax Benefits—December 31	$ 15	$ 47

At December 31, 2008 and December 31, 2007, no portion of the total unrecognized tax benefits would, if recognized, affect the effective tax rate.

It is reasonably possible that Duke Energy Ohio will reflect an approximate $6 million reduction in unrecognized tax benefits within the next twelve months due to expected settlements.

During the years ended December 31, 2008 and December 31, 2007, Duke Energy Ohio recognized net interest income of approximately $7 million and a net interest expense of approximately $2 million, respectively. At December 31, 2008 and December 31, 2007, Duke Energy Ohio had approximately $1 million of interest receivable and $7 million of interest payable, respectively, which reflects all interest related to income taxes. No amount has been accrued for the payment of penalties in the Balance Sheets at either December 31, 2008 or 2007.

Duke Energy Ohio 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

6. Asset Retirement Obligations

Asset retirement obligations, which represent legal obligations associated with the retirement of certain tangible long-lived assets, are computed as the present value of the projected costs for the future retirement of specific assets and are recognized in the period in which the liability is incurred, if a reasonable estimate of fair value can be made. The present value of the liability is added to the carrying amount of the associated asset in the period the liability is incurred. This additional carrying amount is then depreciated over the life of the asset. Subsequent to the initial recognition, the liability is adjusted for any revisions to the estimated future cash flows associated with the asset retirement obligation (with corresponding adjustments to property, plant and equipment), which can occur due to a number of factors including, but not limited to, cost escalation, changes in technology applicable to the assets to be retired and changes in federal, state or local regulations, as well as for accretion of the liability due to the passage of time until the obligation is settled. Depreciation expense is adjusted prospectively for any increases or decreases to the carrying amount of the associated asset. There is no impact on the earnings of Duke Energy Ohio's regulated operations within the Franchised Electric and Gas business segment when an asset retirement obligation is recognized as the effects of the recognition and subsequent accounting are offset by the establishment of regulatory assets and liabilities to defer all income statement impacts related to SFAS No. 143.

Asset retirement obligations at Duke Energy Ohio relate primarily to the retirement of gas mains, asbestos abatement at certain generating stations and closure and post-closure activities of landfills. In accordance with SFAS No. 143, Duke Energy Ohio identified certain assets that have an indeterminate life, and thus the fair value of the retirement obligation is not reasonably estimable. These assets included transmission pipelines. A liability for these asset retirement obligations will be recorded when a fair value is determinable.

The following table presents the changes to liability associated with asset retirement obligations during the years ended December 31, 2008 and 2007:

	Years Ended December 31,	
	2008	2007
	(in millions)	
Balance as of January 1,	$ 25	$ 33
Accretion expense	1	1
Liabilities settled(a)	—	(9)
Balance as of December 31,	$ 26	$ 25

(a) Liabilities settled during 2007 were related to the retirement of gas mains.

Duke Energy Ohio's regulated electric and regulated natural gas operations accrue costs of removal for property that does not have an associated legal retirement obligation based on regulatory orders from the PUCO and the KPSC. These costs of removal are recorded as a regulatory liability in accordance with regulatory treatment under SFAS No. 71. Duke Energy Ohio does not accrue the estimated cost of removal when no legal obligation associated with retirement or removal exists for any non-regulated assets (including Duke Energy Ohio's generation assets). The total amount of removal costs included in Other within Deferred Credits and Other Liabilities on the Consolidated Balance Sheets was $156 million and $150 million as of December 31, 2008 and 2007, respectively. Duke Energy Ohio's non-regulated operations expense cost of removal as incurred.

7. Risk Management and Hedging Activities and Credit Risk

Duke Energy Ohio is exposed to the impact of market fluctuations in the prices of electricity, coal, natural gas and other energy-related products marketed and purchased within its non-regulated operations, as well as within its regulated operations, to the extent there is excess capacity from generation assets that are dedicated to serve Ohio native load customers. Exposure to interest rate risk exists as a result of the issuance of variable and fixed rate debt. Duke Energy Ohio employs established policies and procedures to manage its risks associated with these market fluctuations using various commodity and financial derivative instruments, including swaps, futures, forwards and options. For Duke Energy Ohio, commodity price risk has been somewhat reduced by the December 17, 2008 PUCO approval of Duke Energy Ohio's ESP, which resulted in the reapplication of SFAS No. 71 to certain portions of Duke Energy Ohio's Commercial Power business segment operations as of that date.

As discussed in Note 1, on January 1, 2008, Duke Energy Ohio adopted FSP No. FIN 39-1. In accordance with FSP No. FIN 39-1, Duke Energy offsets fair value amounts (or amounts that approximate fair value) recognized on its Consolidated Balance Sheets related to cash collateral amounts receivable or payable against fair value amounts recognized for derivative instruments executed with the same counterparty under the same master netting agreement. Amounts presented in the table below exclude cash collateral amounts which are disclosed separately in Note 1.

Net Derivative Portfolio Assets (Liabilities) reflected in the Consolidated Balance Sheets:

	Years Ended December 31, 2008	Years Ended December 31, 2007
	(in millions)	
Hedging	$ (9)	$ (21)
Undesignated	(62)	7
Total	$ (71)	$ (14)

The amounts in the table above represent the combination of amounts presented as assets and liabilities for unrealized gains and losses on mark-to-market and hedging transactions on Duke Energy Ohio's Consolidated Balance Sheets.

Transfer of Certain Duke Energy Assets and Commodity Cash Flow Hedges. As part of the merger with Duke Energy on April 3, 2006, Duke Energy Ohio acquired certain generation assets from Duke Energy, representing approximately 3,600 MW of power generation and those assets were added to Duke Energy Ohio's non-regulated generation portfolio. Duke Energy Ohio also assumed approximately $63 million of pre-tax deferred losses ($39 million, after-tax) associated with contracts formerly designated as cash flow hedges of forecasted power sales and gas purchases from Duke Energy's Midwestern generation fleet. These contracts were sold by Duke Energy in 2005 and the deferred losses remain on the Consolidated Balance Sheet in AOCI until the related hedged transactions (gas purchases and power sales) occur. See Note 1 and Note 3 for further details on the completed merger and for details on the transfer of generation assets. During 2007, Duke Energy Ohio entered into additional contracts to protect margins for a portion of future sales and generation revenues and fuel expenses for the Midwestern generation fleet. Duke Energy Ohio is hedging exposures to the price variability of these commodities for a maximum period of 2 years. All derivatives related to the Midwestern generation fleet are included in Duke Energy Ohio's Consolidated Balance Sheets at December 31, 2008 and 2007.

As of December 31, 2008, $24 million of pre-tax deferred net losses on derivative instruments related to commodity cash flow hedges accumulated on the Consolidated Balance Sheet in AOCI are expected to be recognized in earnings during the next twelve months. However, due to the volatility of the commodities markets, the corresponding value in AOCI will likely change prior to its reclassification into earnings.

Other Derivative Contracts. *Trading.* Duke Energy Ohio had been exposed to the impact of market fluctuations in the prices of natural gas, electricity and other energy-related products marketed and purchased as a result of proprietary trading activities. In June 2006, Cinergy sold CMT, including certain of Duke Energy Ohio's trading contracts, to Fortis. The results of this trading activity up through the date of the sale, which was completed in October 2006, has been reflected in Loss from Discontinued Operations, net of tax, in the Consolidated Statements of Operations. In connection with the sale, Duke Energy Ohio entered into a series of Total Return Swaps (TRS) with Fortis (see Note 14). As of December 31, 2008, all of the underlying contracts that were part of the TRS had been transferred to Fortis and, as a result, Duke Energy Ohio has no future exposure associated with these TRS.

Undesignated. Duke Energy Ohio uses derivative contracts to manage the market risk exposures that arise from energy supply, structured origination, marketing, risk management, and commercial optimization services to large energy customers, energy aggregators and other wholesale companies, and to manage interest rate exposures. This category would include changes in fair value for derivatives that no longer qualify for the NPNS scope exception and disqualified hedge contracts, unless the derivative contract is subsequently re-designated as a hedge. The contracts in this category as of December 31, 2008 are primarily associated with forward power sales and coal purchases, as well as forward contracts to purchase SO_2 emission allowances and certain interest rate derivatives, for the Commercial Power and Franchised Electric and Gas operations. Duke Energy Ohio's exposure to price risk is influenced by a number of factors, including contract size, length, market liquidity, location and unique or specific contract terms.

During the years ended December 31, 2008 and 2007, Duke Energy Ohio included in earnings approximately $75 million of pre-tax losses and approximately $13 million of pre-tax gains, respectively, related to mark-to-market adjustments within Commercial Power, which are reported primarily in operating revenues within Non-regulated electric and other and Fuel used in electric generation and purchased power—non-regulated on the Consolidated Statements of Operations. As discussed in Note 1 and Note 4, beginning on December 17, 2008, Commercial Power reapplied the provisions of SFAS No. 71 to certain portions of its operations due to the passing of SB 221 and the approval of the ESP. The reapplication of SFAS No. 71 on December 17, 2008 resulted in an approximate $67 million after-tax (approximately $103 million pre-tax) extraordinary gain related to total mark-to-market losses previously recorded in earnings associated with open forward hedge contracts, which the ESP allows to be recovered through an FPP rider. Subsequent to December 17, 2008, mark-to-market gains and losses on certain open hedge positions related to native load generation will be deferred as regulatory assets or liabilities and recovered through the FPP rider.

Interest Rate (Fair Value or Cash Flow) Hedges. Changes in interest rates expose Duke Energy Ohio to risk as a result of its issuance of variable and fixed rate debt. Duke Energy Ohio manages its interest rate exposure by limiting its variable-rate exposures to a percentage of total capitalization and by monitoring the effects of market changes in interest rates. Duke Energy Ohio also enters into financial derivative instruments, including interest rate swaps, swaptions and U.S. Treasury lock agreements to manage and mitigate interest rate risk exposure. Duke Energy Ohio's existing interest rate derivative instruments and related ineffectiveness were insignificant to its consolidated results of operations, cash flows and financial position in 2008, 2007, and 2006.

As of December 31, 2008, approximately $2 million of pre-tax net losses on terminated interest rate hedges were accumulated on the Consolidated Balance Sheets in AOCI and are expected to be recognized in earnings during the next twelve months as the hedged transactions occur.

Normal Purchases and Normal Sales Exception. Duke Energy Ohio has applied the normal purchases and normal sales scope exception, as provided in SFAS No. 133 and interpreted by Derivatives Implementation Group Issue C15, "*Scope Exceptions: Normal Purchases and Normal Sales Exception for Option-Type Contracts and Forward Contracts in Electricity*," and amended by SFAS No. 149, "*Amendment of Statement 133 on Derivative Instruments and Hedging Activities*," to certain contracts involving the purchase and sale of electricity at fixed prices in future periods. These contracts, which relate primarily to the delivery of electricity over the next 6 years, are not included in the table above.

Credit Risk. Where exposed to credit risk, Duke Energy Ohio analyzes the counterparties' financial condition prior to entering into an agreement, establishes credit limits and monitors the appropriateness of those limits on an ongoing basis.

Duke Energy Ohio's industry has historically operated under negotiated credit lines for physical delivery contracts. Duke Energy Ohio may use master collateral agreements to mitigate certain credit exposures. The collateral agreements provide for a counterparty to post cash or letters of credit to the exposed party for exposure in excess of an established threshold. The threshold amount represents an unsecured credit limit, determined in accordance with the corporate credit policy. Collateral agreements also provide that the inability to post collateral is sufficient cause to terminate contracts and liquidate all positions.

Duke Energy Ohio also obtains cash or letters of credit from customers to provide credit support outside of collateral agreements, where appropriate, based on its financial analysis of the customer and the regulatory or contractual terms and conditions applicable to each transaction.

8. Fair Value of Financial Assets and Liabilities

On January 1, 2008, Duke Energy Ohio adopted SFAS No. 157. Duke Energy Ohio's adoption of SFAS No. 157 is currently limited to financial instruments and to non-financial derivatives as, in February 2008, the FASB issued FSP No. 157-2, which delayed the effective date of SFAS No. 157 until January 1, 2009 for non-financial assets and liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. There was no cumulative effect adjustment to retained earnings for Duke Energy Ohio as a result of the adoption of SFAS No. 157.

SFAS No. 157 defines fair value, establishes a framework for measuring fair value in GAAP in the U.S. and expands disclosure requirements about fair value measurements. Under SFAS No. 157, fair value is considered to be the exchange price in an orderly transaction between market participants to sell an asset or transfer a liability at the measurement date. The fair value definition under SFAS No. 157 focuses on an exit price, which is the price that would be received by Duke Energy Ohio to sell an asset or paid to transfer a liability versus an entry price, which would be the price paid to acquire an asset or received to assume a liability. Although SFAS No. 157 does not require additional fair value measurements, it applies to other accounting pronouncements that require or permit fair value measurements. In October 2008, the FASB issued FSP No. FAS 157-3, "*Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active*" (FSP FAS 157-3), which illustrated key considerations in determining the fair value of a financial asset when the market for that asset is not active. The application of FSP FAS 157-3 did not change the way Duke Energy Ohio determined fair value of its financial assets and liabilities.

Duke Energy Ohio determines fair value of financial assets and liabilities based on the following fair value hierarchy, as prescribed by SFAS No. 157, which prioritizes the inputs to valuation techniques used to measure fair value into three levels:

Level 1 inputs—unadjusted quoted prices in active markets for identical assets or liabilities that Duke Energy Ohio has the ability to access. An active market for the asset or liability is one in which transactions for the asset or liability occur with sufficient frequency and volume to provide ongoing pricing information. Duke Energy Ohio does not adjust quoted market prices on Level 1 inputs for any blockage factor.

Level 2 inputs—inputs other than quoted market prices included in Level 1 that are observable, either directly or indirectly, for the asset or liability. Level 2 inputs include, but are not limited to, quoted prices for similar assets or liabilities in an active market, quoted prices for identical or similar assets or liabilities in markets that are not active and inputs other than quoted market prices that are observable for the asset or liability, such as interest rate curves and yield curves observable at commonly quoted intervals, volatilities, credit risk and default rates.

Level 3 inputs—unobservable inputs for the asset or liability.

In February 2007, the FASB issued SFAS No. 159, "*The Fair Value Option for Financial Assets and Financial Liabilities-including an amendment of FASB Statement No. 115*" (SFAS No. 159), which permits entities to elect to measure many financial instruments and certain other items at fair value. For Duke Energy Ohio, SFAS No. 159 was effective as of January 1, 2008 and had no impact on amounts presented for periods prior to the effective date. Duke Energy Ohio does not currently have any financial assets or financial liabilities for which the provisions of SFAS No. 159 have been elected. However, in the future, Duke Energy Ohio may elect to measure certain financial instruments at fair value in accordance with this standard.

The following table provides the fair value measurement amounts for assets and liabilities recorded in both current and non-current Unrealized gains on mark-to-market and hedging transactions and Unrealized losses on mark-to-market and hedging transactions on Duke Energy Ohio's Consolidated Balance Sheets at fair value at December 31, 2008. Amounts presented in the table below exclude cash collateral amounts which are disclosed separately in Note 1.

Description	Total Fair Value Amounts at December 31, 2008	Level 1	Level 2	Level 3
	(in millions)			
Derivative assets	$ 68	$ 9	$ —	$ 59
Derivative liabilities	$ (139)	$ (88)	$ —	$ (51)

The following table provides a reconciliation of beginning and ending balances of assets and liabilities measured at fair value on a recurring basis where the determination of fair value includes significant unobservable inputs (Level 3):

Rollforward of Level 3 Measurements

	Derivatives (net)
	(in millions)
Year Ended December 31, 2008	
Balance at January 1, 2008	$ (22)
Total pre-tax realized or unrealized gains (losses) included in earnings:	
Revenue, non-regulated electric and other	(1)
Fuel used in electric generation and purchased power—non-regulated	96
Net purchases, sales, issuances and settlements	(63)
Total losses included on balance sheet as regulatory asset or liability or as non-current liability	(2)
Balance at December 31, 2008	$ 8

Pre-tax gains (losses) included in the Consolidated Statements of Operations related to Level 3 measurements outstanding at December 31, 2008:

Revenue, non-regulated electric and other	$ 7
Fuel used in electric generation and purchased power—non-regulated	30
Total	$ 37

The valuation method of the primary fair value measurements disclosed above is as follows:

Commodity derivatives: The pricing for commodity derivatives is primarily a calculated value which incorporates the forward price and is adjusted for liquidity (bid-ask spread), credit or non-performance risk (after reflecting credit enhancements such as collateral) and discounted to present value. The primary difference between a Level 2 and a Level 3 measurement has to do with the level of activity in forward markets for the commodity. If the market is relatively inactive, the measurement is deemed to be a Level 3 measurement. Some commodity derivatives are NYMEX contracts, which Duke Energy Ohio classifies as Level 1 measurements.

Fair Value Disclosures Required Under SFAS No. 107, "*Disclosures About Fair Value of Financial Instruments.*" The fair value of financial instruments, excluding financial assets and liabilities included in the scope of SFAS No. 157 disclosed in the tables above, is summarized in the following table. Judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates determined as of December 31, 2008 and 2007, are not necessarily indicative of the amounts Duke Energy Ohio could have realized in current markets.

Financial Instruments

	As of December 31,			
	2008		2007	
	Book Value	Approximate Fair Value	Book Value	Approximate Fair Value
	(in millions)			
Long-term debt, including current maturities	$1,518	$1,376	$ 1,622	$ 1,605

The fair value of cash and cash equivalents, accounts receivable, restricted funds held in trust, accounts payable and notes payable are not materially different from their carrying amounts because of the short-term nature of these instruments and/or because the stated rates approximate market rates.

9. Goodwill and Intangibles

Duke Energy Ohio evaluates the impairment of goodwill under the guidance of SFAS No. 142. There were no goodwill impairment charges in 2008 or 2007 as a result of the annual impairment tests required by SFAS No. 142. As discussed further in Note 2, in April 2006, Duke Energy and Cinergy consummated their merger, which resulted in Duke Energy Ohio recording goodwill of approximately $2.3 billion. Duke Energy Ohio had no goodwill prior to this date.

Intangible Assets

The carrying amount and accumulated amortization of intangible assets as of December 31, 2008 and December 31, 2007 are as follows:

	December 31, 2008	December 31, 2007
	(in millions)	
Emission allowances	$228	$358

Gas, coal, and power contracts	271	271
Other	9	9
Total gross carrying amount	508	638
Accumulated amortization—gas, coal, and power contracts	(111)	(89)
Accumulated amortization—other	(5)	(5)
Total accumulated amortization	(116)	(94)
Total intangible assets, net	$ 392	$ 544

Emission allowances in the table above include emission allowances which were recorded at fair value on the date of Duke Energy's merger with Cinergy and emission allowances purchased by Duke Energy Ohio. Additionally, Duke Energy Ohio is allocated certain zero cost emission allowances on an annual basis. The change in the gross carrying value of emission allowances during the years ended December 31, 2008 and 2007 is as follows:

	December 31, 2008	December 31, 2007
	(in millions)	
Gross carrying value at beginning of period	$ 357	$ 482
Purchases of emission allowances	17	22
Sales and consumption of emission allowances[a][b]	(64)	(147
Impairment of emission allowances[c]	(82)	—
Other changes	—	—
Gross carrying value at end of period	$ 228	$ 357

(a) Carrying values of emission allowances are recognized via a charge to expense when consumed. Carrying values of emission allowances sold or consumed during the years ended December 31, 2008 and 2007, were $63 million, $147 million, respectively.

(b) See Note 2 for a discussion of gains and losses on sales of emission allowances by Commercial Power during the years ended December 31, 2008 and 2007.

(c) See Note 10 for discussion of impairments of the carrying value of emission allowances during the year ended December 31, 2008.

Amortization expense for gas, coal and power contracts and other intangible assets for Duke Energy Ohio was approximately $22 million and $51 million for the years ended December 31, 2008 and 2007, respectively.

The table below shows the expected amortization expense for the next five years for intangible assets as of December 31, 2008. The expected amortization expense includes estimates of emission allowances consumption and estimates of consumption of commodities such as gas and coal under existing contracts. The amortization amounts discussed below are estimates. Actual amounts may differ from these estimates due to such factors as changes in consumption patterns, sales or impairments of emission allowances or other intangible assets, additional intangible acquisitions and other events.

	2009	2010	2011	2012	2013
			(in millions)		
Expected amortization expense	$ 80	$ 31	$ 29	$ 29	$ 26

Intangible Liabilities

In connection with the merger with Cinergy in April 2006, Duke Energy recorded an intangible liability of approximately $113 million associated with the market-based standard service offer in Ohio, which was recognized in earnings over the regulatory period that ended on December 31, 2008. The carrying amount of this intangible liability was zero and approximately $67 million at December 31, 2008 and 2007, respectively. Duke Energy also recorded approximately $56 million of intangible liabilities associated with other power sale contracts in connection with the merger with Cinergy. The carrying amount of these intangible liabilities was approximately $16 million and $22 million at December 31, 2008 and 2007, respectively. During the years ended December 31, 2008, 2007 and 2006, Duke Energy amortized approximately $73 million, $45 million and $35 million, respectively, to income related to intangible liabilities. The remaining balance of approximately $16 million will be amortized to income as follows: approximately $6 million in each of the years 2009 through 2010, and approximately $4 million in 2011. Intangible liabilities are classified as Other within Deferred Credits and Other Liabilities on the Balance Sheets.

10. Impairment Charges

Emission Allowances. On July 11, 2008, the U.S. Court of Appeals for the District of Columbia issued a decision vacating the Clean Air Interstate Rule (CAIR). In December 2008, a federal appeals court reinstated the CAIR while the EPA develops a new clean air program (see Note 18 for additional information). However, as a result of the July 11, 2008 decision temporarily vacating the CAIR, there were sharp declines in market prices of SO_2 and NO_x allowances in the third quarter of 2008 due to uncertainty associated with future federal requirements to reduce emissions. Accordingly, pursuant to SFAS No. 144, Duke Energy Ohio evaluated the carrying value of emission allowances held by its regulated and non-regulated businesses for impairment during the third quarter of 2008.

At the time of its repeal, the CAIR required 50% reductions in SO_2 emissions beginning in 2010 and further 30% reductions in SO_2 emissions in 2015 beyond specified requirements. These reductions were to be achieved by requiring the surrender of SO_2 allowances in a ratio of two allowances per ton of SO_2 emitted beginning in 2010, up from a current one-to-one ratio, escalating to 2.86 allowances per ton of SO_2 emitted beginning in 2015. Taking into account these increases in emission allowance requirements under the CAIR, Commercial Power's forecasted SO_2 emissions needed through 2037 exceeded the number of emission allowances held prior to the vacating of the CAIR. Subsequent to the decision to vacate the CAIR, Commercial Power determined that it had SO_2 allowances in excess of forecasted emissions and those allowances held in excess of forecasted emissions from future generation required an impairment evaluation. In performing the impairment evaluation for SO_2 allowances in the third quarter of 2008, management compared quoted market prices for each vintage year allowance to the carrying value of the related allowances in excess of forecasted emissions through 2038. Due to the sharp decline in market prices of SO_2 allowances, as discussed above, during the third quarter of 2008, Commercial Power recorded pre-tax impairment charges of approximately $77 million related to forecasted excess SO_2 allowances held. Additionally, Commercial Power recorded pre-tax impairment charges of approximately $5 million in the third quarter of 2008 related to annual NO_x allowances as these were also affected by the decision to vacate the CAIR. These impairment charges are recorded in Impairment Charges within Operating Expenses on the Consolidated Statements of Operations.

As a result of the reinstatement of the CAIR, as discussed above, all emission allowances and certain commitments to purchase emission allowances held by Commercial Power as of December 31, 2008 are anticipated to be utilized for future emission allowance requirements under the CAIR, unless the EPA develops a new clean air program that changes the existing requirements under the CAIR.

See Note 9 for further information regarding the carrying value of emission allowances.

11. Related Party Transactions

Duke Energy Ohio engages in related party transactions, which 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 Balance Sheets as of December 31, 2008 and December 31, 2007 are as follows:

	December 31, 2008	December 31, 2007(a)

	(in millions)	
Accounts Receivables	$ 5	$ 74
Accounts Payable	$ 125	$ 234

Duke Energy Ohio is charged its proportionate share of corporate governance and other costs by a consolidated affiliate of Duke Energy. Corporate governance and other shared services costs are primarily related to human resources, legal and accounting fees, as well as other third party costs. The expenses associated with certain allocated corporate governance and other service costs for Duke Energy Ohio, which are recorded in Operation, Maintenance and Other within Operating Expenses on the Consolidated Statements of Operations were as follows:

	Year Ended December 31, 2008	Year Ended December 31, 2007
	(in millions)	
Corporate Governance and shared services expenses	**$241**	**$201**

Duke Energy Ohio incurs expenses related to certain insurance coverages through Bison Insurance Company Limited, Duke Energy's wholly-owned captive insurance subsidiary. These expenses, which are recorded in Operation, maintenance and other within Operating Expenses on the Statements of Operations, were approximately $15 million and $22 million, for the years ended December 31, 2008 and 2007, respectively. Additionally, Duke Energy Ohio records income associated with the rental of office space to a consolidated affiliate of Duke Energy, as well as income associated with certain other recoveries of cost. Rental income and other cost recoveries were approximately $18 million and $21 million, for the years ended December 31, 2008 and 2007, respectively.

Duke Energy Ohio participates in Cinergy's qualified pension plan, non-qualified pension plan and other post-retirement benefit plans and is allocated its proportionate share of expenses associated with these plans (see Note 17). Additionally, Duke Energy Ohio has been allocated accrued pension and other post-retirement and post-employment benefit obligations from Cinergy of approximately $376 million and $243 million at December 31, 2008 and 2007, respectively. The above amounts have been classified in the Consolidated Balance Sheets as follows:

	December 31, 2008	December 31, 2007
	(in millions)	
Other current liabilities	$ 5	$ 5
Accrued pension and other post-retirement benefit costs	$ 367	$ 236
Other deferred credits and other liabilities	$ 4	$ 2

Additionally, certain trade receivables have been sold by Duke Energy Ohio to Cinergy Receivables, an unconsolidated entity formed by Cinergy. The proceeds obtained from the sales of receivables are largely cash but do include a subordinated note from Cinergy Receivables for a portion of the purchase price. This subordinated note is classified by Duke Energy Ohio as Receivables in the Balance Sheets and was approximately $146 million and $160 million as of December 31, 2008 and December 31, 2007, respectively. The interest income associated with the subordinated note, which is recorded in Other Income and Expenses, net on the Statements of Operations, was approximately $18 million and $21 million for the years ended December 31, 2008 and 2007, respectively.

See Note 15 for a discussion of dividends Duke Energy Ohio paid to its parent, Cinergy.

During the second quarter of 2007 Duke Energy Ohio received a $29 million capital contribution from its parent, Cinergy.

See Note 2 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.

As discussed further in Note 14, Duke Energy Ohio participates in a money pool arrangement with Duke Energy and other Duke Energy subsidiaries. As of December 31, 2008 and December 31, 2007, Duke Energy Ohio was in a payable position of $60 million and $161 million, respectively, classified within Notes payable in the accompanying Balance Sheets. The expenses associated with money pool activity, which are recorded in Interest Expense on the Statements of

Operations, for the years ended December 31, 2008 and 2007, were approximately $3 million and $10 million, respectively.

12. Sales of Accounts Receivable

Accounts Receivable Securitization. Duke Energy Ohio sells, on a revolving basis, nearly all of their retail accounts receivable and related collections to Cinergy Receivables, a bankruptcy remote, special purpose entity that is a wholly-owned limited liability company of Cinergy. The securitization transaction was structured to meet the criteria for sale treatment under SFAS No. 140, and, accordingly, Cinergy does not consolidate Cinergy Receivables and the transfers of receivables are accounted for as sales.

The proceeds obtained from the sales of receivables are largely cash but do include a subordinated note from Cinergy Receivables for a portion of the purchase price (typically approximates 25 percent of the total proceeds). The note, which amounts to approximately $146 million and $160 million at December 31, 2008 and 2007, respectively, is subordinate to senior loans that Cinergy Receivables obtain from commercial paper conduits controlled by unrelated financial institutions which is the source of funding for the subordinated note. This subordinated note is a retained interest (right to receive a specified portion of cash flows from the sold assets) under SFAS No. 140 and is classified within Receivables in the accompanying Balance Sheets at December 31, 2008 and 2007.

The carrying values of the retained interests are determined by allocating the carrying value of the receivables between the assets sold and the interests retained based on relative fair value. The key assumptions in estimating fair value are the anticipated credit losses, the selection of discount rates, and expected receivables turnover rate. Because (a) the receivables generally turnover in less than two months, (b) credit losses are reasonably predictable due to Duke Energy Ohio's broad customer base and lack of significant concentration, and (c) the purchased beneficial interest is subordinate to all retained interests and thus would absorb losses first, the allocated bases of the subordinated notes are not materially different than their face value. Interest accrues to Duke Energy Ohio on the retained interests using the accretable yield method, which generally approximates the stated rate on the notes since the allocated basis and the face value are nearly equivalent. An impairment charge is recorded against the carrying value of both the retained interests and purchased beneficial interest whenever it is determined that an other-than-temporary impairment has occurred (which is unlikely unless credit losses on the receivables far exceed the anticipated level).

The key assumptions used in estimating the fair value are as follows:

	Years Ended December 31, 2008	2007
Anticipated credit loss rate	0.7%	0.7%
Discount rate on expected cash flows	5.3%	7.7%
Receivables turnover rate	12.4%	12.5%

The hypothetical effect on the fair value of the retained interests assuming both a 10% and a 20% unfavorable variation in credit losses or discount rates is not material due to the short turnover of receivables and historically low credit loss history.

Duke Energy Ohio retains servicing responsibilities for its role as a collection agent on the amounts due on the sold receivables. However, Cinergy Receivables assumes the risk of collection on the purchased receivables without recourse to Duke Energy Ohio in the event of a loss. While no direct recourse to Duke Energy Ohio exists, it risks loss in the event collections are not sufficient to allow for full recovery of its retained interests. No servicing asset or liability is recorded since the servicing fee paid to Duke Energy Ohio approximates a market rate.

The following table shows the gross and net receivables sold, retained interests, sales, and cash flows during the periods ending:

	Year Ended December 31, 2008	Year Ended December 31, 2007
Receivables sold as of period end	$ 401	$ 373
Less: Retained interests	146	160

Net receivables sold as of period end	$ 255	$ 213
Sales during period		
Receivables sold	$ 2,829	$ 2,720
Loss recognized on sale	32	40
Cash flows during period		
Cash proceeds from receivables sold	$ 2,791	$ 2,633
Collection fees received	3	3
Return received on retained interests	18	21

13. Property, Plant and Equipment

	Estimated Useful Life (Years)	December 31, 2008	December 31, 2007
		(in millions)	
Land	—	$ 105	$ 109
Plant—Regulated			
Electric generation, distribution and transmission[a]	8 – 100	2,178	2,111
Natural gas transmission and distribution[a]	12 – 60	1,208	1,104
Other buildings and improvements[a]	25 – 100	59	110
Plant—Unregulated			
Electric generation, distribution and transmission	8 – 100	3,710	3,813
Other buildings and improvements	30	190	—
Vehicles	10 – 20	5	—
Equipment	5 – 25	52	56
Construction in process	—	781	544
Other	5 – 20	162	171
Total property, plant and equipment		8,450	8,018
Total accumulated depreciation—regulated[b]		(1,008)	(1,014)
Total accumulated depreciation—unregulated		(631)	(455)
Total net property, plant and equipment		$ 6,811	$ 6,549

(a) Includes capitalized leases of approximately $80 million for 2008 and $64 million for 2007.

(b) Includes accumulated amortization of capitalized leases: $4 million for 2008 and $8 million for 2007.

Capitalized interest, which includes the interest expense component of AFUDC, amounted to $19 million for the year ended December 31, 2008 and $29 million for the year ended December 31, 2007.

14. Debt and Credit Facilities

Summary of Debt and Related Terms

	Weighted-Average Rate	Year Due	December 31,	December 31,
			(in millions)	
Unsecured debt	5.8%	2012 – 2033	$ 1,050	$ 1,150
Capital leases	5.1%	2009 – 2016	38	44
Other debt(a)	1.9%	2024 – 2041	468	468
Notes payable	2.2%		279	—
Money pool	0.5%		60	161
Unamortized debt discount and premium, net			(38)	(40)
Total debt			1,857	1,783
Current maturities of long-term debt			(5)	(104)
Short-term notes payable			(339)	(161)
Total long-term debt			$1,513	$1,518

(a) Includes $461 million of Duke Energy Ohio pollution control bonds as of December 31, 2008 and 2007, respectively. As of December 31, 2008 and 2007, zero and $84 million, respectively, was secured by first and refunding mortgage bonds and $12 million was secured by a letter of credit for both years. In March 2009, Duke Energy Ohio issued $450 million principal amount of first mortgage bonds, which carry a fixed interest rate of 5.45% and matures April 1, 2019. Proceeds from this issuance will be used to repay short-term notes and for general corporate purposes, including funding capital expenditures.

Unsecured and Other Debt.

In December 2007, Duke Energy Ohio issued $140 million in tax-exempt floating-rate bonds. The bonds are structured as insured auction rate securities, subject to an auction process every 35 days and bear a final maturity of 2041. The bonds were issued through the Ohio Air Quality Development Authority to fund a portion of the environmental capital expenditures at the Conesville, Stuart and Killen Generation Stations in Ohio.

Money Pool. Duke Energy Ohio receives support for its short-term borrowing needs through its participation with Duke Energy and other Duke Energy subsidiaries in a money pool arrangement. Under this arrangement, those companies with short-term funds may provide short-term loans to affiliates participating under this arrangement. The money pool is structured such that Duke Energy Ohio is able to manage its cash needs and working capital requirements through short-term lending and borrowing with affiliated companies. As of December 31, 2008 and December 31, 2007, Duke Energy Ohio had net borrowings of approximately $60 million and $161 million classified within Notes payable in the accompanying Balance Sheets. During the year ended

December 31, 2008, the $101 million decrease in the money pool activity is reflected as a cash outflow in Notes payable to affiliate, net within Net cash (used in) provided by financing activities on the Statements of Cash Flows. During the year ended December 31, 2007, the $70 million decrease in the money pool activity is reflected as a cash outflow in Notes payable to affiliate, net within Net cash (used in) provided by financing activities on the Statements of Cash Flows.

Floating Rate Debt. Unsecured debt and other debt included approximately $461 million of floating-rate debt as of December 31, 2008 and 2007, respectively. Floating-rate debt is primarily based on commercial paper rates or a spread relative to an index such as a London Interbank Offered Rate (LIBOR) for debt denominated in U.S. dollars. As of December 31, 2008 and 2007, the weighted-average interest rate associated with floating-rate debt was approximately 1.9% and 4.4%, respectively.

Auction Rate Debt. As of December 31, 2008, Duke Energy Ohio had approximately $365 million of auction rate pollution control bonds outstanding. While these debt instruments are long-term in nature and cannot be put back to Duke Energy Ohio prior to maturity, the interest rates on these instruments are designed to reset periodically through an auction process. In February 2008, Duke Energy Ohio began to experience failed auctions on these debt instruments. When failed auctions occur on a series of this debt, Duke Energy Ohio is required to pay the maximum auction rate as prescribed by the bond document. The maximum auction rate for the auction rate debt is 2.0 times one-month LIBOR. Payment of the failed-auction interest rates will continue until Duke Energy Ohio is able to either successfully remarket these instruments through the auction process or refund and refinance the existing debt through the issuance of an equivalent amount of tax exempt bonds. While Duke Energy Ohio intends to refund and refinance these tax exempt auction rate bonds, the timing of such refinancing transactions is uncertain and subject to market conditions. However, even if Duke Energy Ohio is unable to successfully refund and refinance these debt instruments, the impact of paying higher interest rates on the outstanding auction rate debt is not expected to materially affect Duke Energy Ohio's consolidated results of operations, cash flows or financial position. The weighted-average interest rate associated with Duke Energy Ohio's auction rate pollution control bonds, was 1.6% as of December 31, 2008 and 4.56% as of December 31, 2007.

Maturities, Call Options and Acceleration Clauses.

Annual Maturities as of December 31, 2008

	(in millions)
2009	$ 5
2010	4
2011	4
2012	504
2013	4
Thereafter	997
Total long-term debt including current maturities	$ 1,518

Duke Energy Ohio has the ability under certain debt facilities to call and repay the obligation prior to its scheduled maturity. Therefore, the actual timing of future cash repayments could be materially different than the above as a result of Duke Energy Ohio's ability to repay these obligations prior to their scheduled maturity.

Available Credit Facilities and Capacity Utilized Under Available Credit Facilities. In June 2007, Duke Energy closed the syndication of an amended and restated credit facility, which replaced existing credit facilities, with a 5-year, $2.65 billion master credit facility. In March 2008, Duke Energy entered into an amendment to its $2.65 billion master credit facility whereby the borrowing capacity was increased by $550 million to $3.2 billion. In October 2008, Duke Energy terminated the participation of one of the financial institutions supplying approximately $63 million of credit commitment under its master credit facility. The total credit facility capacity under the master credit facility subsequent to this termination is approximately $3.14 billion. Duke Energy has the unilateral ability under the master credit facility to increase or decrease the borrowing sub limits of each borrower, subject to maximum cap limitation, at any time. At December 31, 2008, Duke Energy Ohio had borrowing sub limits under Duke Energy's master credit facility of $650 million. The amount available to Duke Energy Ohio under the sub limits to Duke Energy's master credit facility has been reduced by drawdowns of cash, borrowings through the money pool arrangement, and the use of the master credit facility to backstop issuances of letters of credit and pollution control bonds, as discussed above.

In September 2008, Duke Energy and its wholly-owned subsidiaries, including Duke Energy Ohio, borrowed a total of approximately $1 billion under Duke Energy's master credit facility, of which Duke Energy Ohio's portion is approximately $279 million and remained outstanding as of December 31, 2008. The loan, which is a revolving credit loan, bear interest at one-month LIBOR plus an applicable spread ranging from 19 basis points and are due in September 2009; however, Duke Energy Ohio has the ability under the master credit facility to renew the loan up through the date the master credit facility matures, which is in June 2012. Since Duke Energy Ohio does not have the intent to refinance these obligations on a long-term basis, Duke Energy Ohio's borrowing is reflected in Notes payable within Current Liabilities on the Balance Sheets at December 31, 2008. These borrowings reduce Duke Energy Ohio's available credit capacity under Duke Energy's Master Credit Facility, as discussed above.

At December 31, 2008 and December 31, 2007, approximately $96 million, respectively, of certain pollution control bonds, which are short-term obligations by nature, are classified as Long-Term Debt on the Balance Sheets due to Duke Energy Ohio'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 Duke Energy Ohio the ability to refinance these short-term obligations on a long-term basis. Of the $96 million of pollution control bonds outstanding at December 31, 2008, approximately $84 million were backstopped by Duke Energy's master credit facility, with the remaining balance backstopped by other specific credit facilities separate from the master credit facility.

Restrictive Debt Covenants. Duke Energy's debt and 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 and Duke Energy Ohio to not exceed 65%. Duke Energy Ohio'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 December 31, 2008, Duke Energy and Duke Energy Ohio were in compliance with all covenants that would impact Duke Energy Ohio's ability to borrow funds under the debt and credit facilities. 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 Assets Pledged as Collateral. As of December 31, 2008, substantially all of Franchised Electric and Gas' electric plant in service is mortgaged under the mortgage bond indenture of Duke Energy Ohio.

15. Common and Preferred Stock

Common Stock. Cinergy owns all of the common stock of Duke Energy Ohio. In April 2006, Duke Energy acquired 100 percent of Cinergy's outstanding stock. See Note 2 for additional information.

In April 2006, Duke Energy Ohio filed a petition with the FERC for a declaratory ruling that its payment of dividends out of its paid-in capital account, using the balance transferred from the retained earnings account, resulting from purchase accounting arising from the Duke Energy/Cinergy merger, would not violate section 305(a) of the Federal Power Act, which generally precludes the payment of dividends out of paid-in capital. Such a ruling was necessary because purchase/push-down accounting reset retained earnings to zero as of April 3, 2006, thus potentially precluding Duke Energy Ohio from using pre-merger retained earnings to pay dividends. Without this approval, Duke Energy Ohio's ability to pay dividends to Duke Energy or Cinergy would have been constrained to earnings since April 3, 2006. In May 2006, the FERC issued an order approving Duke Energy Ohio's petition. For further discussion of restrictions on Duke Energy Ohio's ability to pay dividends to its parent, see Note3.

During the years ended December 31, 2008 and 2007, Duke Energy Ohio paid dividends to its parent, Cinergy, of $200 million and $135 million, respectively.

16. Commitments and Contingencies

General Insurance

Effective with the date of the merger between Duke Energy and Cinergy, Duke Energy Ohio carries, either directly or through Duke Energy's captive insurance company, Bison Insurance Company Limited, insurance and reinsurance coverages consistent with companies engaged in similar commercial operations with similar type properties. Duke Energy Ohio's insurance coverage includes (1) commercial general public liability insurance for liabilities arising to third parties for bodily injury and property damage resulting from Duke Energy Ohio's operations; (2) workers' compensation liability coverage to required statutory limits; (3) automobile liability insurance for all owned, non-owned and hired vehicles covering liabilities to third parties for bodily injury and property damage; (4) insurance policies in support of the indemnification provisions of Duke Energy Ohio's by-laws and (5) property insurance covering the replacement value of all real and personal property damage, excluding electric transmission and distribution lines, including damages arising from boiler and machinery breakdowns, earthquake, flood damage and extra expense. All coverages are subject to certain deductibles, terms and conditions common for companies with similar types of operations.

Duke Energy Ohio also maintains excess liability insurance coverage above the established primary limits for commercial general liability and automobile liability insurance. Limits, terms, conditions and deductibles are comparable to those carried by other companies with similar types of operations.

The cost of Duke Energy Ohio's general insurance coverages continued to fluctuate over the past year reflecting the changing conditions of the insurance markets.

Environmental

Duke Energy Ohio 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 Duke Energy Ohio.

Remediation Activities. Duke Energy Ohio and its affiliates are responsible for environmental remediation at various contaminated sites. These include some properties that are part of ongoing Duke Energy Ohio operations, sites formerly owned or used by Duke Energy Ohio 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, Duke Energy Ohio or its affiliates could potentially be held responsible for contamination caused by other parties. In some instances, Duke Energy Ohio may share liability associated with contamination with other potentially responsible parties, and may also benefit from insurance policies or contractual indemnities that cover some or all cleanup costs. All of these sites generally are managed in the normal course of business or affiliate operations. Management, in the normal course of business, continually assesses the nature and extent of known or potential environmental-related contingencies and records liabilities when losses become probable and are reasonably estimable.

Clean Water Act 316(b). The 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. Three of six coal-fired generating facilities in which Duke Energy Ohio 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 the 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. On April 14, 2008, the U.S. Supreme Court issued an order granting review of the case and briefs were filed on July 14, 2008. Oral argument occurred on December 2, 2008. On April 1, 2009, the Supreme Court reversed the Second Circuit's decision and upheld the EPA's use of cost-benefit analysis and allowance of cost-benefit variances.

Clean Air Interstate Rule (CAIR). The EPA finalized its CAIR in May 2005. The CAIR limits total annual and summertime NO_X emissions and annual SO_2 emissions from electric generating facilities across the Eastern U.S. through a two-phased cap-and-trade program. Phase 1 begins in 2009 for NO_X and in 2010 for SO_2. Phase 2 begins in 2015 for both NO_X and SO_2. On March 25, 2008, the U.S. Court of Appeals for the District of Columbia (D.C. Circuit) heard oral argument in a case involving multiple challenges to the CAIR. On July 11, 2008, the D.C. Circuit issued its decision in *North Carolina v. EPA* No. 05-1244 vacating the CAIR. The EPA filed a petition for rehearing on September 24, 2008 with the D.C. Circuit asking the court to reconsider various parts of its ruling vacating the CAIR. In December 2008, the D.C. Circuit issued a decision remanding the CAIR to the EPA without vacatur. The EPA must now conduct a new rulemaking to modify the CAIR in accordance with the court's July 11, 2008 opinion. This decision means that the CAIR as initially finalized in 2005 remains in effect until the new EPA rule takes effect. The court did not impose a deadline or schedule on the EPA. It is uncertain how long the current CAIR will remain in effect or how the new rulemaking will alter the CAIR.

Duke Energy Ohio plans to spend approximately $85 million between 2009 and 2013 to comply with Phase 1 of the CAIR. Duke Energy Ohio is currently unable to estimate the costs to comply with any new rule the EPA will issue in the future as a result of the D.C. District Court's December 2008 decision discussed above. Duke Energy Ohio received partial recovery of depreciation and financing costs related to environmental compliance projects for 2005-2008 through its RSP. See Note 10 for a discussion of the impacts of the D.C. Circuit Court's July 11, 2008 decision to vacate the CAIR on the carrying value of emission allowances.

Clean Air Mercury Rule (CAMR). The EPA finalized its CAMR in May 2005. The CAMR was to have limited total annual mercury emissions from coal-fired power plants across the U.S. through a two-phased cap-and-trade program beginning in 2010. On February 8, 2008, the D.C. Circuit issued its opinion in *New Jersey v. EPA*, No. 05-1097 vacating the CAMR. Requests for rehearing were denied. The U.S. EPA and the Utility Air Regulatory Group have requested that the U.S. Supreme Court review the D.C. Circuit's decision. The D.C. Circuit's decision creates uncertainty regarding future mercury emission reduction requirements and their timing, but makes it fairly certain that there will be a delay in the implementation of federal mercury requirements for existing coal-fired power plants. On January 29, 2009, the EPA requested the U.S. Department of Justice withdraw its Petition for Writ of Certiorari filed on October 17, 2008. On February 23, 2009, the Supreme Court denied the Utility Air Regulatory Group's petition. The EPA will now develop emission standards for utility units under section 112 of the Clean Air Act, thus abiding by the D.C. Circuit's decision. At this point, Duke Energy Ohio is unable to estimate the costs to comply with any future mercury regulations that might result from the D.C. Circuit's decision.

Coal Combustion Product (CCP) Management. Duke Energy Ohio currently estimates that it will spend approximately $67 million over the period 2009-2013 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 within Deferred Credits and Other Liabilities on the Balance Sheets were total accruals related to extended environmental-related activities of approximately $9 million and $6 million as of December 31, 2008 and 2007, respectively. These accruals represent Duke Energy Ohio's provisions for costs associated with remediation activities at some of its current and former sites, as well as other relevant environmental contingent liabilities. Management, in the normal course of business, continually assesses the nature and extent of known or potential environmental-related contingencies and records liabilities when losses become probable and are reasonably estimable.

Litigation

New Source Review (NSR). In 1999-2000, the U.S. Department of Justice (DOJ), acting on behalf of the EPA and joined by various citizen groups and states, 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, NOx and particulate matter. The complaints seek injunctive relief to require installation of pollution control technology on various generating units that allegedly violated the CAA, and unspecified civil penalties in amounts of up to $32,500 per day for each violation. Two of Duke Energy Ohio's plants have been subject to these allegations. Duke Energy Ohio 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 U.S. brought a lawsuit in the U.S. Federal District Court for the Southern District of Indiana against Duke Energy Ohio alleging various violations of the CAA at Duke Energy Ohio's W.C. Beckjord and Miami Fort Stations. Three northeast states and two environmental groups have intervened in the case. A jury trial commenced on May 5, 2008 and jury verdict was returned on May 22, 2008. The jury found in favor of Cinergy, Duke Energy Ohio and Duke Energy Indiana, Inc. on all but three units at Wabash River. Additionally, the plaintiffs had claimed that Duke Energy Ohio 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 Duke Energy Ohio's W.C. Beckjord Station.

On October 21, 2008, Plaintiffs filed a motion for a new liability trial claiming that defendants misled the Plaintiffs and the jury by, among other things, not disclosing a consulting agreement with a fact witness and by referring to that witness as "retired" during the liability trial when in fact he was working for Duke Energy under the referenced consulting agreement in connection with the trial. On December 18, 2008, the court granted Plaintiffs' motion for a new liability trial on claims for which Duke Energy Ohio was not previously found liable. That trial is scheduled to begin on May 11, 2009. The remedy trial for violations already established at the Wabash River

Station and W.C. Beckjord Station was held during the week beginning February 2, 2009. The parties are awaiting a decision from the trial court.

Duke Energy Ohio has been informed by Dayton Power and Light (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, Columbus Southern Power Company (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. The parties reached an agreement to settle this matter in the form of a consent decree which was submitted for comment to the EPA and ultimately approved and entered by the court on October 23, 2008. The consent decree did not have a material adverse effect on Duke Energy Ohio's consolidated results of operations, cash flows or financial position.

It is not possible to estimate the damages, if any, that Duke Energy Ohio might incur in connection with these matters. Ultimate resolution of these matters relating to NSR, even in settlement, could have a material adverse effect on Duke Energy Ohio's consolidated results of operations, cash flows or financial position. However, Duke Energy Ohio will pursue appropriate regulatory treatment for any costs incurred in connection with such resolution.

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 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. Briefing in that case is under way. On March 5, 2009 the D.C. Circuit remanded the case to the EPA for reconsideration. The EPA has conceded that the D.C. Circuit's July 18, 2008 decision in the CAIR litigation, *North Carolina v. EPA* No. 05-1244, discussed above, and a subsequent order issued by the D.C. Circuit on December 23, 2008, have eliminated the legal basis for the EPA's denial of North Carolina's Section 126 petition. At this time, Duke Energy Ohio cannot predict the outcome of this proceeding.

Carbon Dioxide (CO_2) 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 U.S. 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 U.S. 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 CO_2 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 CO_2. The plaintiffs are seeking an injunction requiring each defendant to cap its CO_2 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 arguments were held before the Second Circuit Court of Appeals on June 7, 2006. It is not possible to predict with certainty whether Duke Energy Ohio will incur any liability or to estimate the damages, if any, that Duke Energy Ohio 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 U.S. 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, Duke Energy Ohio cannot predict whether the outcome of this matter will have a material impact on its consolidated results of operations, cash flows or financial position. Duke Energy Ohio intends to defend this lawsuit vigorously in court.

Hurricane Katrina Lawsuit. In April 2006, Cinergy was named in the third amended complaint of a purported class action lawsuit filed in the U.S. 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. On August 30, 2007, the court dismissed the case. The plaintiffs have filed their appeal to the Fifth Circuit Court of Appeals and oral argument was heard on August 6, 2008. Due to the late recusal of one of the judges on the Fifth Circuit panel, the court held a new oral argument on November 3, 2008. It is not possible to predict with certainty whether Duke Energy will incur any liability or to estimate the damages, if any, that Duke Energy might incur in connection with this matter.

Ohio Antitrust Lawsuit. In January 2008, four plaintiffs, including individual, industrial and non-profit customers, filed a lawsuit against Duke Energy Ohio in federal court in the Southern District of Ohio. Plaintiffs allege that Duke Energy Ohio (then The Cincinnati Gas & Electric Company (CG&E)), conspired to provide inequitable and unfair price advantages for certain large business consumers by entering into non-public option agreements with such consumers in exchange for their withdrawal of challenges to Duke Energy Ohio's (then CG&E's) pending RSP, which was implemented in early 2005. Duke Energy Ohio denies the allegations made in the lawsuit. Following Duke Energy Ohio's filing of a motion to dismiss plaintiffs' claims, plaintiffs amended their complaint on May 30, 2008. Plaintiffs now contend that the contracts at issue were an illegal rebate which violate antitrust and Racketeer Influenced and Corrupt Organizations (RICO) statutes. Defendants have again moved to dismiss the claims. On March 31, 2009, the District Court granted Duke Energy Ohio's motion to dismiss. Plaintiffs have 30 days to appeal.

Asbestos-related Injuries and Damages Claims. Duke Energy Ohio has been named as a defendant or co-defendant in lawsuits related to asbestos at its electric generating stations. The impact on Duke Energy Ohio's consolidated results of operations, cash flows or financial position 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 Ohio's 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, Duke Energy Ohio 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. Duke Energy Ohio 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. Duke Energy Ohio 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.

Duke Energy Ohio has exposure to certain legal matters that are described herein. As of both December 31, 2008 and 2007, Duke Energy Ohio has recorded insignificant reserves for these proceedings and exposures. Duke Energy Ohio expenses legal costs related to the defense of loss contingencies as incurred.

Other Commitments and Contingencies

General. Duke Energy Ohio 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. Some of these arrangements may be recognized at market value on the Consolidated Balance Sheets as undesignated hedge contracts or qualifying hedge positions.

Operating and Capital Lease Commitments

Duke Energy Ohio leases assets in several areas of its operations. Consolidated rental expense for operating leases were approximately $25 million for the year ended December 31, 2008 and approximately $27 million for the year ended December 31, 2007, which is included in Operation, Maintenance and Other on the Statements of Operations. Capitalized lease obligations are classified as debt on the Balance Sheets (see Note 14). Amortization of assets recorded under capital leases was included in Depreciation and Amortization on the Statements of Operations. The following is a summary of future minimum lease payments under operating leases, which at inception had a noncancelable term of more than one year, and capital leases as of December 31, 2008:

	Operating Leases	Capital Leases
	(in millions)	
2009	$14	$6
2010	12	6
2011	11	6
2012	9	5
2013	8	5
Thereafter	43	10
Total future minimum lease payments	$97	$38

17. Employee Benefit Obligations

Cinergy Retirement Plans. Duke Energy Ohio participates in qualified and non-qualified defined benefit pension plans as well as other post-retirement benefit plans sponsored by Cinergy. Cinergy allocates pension and other post-retirement obligations and costs related to these plans to Duke Energy Ohio.

Upon consummation of the merger with Duke Energy, Cinergy's benefit plan obligations were remeasured. Cinergy updated the assumptions used to determine their accrued benefit obligations and prospective net periodic benefit/post-retirement costs to be allocated to Duke Energy Ohio. As a result, the discount rate used to determine net periodic benefit cost to be allocated to Duke Energy Ohio by Cinergy changed from 5.50% to 6.00% in 2006.

Cinergy adopted the funded status recognition and disclosure provisions of 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. The adoption of SFAS No. 158 did not have a material impact on Duke Energy Ohio's consolidated results of operations or cash flows. See Note 1 for additional information related to the adoption of SFAS No. 158.

Net periodic benefit cost disclosed in the tables below for the qualified, non-qualified and other post-retirement benefit plans represent the cost of the respective plan for the periods presented. However, portions of the net periodic benefit cost disclosed in the tables have been capitalized as a component of property, plant and equipment.

Qualified Pension Plans

Cinergy's qualified defined benefit pension plans cover substantially all employees meeting certain minimum age and service requirements. The plans cover most employees using a cash balance formula. Under a cash balance formula, a plan participant accumulates a retirement benefit consisting of pay credits that are based upon a percentage (which varies with age and years of service) of current eligible earnings and current interest credits. Certain legacy Cinergy employees are covered under plans that use a final average earnings formula. Under a final average earnings formula, a plan participant accumulates a retirement benefit equal to a percentage of their highest 3-year average earnings, plus a percentage of their highest 3-year average earnings in excess of covered compensation per year of participation (maximum of 35 years), plus a percentage of their highest 3-year average earnings times years of participation in excess of 35 years.

Funding for the qualified defined benefit pension plans is based on actuarially determined contributions, the maximum of which is generally the amount deductible for tax purposes and the minimum being that required by the Employee Retirement Income Security Act of 1974, as amended. The pension plans' assets consist of investments in equity and debt securities.

Actuarial gains and losses are amortized over the average remaining service period of the active employees. The average remaining service period of the active employees covered by the retirement plan is 11 years. Cinergy determines the market-related value of plan assets using a calculated value that recognizes changes in fair value of the plan assets over five years.

Duke Energy Ohio's qualified pension plan pre-tax net periodic pension benefit costs as allocated by Cinergy were as follows:

	Year Ended December 31, 2008	Year Ended December 31, 2007
	(in millions)	
Qualified Pension Benefits(a)	$ 11	$13

(a) Excludes approximately $4 million and $6 million, respectively, of regulatory asset amortization resulting from purchase accounting for the years ended December 31, 2008 and 2007.

The fair value of Cinergy's plan assets was approximately $1,110 million and $1,701 million as of December 31, 2008 and 2007, respectively. The projected benefit obligation for the plans was approximately $1,992 million and $1,941 million as of December 31, 2008 and 2007, respectively. The accumulated benefit obligation for the plans was approximately $1,729 million and $1,753 million as of December 31, 2008 and 2007, respectively. The accrued qualified pension liability allocated by Cinergy to Duke Energy Ohio, which represents Duke Energy Ohio's proportionate share of the unfunded status of the Cinergy qualified pension plan, was approximately $302 million and $108 million as of December 31, 2008 and 2007, respectively, and is recognized in Accrued pension and other post-retirement benefit costs within the Consolidated Balance Sheets.

Duke Energy's policy is to fund amounts on an actuarial basis to provide assets sufficient to meet benefits to be paid to plan participants. Duke Energy did not make any contributions to its defined benefit retirement plans in 2008. Duke Energy made qualified pension benefit contributions of approximately $350 million and $124 million to the legacy Cinergy qualified pension benefit plans in 2007 and 2006, of which approximately $74 million and $19 million represents contributions made by Duke Energy Ohio for the year ended December 31, 2007 and nine months ended December 31, 2006, respectively. No amounts were contributed to the legacy Cinergy qualified pension plans for the three months ended March 31, 2006. In February 2009, Duke Energy Ohio made a cash contribution of approximately $129 million, which represented its proportionate share of an approximate $500 million total contribution to Cinergy's and Duke Energy's qualified pension plans.

Qualified Pension Plans—Amounts Recognized in Accumulated Other Comprehensive Income (Loss) and Regulatory Assets Consist of:

	As of December 31,	
	2008	2007
	(in millions)	
Regulatory Assets(liabilities)	$ 87	$(27)
Accumulated Other Comprehensive Loss (Income)		
Deferred income tax (liability) asset	$(21)	$ 5
Prior service cost	3	2
Net actuarial loss (gain)	53	(14)
Net amount recognized—Accumulated other comprehensive loss (income)	$ 35	$ (7)

An insignificant amount in AOCI will be recognized in net periodic pension costs in 2009.

Qualified Plans—Assumptions Used for Cinergy's Pension Benefits Accounting

	2008	2007
	(percentages)	
Benefit Obligations		
Discount rate	6.50	6.00
Salary increase	4.50	5.00
Net Periodic Benefit Cost		
Discount rate	6.00	5.75
Salary increase	5.00	5.00
Expected long-term rate of return on plan assets	8.50	8.50

Non-Qualified Pension Plans

Cinergy also maintains, and Duke Energy Ohio participates in, non-qualified, non-contributory defined benefit retirement plans (plans that do not meet the criteria for certain tax benefits) that cover officers, certain other key employees, and non-employee directors. Actuarial gains and losses are amortized over the average remaining service period of the active employees. The average remaining service period of active employees covered by the non-qualified retirement plans is 11 years. There are no plan assets. The projected benefit obligation for the plans was approximately $113 million and $105 million as of December 31, 2008 and 2007, respectively. The accumulated benefit obligation for the plans was approximately $104 million and $102 million as of December 31, 2008 and 2007, respectively. The accrued non-qualified pension liability allocated by Cinergy to Duke Energy Ohio, which represents Duke Energy Ohio's proportionate share of the unfunded status of the Cinergy non-qualified pension plan, was approximately $6 million and $7 million as of December 31, 2008 and 2007, respectively, of which approximately $4 million and $5 million, respectively, is recognized in Accrued pension and other post-retirement benefit costs within the Consolidated Balance Sheets at December 31, 2008 and 2007, and approximately $2 million is recognized in Other within Current Liabilities on the Consolidated Balance Sheets at December 31, 2008 and 2007.

Duke Energy Ohio's non-qualified pension plan pre-tax net periodic pension benefit costs as allocated by Cinergy were as follows:

	Year Ended December 31, 2008	Year Ended December 31, 2007
Non-Qualified Pension	**$ —**	**$ 1**

Non-Qualified Plans—Assumptions Used for Cinergy's Pension Benefits Accounting

	2008	2007
	(percentages)	
Benefit Obligations		
Discount rate	6.50	6.00
Salary increase	4.50	5.00
Net Periodic Benefit Cost		
Discount rate	6.00	5.75
Salary increase	5.00	5.00

Other Post-Retirement Benefit Plans

Duke Energy Ohio participates in other post-retirement benefit plans sponsored by Duke Energy. Prior to January 1, 2008, Cinergy was the sponsor of the other post-retirement benefit plans. Effective January 1, 2008, Duke Energy became the sponsor of these other post-retirement benefit plans. Duke Energy provides certain health care and life insurance benefits to retired employees and their eligible dependents on a contributory and non-contributory basis. These benefits are subject to minimum age and service requirements. The health care benefits include medical coverage, dental coverage, and prescription drug coverage and are subject to certain limitations, such as deductibles and co-payments. These benefit costs are accrued over an employee's active service period to the date of full benefits eligibility. The net unrecognized transition obligation is amortized over approximately 20 years. Actuarial gains and losses are amortized over the average remaining service period of the active employees. The average remaining service period of the active employees covered by the plan is 12 years. During the third quarter of 2008, Duke Energy Ohio recorded pre-tax income of approximately $16 million related to the correction of errors in actuarial valuations prior to 2008 that would have reduced amounts recorded as other post-retirement benefit expense recorded during those historical periods.

Duke Energy Ohio's other post-retirement plan pre-tax net periodic benefit costs as allocated by Duke Energy were as follows:

	Year Ended December 31, 2008[b]	Year Ended December 31, 2007
	(in millions)	
Other Post-retirement[a]	**$ (15)**	**$ 10**

(a) Excludes approximately $2 million and $4 million respectively, of regulatory asset amortization resulting from purchase accounting for the years ended December 31, 2008 and 2007.

(b) Includes the recognition of the approximate $16 million correction of errors discussed above.

The fair value of Duke Energy's other post-retirement benefit plans assets was approximately $23 million and $32 million as of December 31, 2008 and 2007, respectively. The accumulated other post-retirement benefit obligation for the plans was approximately $330 million and $464 million as of December 31, 2008 and 2007, respectively. The accrued other post-retirement liability allocated by Duke Energy to Duke Energy Ohio, which represents Duke Energy Ohio's proportionate share of the unfunded status of the Duke Energy other post-retirement benefit plans, was approximately $63 million and $125 million, respectively, of which approximately $61 million and $123 million, respectively, is recognized in Accrued pension and other post-retirement benefit costs within the Consolidated Balance Sheets at December 31, 2008 and 2007, and approximately $2 million is recognized in Other within Current Liabilities on the Consolidated Balance Sheets at December 31, 2008 and 2007.

Duke Energy did not make any contributions to its other post-retirement plans in 2008. Duke Energy made contributions to its other post-retirement benefit plan during 2007 of approximately $32 million to the legacy Cinergy other post-retirement plans, of which approximately $8 million represents contributions made by Duke Energy Ohio.

Duke Energy Ohio recognized a credit in regulatory assets and pre-tax AOCI related to its other post-retirement benefit plans of approximately $27 million and $12 million, respectively, as of December 31, 2008 and regulatory assets and pre-tax AOCI (loss) of $2 million and $1 million, respectively, as of December 31, 2007 within the Consolidated Balance Sheets.

An insignificant amount in AOCI will be recognized in net periodic other post-retirement benefit costs in 2009.

Assumptions Used in Duke Energy's Other Post-retirement Benefits Accounting

	2008	2007
	(percentages)	
Benefit Obligations		
Discount rate	6.50	6.00
Net Periodic Benefit Cost		
Discount rate	6.00	5.75
Expected long-term rate of return on plan assets	8.50	8.50

Assumed Health Care Cost Trend Rates

	Medicare Trend Rate		Prescription Drug Trend Rate	
	2008	2007	2008	2007
Health care cost trend rate assumed for next year	8.50%	8.00%	11.00%	12.50%
Rate to which the cost trend is assumed to decline (the ultimate trend rate)	5.00%	5.00%	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	2013	2013	2022	2022

18. Subsequent Events

For information related to subsequent events related to Regulatory Matters, Debt and Credit Facilities, Commitments and Contingencies, and Employee Benefit Obligations, see Notes 3, 14, 16 and 17, respectively.

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