



10 CFR 50.80
10 CFR 50.90

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December 20, 2007

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U.S. Nuclear Regulatory Commission
Washington, DC 20555

Duke Power Company LLC d/b/a Duke Energy Carolinas, LLC
Catawba Nuclear Station, Unit 1
Renewed Facility Operating License No. NPF-35
Docket No. 50-413

Subject: Application for Order Approving Transfer of Control of License and for
Conforming License Amendment Pursuant to 10 CFR 50.80 and
10 CFR 50.90

Pursuant to Section 184 of the Atomic Energy Act of 1954, as amended (AEA) and 10 CFR 50.80, Duke Power Company LLC d/b/a Duke Energy Carolinas, LLC (Duke), acting on behalf of itself, North Carolina Electric Membership Corporation (NCEMC) and Saluda River Electric Cooperative, Inc. (SREC), requests that the Nuclear Regulatory Commission (NRC) consent to the transfer of SREC's non-operating undivided ownership interest in Catawba Nuclear Station Unit 1 and certain support facilities to Duke, a current owner and the operating licensee, and NCEMC, a current owner. The transfer of control will take place pursuant to the terms of the Asset Purchase Agreement, signed on December 20, 2006, wherein Duke will purchase 71.96 percent of SREC's interest and NCEMC will purchase 28.04 percent of SREC's interest as described in the enclosed "Application for Consent to the Transfer of Control of License and Conforming License Amendment" (Application).

Pursuant to 10 CFR 50.90, the Applicants also request NRC approval of an administrative amendment to the Renewed Facility Operating License (FOL or operating license) to reflect the proposed transfers, to be implemented at the time the transfers occur.

As described in the enclosed application, Duke will continue to be a utility regulated by the Federal Energy Regulatory Commission, the North Carolina Utilities Commission and the Public Service Commission of South Carolina. Duke will remain subject to cost-of-service ratemaking. NCEMC will continue to be subject to the jurisdiction of the Rural Utilities Service. As operating licensee, Duke will also continue to be responsible for the safe and economic operation of the unit. No physical changes to the unit will be made as a result of the license transfer. Nor will any substantive changes to the management of the nuclear unit, day-to-day operations, current licensing bases or operating

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procedures be made as a result of the license transfer. Additional information pertaining to the proposed license transfer and administrative license amendment is included in the enclosed Application and supporting enclosures. As this information demonstrates, the purchase of SREC's undivided ownership interest in Catawba by Duke and NCEMC, and the related license transfer, will not (1) adversely impact the operation of Catawba; (2) adversely impact the managerial or technical qualifications of the operating licensee; (3) adversely impact the financial qualifications of the licensees or the existing assurance of adequate decommissioning funding for the plants; or (4) result in foreign ownership, control or domination over the licensees.

The requested conforming license amendment is administrative in nature and falls within the NRC's generic finding of no significant hazards considerations under 10 CFR 2.1315(a). Information supporting categorical exclusion from environmental review under 10 CFR 51.22(c)(21) is also provided.

Duke will notify the States of North Carolina and South Carolina of this request for a conforming license amendment by transmitting a copy of this letter and application to the designated state officials.

In addition to NRC approval, the proposed transactions are contingent upon, among other things, the approvals of the Public Service Commission of South Carolina and the Federal Energy Regulatory Commission and the expiration or termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976.

To support a timely closing, the Applicants respectfully request NRC approval of this application no later than August 30, 2008. Additional information in support of this requested approval date is contained in the attached Application.

In accordance with Duke internal procedures and the Quality Assurance Program Topical Report, the proposed license amendment has been reviewed and approved by Catawba Nuclear Station's Plant Operations Review Committee and the Duke Nuclear Safety Review Board.

This correspondence contains no regulatory commitments.

If you have any questions about this matter, please contact Kathryn B. Nolan at (704) 382-8869.

Very truly yours,

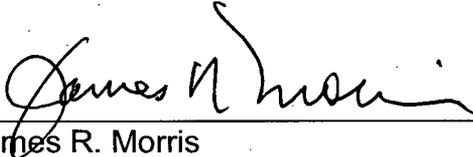
A handwritten signature in black ink, appearing to read "James R. Morris". The signature is written in a cursive style with a long, sweeping underline that extends to the right.

James R. Morris

Enclosures:

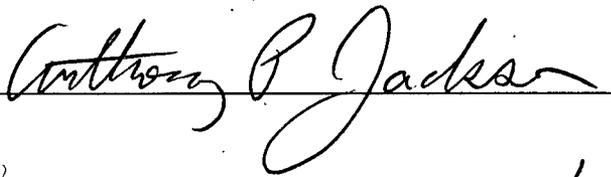
1. Application for Consent to the Transfer of Control of License and Conforming License Amendment
Attachment 1. Catawba Nuclear Station Proposed Amended FOL NPF-35 and Proposed Amended Indemnity Agreement No. B-100
Attachment 2. Catawba Nuclear Station, Marked Changes to Current FOL NPF-35
2. 2006 Summary Annual Report for Duke Energy Corporation
3. 2006 Audited Financial Statements for NCEMC

James R. Morris affirms that he is the person who subscribed his name to the foregoing statement, and that all the matters and facts set forth herein are true and correct to the best of his knowledge.



James R. Morris
Site Vice President, Catawba Nuclear Station
Duke Energy Carolinas, LLC

Subscribed and sworn to me: 12/20/07
Date



Anthony P. Jackson, Notary Public

My commission expires: 7/2/2014
Date

SEAL

xc:

W. D. Travers, Region II Administrator
U.S. Nuclear Regulatory Commission
Sam Nunn Atlanta Federal Center, 23 T85
61 Forsyth St., SW
Atlanta, GA 30303-8931

North Carolina Utility Commission
4325 Mail Service Center
Raleigh, NC 27699-4325

J. F. Stang, Sr. Project Manager (CNS)
U. S. Nuclear Regulatory Commission
11555 Rockville Pike
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Public Service Commission of South
Carolina
101 Executive Center Dr.
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S. E. Jenkins, Section Manager
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South Carolina Department of Health and
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B. O. Hall, Section Chief
Division of Environmental Health, Radiation
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North Carolina Department of Environment
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1645 Mail Service Center
Raleigh, NC 27699

A. T. Sabisch
NRC Senior Resident Inspector
Catawba Nuclear Station

Enclosure 1

Application for Consent to the Transfer of Control of License and Conforming License Amendment

Subject: Evaluation of the Proposed Change

- I. Introduction
- II. Statement of Purpose of the License Transfer and Description of the Transaction Making the License Transfer Necessary or Desirable
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- IX. Regulatory Evaluation
 - IX. a. Applicable Regulatory Requirements/Criteria
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- X. Environmental Considerations
- XI. Price Anderson Indemnity and Nuclear Insurance
- XII. Miscellaneous
- XIII. Other Regulatory Approvals
- XIV. Schedule and Effective Dates

Attachments:

- 1. Catawba Nuclear Station Proposed Amended FOL NPF-35 and Proposed Amended Indemnity Agreement No. B-100
- 2. Catawba Nuclear Station Marked Changes to Current FOL NPF-35

**Application for Order Approving Transfer of Control of License
and Conforming License Amendment**

I. Introduction

Pursuant to Section 184 of the Atomic Energy Act of 1954, as amended, and 10 CFR 50.80, Duke Power Company LLC d/b/a Duke Energy Carolinas, LLC (Duke)¹, on behalf of North Carolina Electric Membership Corporation (NCEMC), and Saluda River Electric Cooperative, Inc. (SREC) (together Applicants), submits the following information and requests that the Nuclear Regulatory Commission (NRC) consent to the transfer of SREC's 18.75% non-operating, undivided ownership interest in the Catawba Nuclear Station, Unit 1 (CNS)² and 9.375% non-operating, undivided ownership interest in certain support facilities to Catawba owners Duke and NCEMC. Currently, Duke, NCEMC and SREC are joint holders of Renewed Operating License No. NPF-35 that authorizes the possession, use and operation of CNS.

Duke currently holds a 25% undivided ownership interest in CNS, and is the licensed operator of CNS. NCEMC currently holds a 56.25% undivided ownership interest in CNS. SREC currently owns an 18.75% undivided ownership interest in CNS. Pursuant to the Asset Purchase Agreements executed between SREC and Duke and SREC and NCEMC, the following proportionate shares of SREC's interest in CNS will be transferred to Duke and NCEMC: approximately a 13.49% undivided ownership interest (71.96% of SREC's total interest) to Duke and approximately a 5.26% ownership interest (28.04% of SREC's total interest) to NCEMC. The acquisition of these additional ownership shares would increase Duke's ownership share from 25% to approximately 38.49% and NCEMC's ownership share from 56.25% to approximately 61.51%.

The proposed transfer does not change the facility operating licensee. Duke will retain the operational responsibility for CNS.³ Duke will operate the plant under the same

¹ The NRC license for this nuclear unit is currently held under the name "Duke Power Company LLC." On March 14, 2007, a "License Amendment Request for Change of Licensee Name" was filed in order to change the name on the license from "Duke Power Company LLC" to "Duke Energy Carolinas, LLC." NRC approval of this request is pending.

² This license transfer application only pertains to the ownership of Catawba Unit 1. Ownership interests in Unit 1 include undivided proportionate interests in shared support facilities for Units 1 and 2. There is no change in ownership of Catawba Unit 2, so all references in this application to Catawba are limited to a discussion of Unit 1.

³ Duke operates CNS on behalf of itself and the other owners under operating agreements.

terms and conditions included in the present operating license. No physical changes will be made to the plant as a result of the license transfer. Nor will any significant changes in the day-to-day management and operating procedures for the plant be made as a result of the license transfer, or to the operating organization or personnel.

Additionally, Duke will continue to be a utility regulated by the Federal Energy Regulatory Commission, the North Carolina Utilities Commission and the Public Service Commission of South Carolina. As such, Duke will continue to be financially qualified to operate, maintain and decommission the nuclear plant. NCEMC will continue to be subject to the jurisdiction of the Rural Utilities Service (RUS).

Pursuant to 10 CFR 50.90, the Applicants also request NRC approval of an administrative amendment to the CNS license to be implemented pursuant to 10 CFR 50.92 and 10 CFR 2.1315 to conform the license to reflect the proposed transfers, at the time the transfers occur. Administrative changes to documents other than the plant operating license may be necessary upon completion of the transfers.

II. Statement of Purpose of the License Transfer and Description of the Transaction Making the License Transfer Necessary or Desirable

SREC is a generation cooperative that is a wholesale power provider to five distribution cooperatives in South Carolina. In 1999, SREC entered into a debt restructuring agreement with the RUS, in which it agreed to allow the RUS to sell its non-operating, ownership interest in CNS, and apply the proceeds toward the RUS guaranteed debt owed to the Federal Financing Bank by SREC. On June 7, 2004, the RUS, as a foreclosing lender, issued a request for bids for the acquisition of the 18.75% SREC ownership interest in CNS, representing approximately 214 megawatts of nuclear capacity.

In response to the request for bids, Duke and NCEMC each submitted a bid to purchase SREC's ownership interest. The RUS selected NCEMC's bid as the winner. Pursuant to the original ownership agreement, however, Duke and NCEMC share the right of first refusal to match any bids in proportion to their ownership interest in CNS. Duke currently owns 25% of CNS and NCEMC owns 56.25% of CNS. Based on these ownership percentages, Duke has the right of first refusal on 30.77% of SREC's interest in CNS and NCEMC has the right of first refusal on 69.23% of SREC's interest.

Duke appealed the RUS bid selection process, and ultimately a settlement was reached between Duke, NCEMC and RUS. Under the settlement, Duke agreed to purchase 154 megawatts of SREC's interest (approximately an additional 13.49% ownership interest in CNS) and NCEMC agreed to purchase the remaining 60 megawatts of SREC's interest (approximately an additional 5.26% ownership interest in CNS). Accordingly,

Asset Purchase Agreements were entered into between SREC and Duke and SREC and NCEMC. As part of the sale of SREC's interest, the agreements that govern the co-ownership arrangement between Duke and SREC will be terminated, and SREC will no longer have any interest in CNS.

The purpose of the requested license transfer is to reflect and implement the transactions discussed above, which occurred in response to the necessary sale of SREC's minority ownership interest in CNS. Duke and NCEMC have, in exercising their business judgment, opted to acquire additional interests in the nuclear generating asset of CNS.

III. General Corporate Information Regarding Duke

A. Name of Transferee

Duke Power Company LLC, d/b/a Duke Energy Carolinas, LLC

B. Address

526 South Church Street
Charlotte, North Carolina 28202

C. Description of Business

Duke Power Company LLC d/b/a Duke Energy Carolinas, LLC (Duke), is a wholly-owned subsidiary of Duke Energy Corporation. Duke is engaged in the business of generating, transmitting, distributing and selling electric power and energy. It is a public utility under the laws of North Carolina and subject to the jurisdiction of the North Carolina Utilities Commission with respect to its operations in that State. Duke also transacts business in the State of South Carolina; accordingly, its operations in that State are subject to the jurisdiction of the Public Service Commission of South Carolina. Duke is also a public utility under the Federal Power Act, and certain of its operations are subject to the jurisdiction of the Federal Energy Regulatory Commission. Duke owns and operates regulated electric facilities, including seven nuclear units licensed by the NRC, as well as electric distribution and transmission facilities.

Duke Energy Corporation is a leading energy company located in the Americas. It is an investor-owned corporation, which among other things, provides electricity to more than 3.9 million electric customers in North Carolina, South Carolina, Ohio, Indiana and Kentucky. A diverse fuel mix of nuclear, coal-fired, hydro-electric and combustion-turbine generation provides approximately 28,000 megawatts of total

generating capacity. The shares of Duke Energy Corporation are publicly held and listed for trading on the New York Stock Exchange under the symbol DUK.

D. Organization and Management

The business of Duke Energy Corporation is conducted by the Duke Energy Corporation Board of Directors. The business of Duke is conducted by its own Board of Directors, although for internal governance purposes, the Duke Energy Corporation Board of Directors also has approval authority over certain types of transactions. Additionally, the group executive and chief nuclear officer of Duke reports to James E. Rogers, Chairman, President and Chief Executive Officer, Duke Energy Corporation.

1. States of Establishment and Place of Business

Duke is a limited liability company duly organized and existing under the laws of the State of North Carolina. The company's general office, and principal place of business, is located in Charlotte, North Carolina, and it also transacts business on a regular basis in South Carolina.

Duke Energy Corporation is a holding corporation duly organized and existing under the laws of the State of Delaware. The corporation's general office, and principal place of business, is located in Charlotte, North Carolina.

2. Directors, Executive Officers

The business address, names, and citizenship of the current directors of Duke Energy Corporation are as follows:

Duke Energy Corporation 526 South Church Street Charlotte, North Carolina 28202	
Name	Citizenship
Barnet, III, William	US
Bernhardt, Sr., George Alexander	US
Browning, Michael G.	US
Cox, Phillip R.	US
DiMicco, Daniel R.	US
Gray, Ann Maynard	US
Hance, Jr., James H.	US

Rhodes, James Thomas	US
Rogers, James E.	US
Schapiro, Mary L.	US
Sharp, Philip R.	US
Taft, Dudley S.	US

The business address, names, current titles, and citizenship of the current executive officers of Duke Energy Corporation are as follows:

Duke Energy Corporation		
526 South Church Street		
Charlotte, North Carolina 28202		
Name	Position	Citizenship
Barron, Jr., Henry B.	Group Executive and Chief Nuclear Officer	US
Good, Lynn J.	Group Executive and President, Commercial Businesses	US
Hauser, David L.	Group Executive and Chief Financial Officer	US
Manly, Marc E.	Group Executive and Chief Legal Officer	US
Mohler, David W.	Vice President and Chief Technology Officer	US
Rogers, James E.	Chairman, President and Chief Executive Officer	US
Rolfe, Christopher C.	Group Executive and Chief Administrative Officer	US
Trauschke, R. Sean	Vice President, Investor Relations and Financial Planning	US
Trent, B. Keith	Group Executive and Chief Strategy, Policy and Regulatory Officer	US
Turner, James L.	Group Executive; President and Chief Operating Officer, US Franchised Electric and Gas	US

The business address, names, and citizenship of the current directors of Duke Energy Carolinas, LLC are as follows:

Duke Energy Carolinas, LLC
526 South Church Street
Charlotte, North Carolina 28202

Name	Citizenship
Hauser, David L.	US
Rogers, James E.	US
Turner, James L.	US

The business address, names and current titles of the current executive officers and senior nuclear leadership of Duke Energy Carolinas, LLC, are as follows:

Duke Energy Carolinas, LLC
526 South Church Street
Charlotte, North Carolina 28202

	Position	Citizenship
Barron, Jr., Henry B.	Group Executive and Chief Nuclear Officer	US
Dolan, Bryan J.	Vice President, Nuclear Plant Development	US
Geer, Thomas C.	Vice President, Nuclear Engineering	US
Hamilton, Bruce H.	Site Vice President, Oconee	US
Harrall, Jr., Thomas P.	Vice President, Plant Support	US
Hauser, David L.	Group Executive and Chief Financial Officer	US
Jamil, Dhiaa M.	Senior Vice President, Nuclear Support	US
Jones, Ronald A.	Senior Vice President, Nuclear Operations	US
Manly, Marc E.	Group Executive and Chief Legal Officer	US
McRainey, Daniel K.	Vice President, Nuclear Special Projects	US
Mohler, David W.	Vice President and Chief Technology Officer	US
Morris, James R.	Site Vice President, Catawba	US

Peterson, Gary R. ⁴	Site Vice President, McGuire	US
Rogers, James E.	Chief Executive Officer	US
Rolfe, Christopher C.	Group Executive and Chief Administrative Officer	US
Ruff, Ellen T.	President	US
Trent, B. Keith	Group Executive and Chief Strategy, Policy and Regulatory Officer	US
Turner, James L.	Group Executive	US

IV. General Corporate Information Regarding NCEMC

A. Name of Transferee

North Carolina Electric Membership Corporation

B. Address

3400 Sumner Blvd.
Raleigh, North Carolina 27616

C. Description of Business

NCEMC is one of the nation's largest generation and transmission cooperatives, originally formed to support North Carolina's twenty-seven (27) distribution electric cooperatives. NCEMC generates and transmits electricity to its member cooperatives via its ownership of two diesel peaking generators, two gas-fired peaking facilities currently under construction, an ownership interest in CNS, as well as through power purchases from other electric utilities. NCEMC's member cooperatives provide services to more than 850,000 households and businesses in 93 of North Carolina's 100 counties.

As a borrower from the RUS, a division of the United States Department of Agriculture, NCEMC is subject to the jurisdiction of the RUS.

⁴ As of January 1, 2008 Gary R. Peterson will assume the position of Vice President, Nuclear Fleet Performance; Bruce H. Hamilton will assume the position of Site Vice President, McGuire; and David A. Baxter will assume the position of Site Vice President, Oconee.

D. Organization and Management

Management of the affairs of NCEMC is vested in its Board of Directors.

1. States of Establishment and Place of Business

NCEMC is an electric membership corporation duly organized and existing under the laws of the State of North Carolina. The company's general office, and principal place of business, is located in North Carolina.

2. Directors, Executive Officers

The following individuals, all of whom are U.S. citizens, are the Executive Officers and Directors of NCEMC. For purposes of their directorship, the business address for these individuals is 3400 Sumner Boulevard, Raleigh, NC 27616.

NCEMC Executive Officers of the Board of Directors

Buddy G. Creed	President
R. W. "Chip" Leavitt, Jr.	Vice President
Jeffrey S. Edwards	Secretary/Treasurer

NCEMC Executive Officers (Non-members of the Board of Directors)

Richard K. Thomas	Executive Vice President & CEO
Joseph P. Brannan	Senior Vice President & COO
Robert B. Schwentker	Senior Vice President & General Counsel
Lark S. James	Senior Vice President & CFO

NCEMC Board of Directors

<u>Cooperative</u>	<u>Manager/Director</u>	<u>Director/Director</u>
Albemarle EMC	Bradley V. Furr	L. A. Harris, Jr.
Blue Ridge EMC	Douglas W. Johnson	Kenneth R. Greene
Brunswick EMC	R. W. (Chip) Leavitt, Jr.	Hubert K. Brittain

<u>Cooperative</u>	<u>Manager/Director</u>	<u>Director/Director</u>
Cape Hattéras EC	James B. Kinghorn, Jr.	Walton J. Fulcher
Carteret-Craven EC	Craig A. Conrad	Arland L. Bell
Central EMC	Morris McClellon	Rebecca P. Cogan
Edgecombe-Martin	Bob L. McDuffie	Millie Lilley
EnergyUnited EMC	H. Wayne Wilkins	Jimmy R. Horton
Four County EMC	Mitchell L. Keel	S. Franklin Williams
Halifax EMC	Charles H. Guerry	Jerry W. Packer
Harkers Island EMC	E. Travis Davis	Anthony Nelson
Haywood EMC	Norman Sloan	Roy Stamey
Jones-Onslow EMC	J. Ronald McElheney	Hugh L. Batts
Lumbee River EMC	Ronnie E. Hunt	Ruth Oxendine
Pee Dee EMC	Donald H. Spivey	Richard H. Johnson
Piedmont EMC	R. G. (Randy) Brecheisen	Richard C. Roberts
Pitt & Greene EMC	Mark A. Suggs	Glenn Smith
Randolph EMC	Dale F. Lambert	Steve Harris
Roanoke EC	Curtis Wynn	Allen W. Speller
Rutherford EMC	Joseph H. Joplin	J. Dean Carpenter
South River EMC	Buddy G. Creed	Kelly Harrington
Surry-Yadkin EMC	Michael S. Beasley	Grady V. Nichols
Tideland EMC	William H. Stacy	J. Douglas Brinson
Tri-County EMC	J. Michael Davis	Carl W. Kornegay, Jr.
Union Power Cooperative	Tony E. Herrin	B. L. Starnes
Wake EMC	James E. Mangum	Roy Ed Jones, Jr.

V. Foreign Ownership and Control

A. Duke

Duke is wholly owned by Duke Energy Corporation. The shares of common stock of Duke Energy Corporation are publicly traded and widely held. The directors and officers of Duke Energy Corporation and Duke are U.S. citizens. Neither Duke Energy

Corporation nor Duke is owned, controlled or dominated by any alien, foreign corporation, or foreign government.

B. NCEMC

NCEMC is currently owned by twenty-six (26) members that are electric membership corporatives which sell electricity at retail in the State of North Carolina. None of these members is owned, controlled, or dominated by any alien, foreign corporation, or foreign government.

VI. Technical Qualifications

The technical qualifications of Duke, as the operating licensee, to carry out its responsibilities under the operating license for CNS will not be impacted by the license transfer. The proposed transfer will not result in any change in the design or operation of CNS, any change in the technical aspects of the CNS Facility Operating License or Technical Specifications, nor any change to the technical qualifications of personnel involved in the maintenance or operation of CNS. Duke will at all times remain the operating licensee of CNS and there will be no changes in the Duke management team or operating organization resulting from the proposed license transfer. Additionally, clear lines of responsibility and authority through the Chief Nuclear Officer will be maintained. The plant will continue to be operated in accordance with the license, NRC requirements, the licensing bases, and other NRC commitments. Therefore, the technical qualifications of the organization will remain intact.

VII. Financial Qualifications of Duke

A. Operating Financial Qualifications

As specified in its NRC license, Duke is licensed pursuant to Section 103 of the Atomic Energy Act of 1954, as amended, and 10 CFR Part 50, to own and operate CNS. In accordance with 10 CFR 50.33(f), "Electric Utilities" are exempt from the requirement to demonstrate financial qualifications. Duke is, and will remain, an "electric utility" within the meaning of 10 CFR 50.2 following the transfer since it will remain an "entity that generates or distributes electricity and which recovers the cost of this electricity, either directly or indirectly, through rates established by the entity itself or by a separate regulatory authority."

Duke will continue to be regulated by the North Carolina Utilities Commission, the Public Service Commission of South Carolina and the Federal Energy Regulatory Commission

with respect to the electricity generated by CNS. Duke will continue to be entitled to its ownership share of the output from the nuclear station and will continue to recover costs associated with that share of the output, including decommissioning costs, through rates for electricity determined by the state regulatory authorities. Therefore, Duke will have reasonable assurance of necessary revenues to meet the requirements of 10 CFR 50.33.

B. Decommissioning Funding

The financial qualifications of Duke to own up to a total 38.49% undivided ownership interest in CNS are further demonstrated by the fact that Duke will receive the proportionate share of SREC's decommissioning trust funds that corresponds with the interest in CNS being acquired by Duke. Duke will also continue to maintain its existing decommissioning trust for its current 25%⁵ interest. Duke will continue to maintain these external decommissioning funds segregated from its assets and outside its administrative control in accordance with the requirements of 10 CFR 50.75(e)(1).

Duke currently provides decommissioning funding assurance for its share of CNS by maintaining an external "Nuclear Decommissioning Master Trust." The company has established separate Qualified and Non-Qualified trusts within the master trust. Both the Qualified and Non-Qualified trusts are taxable, with the Qualified trust subject to a flat 20% tax rate and the Non-Qualified trust subject to the company's blended tax rate. Decommissioning costs relating to CNS are subject to cost-of-service rate regulation, and as such, will be included in the rates approved by the State regulatory authorities. Contributions to the master trust are made regularly based on collections from this established regulatory charge mechanism. The status of Duke's decommissioning funding covering the period of 2005 - 2006, was reported to the NRC in a letter dated April 2, 2007, from Dhiaa M. Jamil (ADAMS Accession No. ML071020142). As of December 31, 2006, these funds totaled \$58,718,642.

With regard to the additional interest being acquired from SREC, the Asset Purchase Agreement between Duke and SREC requires that a pro rata share of the funds in SREC's existing decommissioning funds, corresponding with the interest in CNS being acquired, be transferred to Duke. Upon close of the sale, the proportionate share of the funds accumulated in the SREC nuclear decommissioning trust funds as of the date of closing that corresponds with the interest in CNS that Duke is acquiring, will be transferred to Duke's existing Non-Qualified trust. SREC's decommissioning funding

⁵ The contractual agreements for joint ownership of the Catawba Nuclear Station include a capacity exchange between the two units which entitles each of the co-owners to a specific portion of the electric power and energy produced by the station as a whole. In recognition of this exchange arrangement, each co-owner has agreed, in the Catawba Restated Operating and Fuel Agreement, to bear a corresponding portion of the cost of decommissioning Catawba Nuclear Station.

status as of December 31, 2006, was reported to the NRC in Duke's report dated April 2, 2007 (ADAMS Accession No. ML071020142). As of December 31, 2006, these funds totaled \$57,796,261.

These arrangements provide reasonable assurance that Duke will have the funds necessary to cover its share of the estimated decommissioning costs of CNS at the end of licensed operation.

VIII. Financial Qualifications of NCEMC

A. Operating Financial Qualifications

As discussed above, "Electric Utilities" under 10 CFR 50.33(f) are exempt from the requirement to demonstrate financial qualifications. NCEMC is and will remain an "electric utility" within the meaning of 10 CFR 50.2 following the transfer since it will remain an "entity that generates or distributes electricity and which recovers the cost of this electricity, either directly or indirectly, through rates established by the entity itself or by a separate regulatory authority."

NCEMC will continue to be entitled to its ownership share of the output from the nuclear station and will continue to recover costs associated with that share of the output, including decommissioning costs, through rates NCEMC proposes and its Board of Directors approves. Following Board approval, these rates are submitted to the RUS and are deemed approved within 30 days of receipt unless NCEMC is notified otherwise. After rates are approved by both the NCEMC Board of Directors and the RUS, they are imposed via tariffs and contracts for electricity with NCEMC's member cooperatives. Therefore, NCEMC will have reasonable assurance of necessary revenues to meet the requirements of 10 CFR 50.33.

B. Decommissioning Funding

The financial qualifications of NCEMC to own up to an approximately 62% total ownership interest in CNS are further supported by the fact that NCEMC will receive the pro-rata share of SREC's decommissioning trust funds corresponding to the interest in CNS being acquired. NCEMC will also continue to maintain its existing decommissioning trust funds for its current 56.25% interest in CNS. NCEMC will continue to maintain these external sinking funds segregated from its assets and outside of its administrative control in accordance with the requirements of 10 CFR 50.75(e)(1).

NCEMC currently provides decommissioning funding assurance for its share of CNS by maintaining external nuclear decommissioning trust funds in accordance with 10 CFR

50.75 (e)(1)(ii). NCEMC's decommissioning funding status as of December 31, 2006, was reported to the NRC in Duke's report dated April 2, 2007 (ADAMS Accession No. ML071020142). As of December 31, 2006, these funds totaled \$89,310,510.

With regard to the additional interest being acquired from SREC, the Asset Purchase Agreement between NCEMC and SREC requires that a pro rata share of the funds in SREC's existing decommissioning funds, corresponding with the interest in CNS being acquired, be transferred to NCEMC. Upon close of the sale, the proportionate share of the funds accumulated in the SREC nuclear decommissioning trust funds as of the date of closing that corresponds with the interest in CNS that NCEMC is acquiring, will be transferred to NCEMC's external nuclear decommissioning funds. SREC's decommissioning funding status as of December 31, 2006, was reported to the NRC in Duke's report dated April 2, 2007 (ADAMS Accession No. ML071020142). As of December 31, 2006, these funds totaled \$57,796,261.

Periodic contributions to NCEMC's nuclear decommissioning trust funds for NCEMC's existing CNS decommissioning obligations, as well as the newly acquired SREC interest, will continue to be based on collections through rates established to recover NCEMC's cost-of-service. NRC requirements contained in 10 CFR 50.75 (e)(1)(ii)(A) provide, in part, "...rural electric cooperatives... that establish their own rates and are able to recover their cost-of-service allocable to decommissioning are assumed to meet this condition."

NCEMC's Board policies provide NCEMC the ability to recover cost-of-service through rates to members and nonmembers and to meet the requirements of mortgages and other agreements. Further, the "Consolidated Mortgage, Security Agreement and Financing Statement between NCEMC, the Rural Utilities Service, and the National Rural Utilities Cooperative Finance Corporation," dated January 2, 2006, requires NCEMC to "...design and implement rates for electric capacity, energy and other services furnished by it to provide sufficient revenue..." to pay all fixed and variable expenses and to meet Times Interest Earned and Debt Service Coverage Ratio requirements.

In 2003, NCEMC adopted the Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" as promulgated by the Financial Accounting Standards Board. As such, NCEMC recognizes annual decommissioning expense as required by this accounting standard. This annual decommissioning expense is included in NCEMC's cost-of-service and is collected through rates charged to members to meet annual mortgage requirements. This decommissioning expense, net of investment earnings, is deposited into the external decommissioning fund annually.

IX. Regulatory Evaluation

A. Applicable Regulatory Requirements/Criteria

This request for approval of a license transfer is made pursuant to 10 CFR 50.80. Section 10 CFR 50.80(a) states "No license for a production utilization facility, or any right thereunder, shall be transferred, assigned, or in any manner disposed of, either voluntarily or involuntarily, directly or indirectly, through transfer of control of the license to any person, unless the Commission shall give its consent in writing." In addition, the requirements of 10 CFR 50.80(b) and (c) apply. Section 50.80(b) states that an applicant for a license transfer shall include as much information described in 10 CFR 50.33 and 10 CFR 50.34 of this part "with respect to the identity and technical and financial qualifications of the proposed transferee as would be required by those sections if the applicant were for an initial license. . . ." Section 50.80(c) states that "the Commission will approve the application for the transfer of a license, if the Commission determines: (1) That the proposed transferee is qualified to be the holder of the license; and (2) That transfer of the license is otherwise consistent with applicable provisions of law, regulations, and orders issued by the Commission pursuant thereto."

This request is also made pursuant to 10 CFR 50.90 for an administrative amendment to the Renewed Facility Operating License to reflect the proposed license transfer.

B. Precedent

Two license transfers that serve as precedents have been approved by the NRC – the Salem Station and River Bend transfers. The Salem Station transfer was approved April 21, 2000 (65 FR 24721-24722). Entergy received approval for River Bend Station, Unit 1, on November 28, 1997 (62 FR 64406-64407).

C. Significant Hazards Consideration

Description of the Change

The transfer of SREC's undivided ownership interest in CNS to Duke and NCEMC involves minor conforming changes to the operating license. Specifically, any references to SREC will be removed from the license. As previously noted, Duke will continue to be licensed to possess, use, and operate the facilities. Consistent with the generic determination in 10 CFR 2.1315(a), this administrative license amendment involves no significant hazards consideration.

1. The Conforming Amendment Does Not Involve a Significant Increase in the Probability or Consequences of an Accident Previously Evaluated

The amendment does not involve any change in the design, configuration, or operation of the nuclear units. All Limiting Conditions for Operation, Limiting Safety System Settings and Safety Limits specified in the Technical Specifications remain unchanged. Also, the Physical Security Plans and related plans, the Operator Training and Requalification Programs, the Quality Assurance Programs, and the Emergency Plans will not be materially changed by the proposed license transfer and amendment.

The technical qualifications of the operating licensee will not be reduced. Personnel engaged in operation, maintenance, engineering, assessment, training, and other related services will not be changed. Duke officers and executives currently responsible for the overall safe operation of the nuclear plants are expected to continue in that same capacity.

Therefore, the proposed amendment does not involve an increase in the probability or consequences of an accident previously analyzed.

2. The Conforming Amendment Does Not Create the Possibility of a New or Different Kind of Accident From Any Accident Previously Evaluated

The amendment does not involve any change in the design, configuration, or operation of the nuclear plant. The current plant design and design bases will remain the same. The current plant safety analyses, therefore, remain complete and accurate in addressing the design basis events and in analyzing plant response and consequences.

The Limiting Conditions for Operations, Limiting Safety System Settings and Safety Limits specified in the Technical Specifications are not affected by the proposed changes. As such, the plant conditions for which the design basis accident analyses were performed remain valid.

The amendment does not introduce a new mode of plant operation or new accident precursors, does not involve any physical alterations to plant configurations, or make changes to system set points that could initiate a new or different kind of accident.

Therefore, the proposed amendment does not create the possibility of a new or different kind of accident from any accident previously evaluated.

3. The Conforming Amendment Does Not Involve a Significant Reduction in a Margin of Safety

The amendment does not involve a change in the design, configuration, or operation of the nuclear plants. The change does not affect either the way in which the plant structures, systems, and components perform their safety function or their design and licensing bases.

Plant safety margins are established through Limiting Conditions for Operation, Limiting Safety System Settings and Safety Limits specified in the Technical Specifications. Because there is no change to the physical design of the plant, there is no change to any of these margins.

Therefore, the proposed amendment does not involve a significant reduction in a margin of safety.

D. Conclusions

In conclusion, based on the considerations discussed above, (1) there is reasonable assurance that the health and safety of the public will not be endangered by operation in the proposed manner, (2) such activities will be conducted in compliance with the Commission's regulations, and (3) the issuance of the amendment will not be inimical to the common defense and security or to the health and safety of the public.

X. Environmental Considerations

The requested consent to transfer of control of the CNS license and the requested conforming license amendment are exempt from environmental review because these actions fall within the categorical exclusion contained in 10 CFR 51.22(c)(21), for which neither an Environmental Assessment nor an Environmental Impact Statement is required. Moreover, the proposed license transfer and conforming license amendment will not directly affect the actual operation of CNS in any substantive way. The proposed transfer does not involve an increase in the amounts, or a change in the types, of any radiological effluents that may be allowed to be released off-site, and it does not involve an increase in the amounts, or change in the types, of non-radiological effluents that may be released off-site. Further, there is no increase in the individual or cumulative operational radiation exposure, and the proposed transfer has no environmental impact. Accordingly, the NRC may issue and publish a finding of no significant environmental impact with respect to these matters pursuant to 10 CFR 51.21, 51.32, and 51.35.

XI. Price Anderson Indemnity and Nuclear Insurance

Duke, as the operating licensee for CNS, will continue to maintain the financial protection required by 10 CFR Part 140 and the property insurance required by 10 CFR 50.54(w). Duke and NCEMC will request modified Price-Anderson indemnity agreements and will make the necessary changes to nuclear liability and property coverages to reflect that SREC will no longer be an owner or licensee. The proposed

amended indemnification agreement is included and made a part of Enclosure 1, Attachment 1.

Duke and NCEMC will also continue to have pro rata responsibility with respect to retrospective liability in accordance with 10 CFR 140.21. The annual reports for Duke⁶ and NCEMC (Enclosures 2 and 3, respectively) provide adequate assurance that Duke and NCEMC will be able to pay their pro rata share of the maximum annual retrospective premium of \$10 million, pursuant to 10 CFR 140.21.

XII. Miscellaneous

A. Antitrust Considerations

The NRC has previously determined that antitrust reviews of post-operating license transfer applications are neither required nor authorized by the Atomic Energy Act, and therefore under 10 CFR 50.80(b) no antitrust information is required to be submitted with this post-operating license transfer application.⁷

B. Restricted Data

This application does not contain any Restricted Data or classified National Security Information. However, consistent with 10 CFR 50.80(b) and 50.37, Duke and NCEMC will appropriately safeguard such information if any such information does become involved in connection with the operation of CNS and will not permit any individual to have access to any such information until the individual has been approved for such access under the provisions of 10 CFR Parts 25 and/or 95.

C. Spent Fuel Storage

Upon implementation of the license transfer, Duke will continue to be responsible for onsite storage of spent fuel located at CNS. Obligations for high level waste storage and disposal are governed by the Standard Contract with the Department of Energy.

XIII. Other Regulatory Approvals

⁶ The full report may be accessed at the Duke website @ duke-energy.com/investors/SEC filings.

⁷ Final Rule, "Antitrust Review Authority: Clarification," 65 Fed. Reg. 44,649 (July 19, 2000); see also *Kansas Gas and Electric Co.* (Wolf Creek Generating Station, Unit 1), CLI-99-19, 49 NRC 441 (June 18, 1999).

In addition to NRC approval, the proposed transactions are contingent upon the approvals or concurrence of the Federal Energy Regulatory Commission and the Public Service Commission of South Carolina and the expiration or termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Acts of 1976.

XIV. Schedule and Effective Dates

The actual date for any transfer of control of SREC's ownership interest in CNS to Duke and NCEMC will be dependent upon the actual date of satisfying the conditions for closing the sale in accordance with the terms and conditions of the Asset Purchase Agreements, including receipt of required regulatory approvals and rulings. The Asset Purchase Agreement may be terminated at any time following October 1, 2008, if the closing has not occurred on or before such date. All parties have agreed to work diligently towards meeting this condition of the Asset Purchase Agreement.

The Applicants request that the NRC review this Application on a schedule that will permit the issuance of NRC consent to the transfer of control as soon as possible. Duke is prepared to work closely with the NRC Staff to help expedite the Application's review, but requests approval by no later than August 30, 2008. Such consent should be immediately effective upon issuance and should permit the transfer of control at any time within twelve months of the date of approval of this Application. Duke will inform the NRC if there are any significant delays associated with any other required approvals or any other developments that have an impact on the proposed schedule.

**Enclosure 1
Attachment 1**

**Catawba Nuclear Station
Proposed Amended FOL NPF-35
and Proposed Amended
Indemnity Agreement No. B-100**

DUKE POWER COMPANY LLC

NORTH CAROLINA ELECTRIC MEMBERSHIP CORPORATION

DOCKET NO. 50-413

CATAWBA NUCLEAR STATION, UNIT 1

RENEWED FACILITY OPERATING LICENSE

Renewed License No. NPF-35

1. The U.S. Nuclear Regulatory Commission (Commission) having previously made the findings set forth in License No. NPF-35 issued on January 17, 1985, has now found that:
 - A. The application for renewed operating license filed by the Duke Energy Corporation* acting for itself and North Carolina Electric Membership Corporation (the licensees) complies with the standards and requirements of the Atomic Energy Act of 1954, as amended (the Act), and the Commission's regulations set forth in 10 CFR Chapter I, and all required notifications to other agencies or bodies have been duly made;
 - B. Actions have been identified and have been or will be taken with respect to (1) managing the effects of aging during the period of extended operation on the functionality of structures and components that have been identified to require review under 10 CFR 54.21(a)(1), and (2) time-limited aging analyses that have been identified to require review under 10 CFR 54.21(c), such that there is reasonable assurance that the activities authorized by this renewed operating license will continue to be conducted in accordance with the current licensing basis, as defined in 10 CFR 54.3, for Catawba Nuclear Station, Unit 1 (facility or plant), and that any changes made to the plant's current licensing basis in order to comply with 10 CFR 54.29(a) are in accord with the Act and the Commission's regulations;
 - C. The facility will operate in conformity with the application, as amended, the provisions of the Act, and the regulations of the Commission (except as exempted from compliance in Section 2.D. below);
 - D. There is reasonable assurance: (i) that the activities authorized by this renewed operating license can be conducted without endangering the health and safety of the public, and (ii) that such activities will be conducted in compliance with the Commission's regulations set forth in 10 CFR Chapter I; (except as exempted from compliance in Section 2.D. below);

* Duke Energy Corporation has converted to Duke Power Company LLC. References to "Duke" are to Duke Power Company LLC, which is an owner and the operator of Catawba Nuclear Station, Unit 1, and one of the "licensees."

- E. Duke Power Company LLC* is technically qualified to engage in the activities authorized by this renewed operating license in accordance with the Commission's regulations set forth in 10 CFR Chapter 1;
 - F. The licensees have satisfied the applicable provisions of 10 CFR Part 140, "Financial Protection Requirements and Indemnity Agreements", of the Commission's regulations;
 - G. The issuance of this renewed operating license will not be inimical to the common defense and security or to the health and safety of the public;
 - H. After weighing the environmental, economic, technical, and other benefits of the facility against environmental and other costs and considering available alternatives, the issuance of this Renewed Facility Operating License No. NPF-35 is in accordance with 10 CFR Part 51 of the Commission's regulations and all applicable requirements have been satisfied, and;
 - I. The receipt, possession, and use of source, byproduct and special nuclear material as authorized by this renewed operating license will be in accordance with the Commission's regulations in 10 CFR Parts 30, 40 and 70.
2. Based on the foregoing findings and the Partial Initial Decisions issued by the Atomic Safety and Licensing Boards dated June 22, September 18, and November 27, 1984, regarding this facility and satisfaction of conditions therein imposed, except as hereinafter set forth, and the Commission's vote on January 17, 1985, Facility Operating License No. NPF-31 issued on December 6, 1984, superseded by Facility Operating License No. NPF-35 issued on January 17, 1985, is superseded by Renewed Facility Operating License No. NPF-35, hereby issued to Duke Power Company LLC and the North Carolina Electric Membership Corporation to read as follows:
- A. This renewed operating license applies to the Catawba Nuclear Station, Unit 1, a pressurized water reactor and associated equipment (the facility) owned by Duke Power Company LLC and the North Carolina Electric Membership Corporation. The facility is located on the licensees' site in York County, South Carolina, on the shore of Lake Wylie approximately 6 miles north of Rock Hill, South Carolina, and is described in the Updated Final Safety Analysis Report, as supplemented and amended, and in the Environmental Report, as supplemented and amended.
 - B. Subject to the conditions and requirements incorporated herein, the Commission hereby licenses:

*Duke Power Company LLC is authorized to act as agent for the North Carolina Electric Membership Corporation and has exclusive responsibility and control over the physical construction, operation and maintenance of the facility.

- (1) Duke Power Company LLC, pursuant to Section 103 of the Act and 10 CFR Part 50, to possess, use, and operate the facility at the designated location in York County, South Carolina, in accordance with the procedures and limitations set forth in this renewed operating license;
 - (2) North Carolina Electric Membership Corporation to possess the facility at the designated location in York County, South Carolina, in accordance with the procedures and limitations set forth in this renewed operating license;
 - (3) Duke Power Company LLC, pursuant to the Act and 10 CFR Part 70 to receive, possess and use at any time special nuclear material as reactor fuel, in accordance with the limitations for storage and amounts required for reactor operation, as described in the Updated Final Safety Analysis Report, as supplemented and amended;
 - (4) Duke Power Company LLC, pursuant to the Act and 10 CFR Parts 30, 40 and 70 to receive, possess and use at any time any byproduct, source and special nuclear material as sealed neutron sources for reactor startup, sealed sources for reactor instrumentation and radiation monitoring equipment calibration, and as fission detectors in amounts as required;
 - (5) Duke Power Company LLC, pursuant to the Act and 10 CFR Parts 30, 40 and 70, to receive, possess and use in amounts as required any byproduct, source or special nuclear material without restriction to chemical or physical form, for sample analysis or instrument calibration or associated with radioactive apparatus or components;
 - (6) Duke Power Company LLC, pursuant to the Act and 10 CFR Parts 30, 40 and 70, to possess, but not separate, such byproduct and special nuclear materials as may be produced by the operation of the facility authorized herein, and;
 - (7) Duke Power Company LLC, pursuant to the Act and 10 CFR Parts 30, 40 and 70, to possess, but not separate, such byproduct and special nuclear materials as may be produced by the operation of McGuire Nuclear Station, Units 1 and 2, and Oconee Nuclear Station, Units 1, 2 and 3.
- C. This renewed operating license shall be deemed to contain and is subject to the conditions specified in the Commission's regulations set forth in 10 CFR Chapter I and is subject to all applicable provisions of the Act and to the rules, regulations, and orders of the Commission now or hereafter in effect; and is subject to the additional conditions specified or incorporated below:

(1) Maximum Power Level

Duke Power Company LLC is authorized to operate the facility at reactor core full steady state power level of 3411 megawatts thermal (100%) in accordance with the conditions specified herein.

(2) Technical Specifications

The Technical Specifications contained in Appendix A, as revised through Amendment No. [redacted] which are attached hereto, are hereby incorporated into this renewed operating license. Duke Power Company LLC shall operate the facility in accordance with the Technical Specifications.

(3) Updated Final Safety Analysis Report

The Updated Final Safety Analysis Report supplement submitted pursuant to 10 CFR 54.21(d), as revised on December 16, 2002, describes certain future activities to be completed before the period of extended operation. Duke shall complete these activities no later than December 6, 2024, and shall notify the NRC in writing when implementation of these activities is complete and can be verified by NRC inspection.

The Updated Final Safety Analysis Report supplement as revised on December 16, 2002, described above, shall be included in the next scheduled update to the Updated Final Safety Analysis Report required by 10 CFR 50.71(e)(4), following issuance of this renewed operating license. Until that update is complete, Duke may make changes to the programs described in such supplement without prior Commission approval, provided that Duke evaluates each such change pursuant to the criteria set forth in 10 CFR 50.59 and otherwise complies with the requirements in that section.

(4) Antitrust Conditions

Duke Power Company LLC shall comply with the antitrust conditions delineated in Appendix C to this renewed operating license.

(5) Fire Protection Program (Section 9.5.1, SER, SSER #2, SSER #3, SSER #4, SSER #5)*

Duke Power Company LLC shall implement and maintain in effect all provisions of the approved fire protection program as described in the Updated Final Safety Analysis Report, as amended, for the facility and as approved in the SER through Supplement 5, subject to the following provision:

The licensee may make changes to the approved fire protection program without prior approval of the Commission only if those changes would not adversely affect the ability to achieve and maintain safe shutdown in the event of a fire.

*The parenthetical notation following the title of this renewed operating license condition denotes the section of the Safety Evaluation Report and/or its supplement wherein this renewed license condition is discussed.

(6) Mitigation Strategies

Develop and maintain strategies for addressing large fires and explosions and that include the following key areas:

- (a) Fire fighting response strategy with the following elements:
 - 1. Pre-defined coordinated fire response strategy and guidance
 - 2. Assessment of mutual aid fire fighting assets
 - 3. Designated staging areas for equipment and materials
 - 4. Command and control
 - 5. Training of response personnel

- (b) Operations to mitigate fuel damage considering the following:
 - 1. Protection and use of personnel assets
 - 2. Communications
 - 3. Minimizing fire spread
 - 4. Procedures for implementing integrated fire response strategy
 - 5. Identification of readily-available pre-staged equipment
 - 6. Training on integrated fire response strategy
 - 7. Spent fuel pool mitigation measures

- (c) Actions to minimize release to include consideration of:
 - 1. Water spray scrubbing
 - 2. Dose to onsite responders

(7) Additional Conditions

The Additional Conditions contained in Appendix B, as revised through Amendment No. 237, are hereby incorporated into this renewed operating license. Duke Power Company LLC shall operate the facility in accordance with the Additional Conditions.

- D. The facility requires exemptions from certain requirements of Appendix J to 10 CFR Part 50, as delineated below and pursuant to evaluations contained in the referenced SER and SSERs. These include, (a) partial exemption from the requirement of paragraph III.D.2(b)(ii) of Appendix J, the testing of containment airlocks at times when the containment integrity is not required (Section 6.2.6 of the SER, and SSERs # 3 and #4), (b) exemption from the requirement of paragraph III.A.(d) of Appendix J, insofar as it requires the venting and draining of lines for type A tests (Section 6.2.6 of SSER #3), and (c) partial exemption from the requirements of paragraph III.B of Appendix J, as it relates to bellows testing (Section 6.2.6 of the SER and SSER #3). These exemptions are authorized by law, will not present an undue risk to the public health and safety, are consistent with the common defense and security, and are consistent with certain special circumstances as discussed in the referenced SER and SSERs. These exemptions are, therefore, hereby granted pursuant to 10 CFR 50.12. With the granting of these exemptions, the facility will operate, to the extent authorized herein, in conformity with the application, as amended, the provisions of the Act, and the rules and regulations of the Commission.

E. Physical Protection

Duke Power Company LLC shall fully implement and maintain in effect all provisions of the Commission-approved physical security, training and qualification and safeguards contingency plans including amendments made pursuant to provisions of the Miscellaneous Amendments and Search Requirements revisions to 10 CFR 73.55 (51 FR 27817 and 27822) and to the authority of 10 CFR 50.90 and 10 CFR 50.54(p). The combined set of plans, which contains safeguards information protected under 10 CFR 73.21, is entitled: "Duke Energy Physical Security Plan," Revision 8 submitted by letter dated May 17, 2007.

F. Reporting to the Commission Deleted by Amendment No. 230

G. The licensees shall have and maintain financial protection of such type and in such amounts as the Commission shall require in accordance with Section 170 of the Atomic Energy Act of 1954, as amended, to cover public liability claims.

3. This renewed license is effective as of the date of issuance and shall expire at midnight on December 5, 2043.

FOR THE NUCLEAR REGULATORY COMMISSION

Original Signed By: J. E. Dyer

J. E. Dyer, Director
Office of Nuclear Reactor Regulation

Attachments:

1. Appendix A – Technical Specifications
2. Appendix B – Additional Conditions
3. Appendix C – Antitrust Conditions

Date of Issuance: December 5, 2003

Renewed License No. NPF-35
Amendment No. 230
~~Revised by Letter Dated May 29, 2007~~
Revised by Letter Dated August 16, 2007

APPENDIX B

ADDITIONAL CONDITIONS

FACILITY OPERATING LICENSE NO. NPF-35

Duke Power Company LLC shall comply with the following conditions on the schedules noted below:

<u>Amendment Number</u>	<u>Additional Condition</u>	<u>Implementation Date</u>
159	This amendment requires the licensee to use administrative controls, as described in the licensee's letter of March 7, 1997, and evaluated in the staff's safety evaluation dated April 29, 1997, to restrict the dose-equivalent iodine levels to 0.46 microCurie per gram (in lieu of the limit in TS Section 3.4.8.a), and to 26 microCurie per gram (in lieu of the limit of TS Figure 3.4-1), until this license condition is removed by a future amendment.	Immediately upon issuance of the amendment
173	The licensee is authorized to relocate certain requirements included in appendix A to licensee-controlled documents. Implementation of this amendment shall include the relocation of these requirements to the appropriate documents as described in the licensee's letters dated May 27, 1997, as amended by letters dated March 9, March 20, April 20, June 3, June 24, July 7, July 21, August 5, September 8, and September 15, 1998, and evaluated in the NRC staff's Safety Evaluation associated with this amendment.	All relocation to be completed by January 31, 1999.

Renewed License No. NPF-35
Amendment No. 229

<u>Amendment Number</u>	<u>Additional Condition</u>	<u>Implementation Date</u>
173	<p>The schedule for the performance of new and revised surveillance requirements shall be as follows:</p> <p>For surveillance requirements (SRs) that are new in Amendment No. 173 the first performance is due at the end of the first surveillance interval that begins at implementation of Amendment No. 173. For SRs that existing prior to Amendment No. 173, including SRs with modified acceptance criteria and SRs who intervals of performance are being extended, the first performance is due at the end of the first surveillance interval that begins on the date the surveillance was last performed prior to implementation of amendment No. 173. For SRs that existed prior to Amendment No. 173, whose intervals of performance are being reduced, the first reduced surveillance interval begins upon completion of the first surveillance performed after implementation of Amendment No. 173</p>	By January 31, 1999
180	The maximum rod average burnup for any rod shall be limited to 60 GWd/mtU until the completion of an NRC environmental assessment supporting an increased limit.	Within 30 days of date of amendment.
	<p>In association with the ECCS sump strainer modification and Generic Safety Issue (GSI)-191 requirements:</p> <ol style="list-style-type: none"> 1. Unit 1 shall enter Mode 5 for the outage to install the sump strainer modification no later than May 19, 2008 and 2. The Unit 1 sump strainer modification shall be completed prior to entry into Mode 4 after May 19, 2008. 	Within 30 days of date of amendment and no later than December 31, 2007

APPENDIX C
ANTITRUST CONDITIONS

Pursuant to an Order by the Atomic Safety and Licensing Board, dated April 23, 1975, the Nuclear Regulatory Commission incorporates in Operating License NPR-35 the following antitrust conditions:

- a. The licensee makes the commitments contained herein, recognizing that bulk power supply arrangements between neighboring entities normally tend to serve the public interest. In addition, where there are net benefits to all participants such arrangements also serve the best interests of each of the participants. Among the benefits of such transactions are increased electric system reliability, a reduction in the cost of electric power, and minimization of the environmental effects of the production and sale of electricity.

Any particular bulk power supply transaction may afford greater benefits to one participant than to another. The benefits realized by a small system may be proportionately greater than those realized by a larger system. The relative benefits to be derived by the parties from a proposed transaction, however, should not be controlling upon a decision with respect to the desirability of participating in the transaction. Accordingly, the licensee will enter into proposed bulk power transactions of the types hereinafter described which, on balance, provide net benefits to the licensee. There are net benefits in a transaction if the licensee recovers the cost of the transaction, (as defined in subparagraph (1)(d) hereof) and there is no demonstrable net detriment to the licensee arising from the transaction.

(1) As used herein:

- (a) "Bulk Power" means electric power and any attendant energy, supplied or made available at transmission or sub-transmission voltage by one electric system to another.
- (b) "Neighboring Entity" means a private or public corporation, a governmental agency or authority, a municipality, a cooperative, or a lawful association of any of the foregoing owning or operating, or proposing to own or operate, facilities for the generation and transmission of electricity which meets each of the following criteria: (1) its existing or proposed facilities are economically and technically feasible of interconnection with those of the licensee and (2) with the exception of municipalities, cooperatives, governmental agencies or authorities, and associations, it is, or upon commencement of operations will be, a public utility and subject to regulation with respect to rates and service under the laws of North Carolina or South Carolina or under the Federal Power Act; provided, however, that as to associations, each member of such association is either a public utility as discussed in this clause (2) or a

municipality, a cooperative or a governmental agency or authority.

- (c) Where the phrase "neighboring entity" is intended to include entities engaging or proposing to engage only in the distribution of electricity, this is indicated by adding the phrase "including distribution systems."
 - (d) "Cost" means any appropriate operating and maintenance expenses, together with all other costs, including a reasonable return on the licensee's investment, which are reasonably allocable to a transaction. However, no value shall be included for loss of revenue due to the loss of any wholesale or retail customer as a result of any transaction hereafter described.
- (2)
- (a) The licensee will interconnect and coordinate reserves by means of the sale and exchange of emergency and scheduled maintenance bulk power with any neighboring entity(ies), when there are net benefits to each party, on terms that will provide for all of the licensee's properly assignable costs as may be determined by the Federal Energy Regulatory Commission and consistent with such cost assignment will allow the other party the fullest possible benefits of such coordination.
 - (b) Emergency service and/or scheduled maintenance service to be provided by each party will be furnished to the fullest extent available from the supplying party and desired by the party in need. The licensee and each party will provide to the other emergency service and/or scheduled maintenance service if and when available from its own generation and, in accordance with recognized industry practice, from generation of others to the extent it can do so without impairing service to its customers, including other electric systems to whom it has firm commitments.
 - (c) Each party to a reserve coordination arrangement will establish its own reserve criteria, but in no event shall the minimum installed reserve on each system be less than 15%, calculated as a percentage of estimated peak load responsibility. Either party, if it has, or has firmly planned, installed reserves in excess of the amount called for by its own reserve criterion, will offer any such excess as may in fact be available at the time for which it is sought and for such period as the selling party shall determine for purchase in accordance with reasonable industry practice by the other party to meet such other party's own reserve requirements. The parties will provide such amounts of spinning reserve as may be adequate to avoid the imposition of unreasonable

demands on the other part(ies) in meeting the normal contingencies of operating its (their) system(s). However, in no circumstances shall such spinning reserve requirement exceed the installed reserve requirement.

- (d) Interconnections will not be limited to low voltages when higher voltages are available from the licensee's installed facilities in the area where interconnection is desired and when the proposed arrangement is found to be technically and economically feasible.
 - (e) Interconnection and reserve coordination agreements will not embody provisions which impose limitations upon the use or resale of power and energy sold or exchanged pursuant to the agreement. Further, such arrangements will not prohibit the participants from entering into other interconnection and coordination arrangements, but may include appropriate provisions to assure that (i) the licensee receives adequate notice of such additional interconnection or coordination, (ii) the parties will jointly consider and agree upon such measures, if any, as are reasonably necessary to protect the reliability of the interconnected systems and to prevent undue burdens from being imposed on any system, and (iii) the licensee will be fully compensated for its costs. Reasonable industry practice as developed in the area from time to time will satisfy this provision.
- (3) The licensee currently has on file, and may hereafter file, with the Federal Energy Regulatory Commission contracts with neighboring entity(ies) providing for the sale and exchange of short-term power and energy, limited term power and energy, economy energy, non-displacement energy, and emergency capacity and energy. The Licensee will enter into contracts providing for the same or for like transactions with any neighboring entity on terms which enable the licensee to recover the full costs allocable to such transaction.
- (4) The licensee currently sells capacity and energy in bulk on a full requirements basis to several entities engaging in the distribution of electric power at retail. In addition, the licensee supplies electricity directly to ultimate users in a number of municipalities. Should any such entity(ies) or municipality(ies) desire to become a neighboring entity as defined in subparagraph (1)(b) hereof (either alone or through combination with others), the licensee will assist in facilitating the necessary transition through the sale of partial requirements firm power and energy to the extent that, except for such transition, the licensee would otherwise be supplying firm power and energy. The provision of such firm partial requirements service shall be under such rates, terms and conditions as shall be found by the Federal Energy Regulatory Commission to

provide for the recovery of the licensee's cost. The licensee will sell capacity and energy in bulk on a full requirements basis to any municipality currently served by the licensee when such municipality lawfully engages in the distribution of electric power at retail.

- (5)
 - (a) The licensee will facilitate the exchange of electric power in bulk in wholesale transactions over its transmission facilities (1) between or among two or more neighboring entities including distribution systems with which it is interconnected or may be interconnected in the future, and (2) between any such entity(ies) and any other electric system engaging in bulk power supply between whose facilities the licensee's transmission lines and other transmission lines would form a continuous electric path, provided that permission to utilize such other transmission lines has been obtained. Such transaction shall be undertaken provided that the particular transaction reasonably can be accommodated by the licensee's transmission system from a functional and technical standpoint and does not constitute the wheeling of power to a retail customer. Such transmission shall be on terms that fully compensate the licensee for its cost. Any entity(ies) requesting such transmission arrangements shall give reasonable notice of its (their) schedule and requirements.
 - (b) The licensee will include in its planning and construction program sufficient transmission capacity as required for the transactions referred to in subparagraph (a) of this paragraph, provided that (1) the neighboring entity(ies) gives the licensee sufficient advance notice as may be necessary reasonably to accommodate its (their) requirements from a functional and technical standpoint and (2) that such entity(ies) fully compensate the licensee for its cost. In carrying out this subparagraph (b), however, the licensee shall not be required to construct or add transmission facilities which (a) will be of no demonstrable present or future benefit to the licensee, or (b) which could be constructed by the requesting entity(ies) without duplicating any portion of the licensee's existing transmission lines, or (c) which would jeopardize the licensee's ability to finance or construct on reasonable terms facilities needed to meet its own anticipated system requirements. Where regulatory or environmental approvals are required for the construction or addition of transmission facilities needed for the transactions referred to in subparagraph (a) of this paragraph it shall be the responsibility of the entity(ies) seeking the transaction to participate in obtaining such approvals, including sharing in the cost thereof.
- (6) To increase the possibility of achieving greater reliability and economy of electric generation and transmission facilities, the licensee will discuss load projections and system development plans with any neighboring entity(ies).

- (7) When the licensee's plans for future nuclear generating units (for which application will hereafter be made to the Nuclear Regulatory Commission) have reached the stage of serious planning, but before firm decisions have been made as to the size and desired completion date of the proposed nuclear units, the licensee will notify all neighboring entities including distribution systems with peak loads smaller than the licensee's that the licensee plans to construct such nuclear units. Neither the timing nor the information provided need be such as to jeopardize obtaining the required site at the lowest possible cost.
- (8) The foregoing commitments shall be implemented in a manner consistent with the provisions of the Federal Power Act and all other lawful local, state and Federal regulation and authority. Nothing in these commitments is intended to determine in advance the resolution of issues which are properly raised at the Federal Energy Regulatory Commission concerning such commitments, including allocation of costs or the rates to be charged. The licensee will negotiate (including the execution of a contingent statement of intent) with respect to the foregoing commitments with any neighboring entity including distribution systems where applicable engaging in or proposing to engage in bulk power supply transactions, but the licensee shall not be required to enter into any final arrangement prior to resolution of any substantial questions as to the lawful authority of an entity to engage in the transactions.

In addition, the licensee shall not be obligated to enter into a given bulk power supply transaction if: (1) to do so would violate, or incapacitate it from performing, any existing lawful contracts it has with a third party; (2) there is contemporaneously available to it a competing or alternative arrangement which affords it greater benefits which would be mutually exclusive of such arrangement; (3) to do so would adversely affect its system operations or the reliability of power supply to its customers, or (4) if to do so would jeopardize the licensee's ability to finance or construct on reasonable terms facilities needed to meet its own anticipated system requirements.

(TO BE ISSUED BY NRC)

Date

Docket Nos. 50-413
50-414

**AMENDMENT TO INDEMNITY AGREEMENT NO. B-100
AMENDMENT NO. 11**

Effective _____, Indemnity Agreement No. B-100, between Duke Energy Corporation, North Carolina Municipal Power Agency Number 1, North Carolina Electric Membership Corporation, Piedmont Municipal Power Agency and the Nuclear Regulatory Commission, dated January 3, 1984, as amended, is hereby further amended as follows:

Delete the name "Saluda River Electric Cooperative, Inc." in the Indemnity Agreement wherever it appears.

FOR THE UNITED STATES NUCLEAR REGULATORY COMMISSION

Michael J. Case, Director
Division of Policy and Rulemaking
Office of Nuclear Reactor Regulation

**Enclosure 1
Attachment 2**

**Catawba Nuclear Station
Marked Changes to Current FOL NPF-35**

DUKE POWER COMPANY LLC

NORTH CAROLINA ELECTRIC MEMBERSHIP CORPORATION

SALUDA RIVER ELECTRIC COOPERATIVE, INC.

DOCKET NO. 50-413

CATAWBA NUCLEAR STATION, UNIT 1

RENEWED FACILITY OPERATING LICENSE

Renewed License No. NPF-35

1. The U.S. Nuclear Regulatory Commission (Commission) having previously made the findings set forth in License No. NPF-35 issued on January 17, 1985, has now found that:
 - A. The application ^{and} for renewed operating license filed by the Duke Energy Corporation* acting for itself, North Carolina Electric Membership Corporation, and Saluda River Electric Cooperative, Inc. (the licensees) complies with the standards and requirements of the Atomic Energy Act of 1954, as amended (the Act), and the Commission's regulations set forth in 10 CFR Chapter I, and all required notifications to other agencies or bodies have been duly made;
 - B. Actions have been identified and have been or will be taken with respect to (1) managing the effects of aging during the period of extended operation on the functionality of structures and components that have been identified to require review under 10 CFR 54.21(a)(1), and (2) time-limited aging analyses that have been identified to require review under 10 CFR 54.21(c), such that there is reasonable assurance that the activities authorized by this renewed operating license will continue to be conducted in accordance with the current licensing basis, as defined in 10 CFR 54.3, for Catawba Nuclear Station, Unit 1 (facility or plant), and that any changes made to the plant's current licensing basis in order to comply with 10 CFR 54.29(a) are in accord with the Act and the Commission's regulations;
 - C. The facility will operate in conformity with the application, as amended, the provisions of the Act, and the regulations of the Commission (except as exempted from compliance in Section 2.D. below);
 - D. There is reasonable assurance: (i) that the activities authorized by this renewed operating license can be conducted without endangering the health and safety of the public, and (ii) that such activities will be conducted in compliance with the Commission's regulations set forth in 10 CFR Chapter I; (except as exempted from compliance in Section 2.D. below);

* Duke Energy Corporation has converted to Duke Power Company LLC. References to "Duke" are to Duke Power Company LLC, which is an owner and the operator of Catawba Nuclear Station, Unit 1, and one of the "licensees."

- E. Duke Power Company LLC* is technically qualified to engage in the activities authorized by this renewed operating license in accordance with the Commission's regulations set forth in 10 CFR Chapter 1;
- F. The licensees have satisfied the applicable provisions of 10 CFR Part 140, "Financial Protection Requirements and Indemnity Agreements", of the Commission's regulations;
- G. The issuance of this renewed operating license will not be inimical to the common defense and security or to the health and safety of the public;
- H. After weighing the environmental, economic, technical, and other benefits of the facility against environmental and other costs and considering available alternatives, the issuance of this Renewed Facility Operating License No. NPF-35 is in accordance with 10 CFR Part 51 of the Commission's regulations and all applicable requirements have been satisfied, and;
- I. The receipt, possession, and use of source, byproduct and special nuclear material as authorized by this renewed operating license will be in accordance with the Commission's regulations in 10 CFR Parts 30, 40 and 70.

2. Based on the foregoing findings and the Partial Initial Decisions issued by the Atomic Safety and Licensing Boards dated June 22, September 18, and November 27, 1984, regarding this facility and satisfaction of conditions therein imposed, except as hereinafter set forth, and the Commission's vote on January 17, 1985, Facility Operating License No. NPF-31 issued on December 6, 1984, superseded by Facility Operating License No. NPF-35 issued on January 17, 1985, ~~is superseded by Renewed Facility Operating License No. NPF-35, hereby issued to Duke Power Company LLC, the North Carolina Electric Membership Corporation, and the Saluda River Electric Cooperative, Inc.,~~ to read as follows:

and

- A. This renewed operating license applies to the Catawba Nuclear Station, Unit 1, a pressurized water reactor and associated equipment (the facility) owned by Duke Power Company LLC, the North Carolina Electric Membership Corporation, ~~and the Saluda River Electric Cooperative, Inc.~~ The facility is located on the licensees' site in York County, South Carolina, on the shore of Lake Wylie approximately 6 miles north of Rock Hill, South Carolina, and is described in the Updated Final Safety Analysis Report, as supplemented and amended, and in the Environmental Report, as supplemented and amended.
- B. Subject to the conditions and requirements incorporated herein, the Commission hereby licenses:

and

*Duke Power Company LLC is authorized to act as agent for the North Carolina Electric Membership Corporation ~~and the Saluda River Electric Cooperative, Inc.,~~ and has exclusive responsibility and control over the physical construction, operation and maintenance of the facility.

- (1) Duke Power Company LLC, pursuant to Section 103 of the Act and 10 CFR Part 50, to possess, use, and operate the facility at the designated location in York County, South Carolina, in accordance with the procedures and limitations set forth in this renewed operating license;
- (2) North Carolina Electric Membership Corporation ~~and Saluda River Electric Cooperative, Inc.~~, to possess the facility at the designated location in York County, South Carolina, in accordance with the procedures and limitations set forth in this renewed operating license;
- (3) Duke Power Company LLC, pursuant to the Act and 10 CFR Part 70 to receive, possess and use at any time special nuclear material as reactor fuel, in accordance with the limitations for storage and amounts required for reactor operation, as described in the Updated Final Safety Analysis Report, as supplemented and amended;
- (4) Duke Power Company LLC, pursuant to the Act and 10 CFR Parts 30, 40 and 70 to receive, possess and use at any time any byproduct, source and special nuclear material as sealed neutron sources for reactor startup, sealed sources for reactor instrumentation and radiation monitoring equipment calibration, and as fission detectors in amounts as required;
- (5) Duke Power Company LLC, pursuant to the Act and 10 CFR Parts 30, 40 and 70, to receive, possess and use in amounts as required any byproduct, source or special nuclear material without restriction to chemical or physical form, for sample analysis or instrument calibration or associated with radioactive apparatus or components;
- (6) Duke Power Company LLC, pursuant to the Act and 10 CFR Parts 30, 40 and 70, to possess, but not separate, such byproduct and special nuclear materials as may be produced by the operation of the facility authorized herein, and;
- (7) Duke Power Company LLC, pursuant to the Act and 10 CFR Parts 30, 40 and 70, to possess, but not separate, such byproduct and special nuclear materials as may be produced by the operation of McGuire Nuclear Station, Units 1 and 2, and Oconee Nuclear Station, Units 1, 2 and 3.

C. This renewed operating license shall be deemed to contain and is subject to the conditions specified in the Commission's regulations set forth in 10 CFR Chapter I and is subject to all applicable provisions of the Act and to the rules, regulations, and orders of the Commission now or hereafter in effect; and is subject to the additional conditions specified or incorporated below:

(1) Maximum Power Level

Duke Power Company LLC is authorized to operate the facility at reactor core full steady state power level of 3411 megawatts thermal (100%) in accordance with the conditions specified herein.

(2) Technical Specifications

The Technical Specifications contained in Appendix A, as revised through Amendment No. 238 which are attached hereto, are hereby incorporated into this renewed operating license. Duke Power Company LLC shall operate the facility in accordance with the Technical Specifications.

(3) Updated Final Safety Analysis Report

The Updated Final Safety Analysis Report supplement submitted pursuant to 10 CFR 54.21(d), as revised on December 16, 2002, describes certain future activities to be completed before the period of extended operation. Duke shall complete these activities no later than December 6, 2024, and shall notify the NRC in writing when implementation of these activities is complete and can be verified by NRC inspection.

The Updated Final Safety Analysis Report supplement as revised on December 16, 2002, described above, shall be included in the next scheduled update to the Updated Final Safety Analysis Report required by 10 CFR 50.71(e)(4), following issuance of this renewed operating license. Until that update is complete, Duke may make changes to the programs described in such supplement without prior Commission approval, provided that Duke evaluates each such change pursuant to the criteria set forth in 10 CFR 50.59 and otherwise complies with the requirements in that section.

(4) Antitrust Conditions

Duke Power Company LLC shall comply with the antitrust conditions delineated in Appendix C to this renewed operating license.

(5) Fire Protection Program (Section 9.5.1, SER, SSER #2, SSER #3, SSER #4, SSER #5)*

Duke Power Company LLC shall implement and maintain in effect all provisions of the approved fire protection program as described in the Updated Final Safety Analysis Report, as amended, for the facility and as approved in the SER through Supplement 5, subject to the following provision:

The licensee may make changes to the approved fire protection program without prior approval of the Commission only if those changes would not adversely affect the ability to achieve and maintain safe shutdown in the event of a fire.

*The parenthetical notation following the title of this renewed operating license condition denotes the section of the Safety Evaluation Report and/or its supplement wherein this renewed license condition is discussed.

No changes this page

(6) Mitigation Strategies

Develop and maintain strategies for addressing large fires and explosions and that include the following key areas:

- (a) Fire fighting response strategy with the following elements:
 1. Pre-defined coordinated fire response strategy and guidance
 2. Assessment of mutual aid fire fighting assets
 3. Designated staging areas for equipment and materials
 4. Command and control
 5. Training of response personnel

- (b) Operations to mitigate fuel damage considering the following:
 1. Protection and use of personnel assets
 2. Communications
 3. Minimizing fire spread
 4. Procedures for implementing integrated fire response strategy
 5. Identification of readily-available pre-staged equipment
 6. Training on integrated fire response strategy
 7. Spent fuel pool mitigation measures

- (c) Actions to minimize release to include consideration of:
 1. Water spray scrubbing
 2. Dose to onsite responders

(7) Additional Conditions

The Additional Conditions contained in Appendix B, as revised through Amendment No. 237, are hereby incorporated into this renewed operating license. Duke Power Company LLC shall operate the facility in accordance with the Additional Conditions.

D. The facility requires exemptions from certain requirements of Appendix J to 10 CFR Part 50, as delineated below and pursuant to evaluations contained in the referenced SER and SSERs. These include, (a) partial exemption from the requirement of paragraph III.D.2(b)(ii) of Appendix J, the testing of containment airlocks at times when the containment integrity is not required (Section 6.2.6 of the SER, and SSERs # 3 and #4), (b) exemption from the requirement of paragraph III.A.(d) of Appendix J, insofar as it requires the venting and draining of lines for type A tests (Section 6.2.6 of SSER #3), and (c) partial exemption from the requirements of paragraph III.B of Appendix J, as it relates to bellows testing (Section 6.2.6 of the SER and SSER #3). These exemptions are authorized by law, will not present an undue risk to the public health and safety, are consistent with the common defense and security, and are consistent with certain special circumstances as discussed in the referenced SER and SSERs. These exemptions are, therefore, hereby granted pursuant to 10 CFR 50.12. With the granting of these exemptions, the facility will operate, to the extent authorized herein, in conformity with the application, as amended, the provisions of the Act, and the rules and regulations of the Commission.

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E. Physical Protection

Duke Power Company LLC shall fully implement and maintain in effect all provisions of the Commission-approved physical security, training and qualification and safeguards contingency plans including amendments made pursuant to provisions of the Miscellaneous Amendments and Search Requirements revisions to 10 CFR 73.55 (51 FR 27817 and 27822) and to the authority of 10 CFR 50.90 and 10 CFR 50.54(p). The combined set of plans, which contains safeguards information protected under 10 CFR 73.21, is entitled: "Duke Energy Physical Security Plan," Revision 8 submitted by letter dated May 17, 2007.

F. Reporting to the Commission Deleted by Amendment No. 230

G. The licensees shall have and maintain financial protection of such type and in such amounts as the Commission shall require in accordance with Section 170 of the Atomic Energy Act of 1954, as amended, to cover public liability claims.

3. This renewed license is effective as of the date of issuance and shall expire at midnight on December 5, 2043.

FOR THE NUCLEAR REGULATORY COMMISSION

Original Signed By: J. E. Dyer

J. E. Dyer, Director
Office of Nuclear Reactor Regulation

Attachments:

- 1. Appendix A – Technical Specifications
- 2. Appendix B – Additional Conditions
- 3. Appendix C – Antitrust Conditions

Date of Issuance: December 5, 2003

No changes this page

APPENDIX B

ADDITIONAL CONDITIONS

FACILITY OPERATING LICENSE NO. NPF-35

Duke Power Company LLC shall comply with the following conditions on the schedules noted below:

<u>Amendment Number</u>	<u>Additional Condition</u>	<u>Implementation Date</u>
159	This amendment requires the licensee to use administrative controls, as described in the licensee's letter of March 7, 1997, and evaluated in the staff's safety evaluation dated April 29, 1997, to restrict the dose-equivalent iodine levels to 0.46 microCurie per gram (in lieu of the limit in TS Section 3.4.8.a), and to 26 microCurie per gram (in lieu of the limit of TS Figure 3.4-1), until this license condition is removed by a future amendment.	Immediately upon issuance of the amendment
173	The licensee is authorized to relocate certain requirements included in appendix A to licensee-controlled documents. Implementation of this amendment shall include the relocation of these requirements to the appropriate documents as described in the licensee's letters dated May 27, 1997, as amended by letters dated March 9, March 20, April 20, June 3, June 24, July 7, July 21, August 5, September 8, and September 15, 1998, and evaluated in the NRC staff's Safety Evaluation associated with this amendment.	All relocation to be completed by January 31, 1999.

Renewed License No. NPF-35
Amendment No. 229

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<u>Amendment Number</u>	<u>Additional Condition</u>	<u>Implementation Date</u>
173	<p>The schedule for the performance of new and revised surveillance requirements shall be as follows:</p> <p>For surveillance requirements (SRs) that are new in Amendment No. 173 the first performance is due at the end of the first surveillance interval that begins at implementation of Amendment No. 173. For SRs that existing prior to Amendment No. 173, including SRs with modified acceptance criteria and SRs who intervals of performance are being extended, the first performance is due at the end of the first surveillance interval that begins on the date the surveillance was last performed prior to implementation of amendment No. 173. For SRs that existed prior to Amendment No. 173, whose intervals of performance are being reduced, the first reduced surveillance interval begins upon completion of the first surveillance performed after implementation of Amendment No. 173</p>	By January 31, 1999
180	<p>The maximum rod average burnup for any rod shall be limited to 60 GWd/mtU until the completion of an NRC environmental assessment supporting an increased limit.</p>	Within 30 days of date of amendment.
	<p>In association with the ECCS sump strainer modification and Generic Safety Issue (GSI)-191 requirements:</p> <ol style="list-style-type: none">1. Unit 1 shall enter Mode 5 for the outage to install the sump strainer modification no later than May 19, 2008 and2. The Unit 1 sump strainer modification shall be completed prior to entry into Mode 4 after May 19, 2008.	Within 30 days of date of amendment and no later than December 31, 2007

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APPENDIX C
ANTITRUST CONDITIONS

Pursuant to an Order by the Atomic Safety and Licensing Board, dated April 23, 1975, the Nuclear Regulatory Commission incorporates in Operating License NPR-35 the following antitrust conditions:

- a. The licensee makes the commitments contained herein, recognizing that bulk power supply arrangements between neighboring entities normally tend to serve the public interest. In addition, where there are net benefits to all participants such arrangements also serve the best interests of each of the participants. Among the benefits of such transactions are increased electric system reliability, a reduction in the cost of electric power, and minimization of the environmental effects of the production and sale of electricity.

Any particular bulk power supply transaction may afford greater benefits to one participant than to another. The benefits realized by a small system may be proportionately greater than those realized by a larger system. The relative benefits to be derived by the parties from a proposed transaction, however, should not be controlling upon a decision with respect to the desirability of participating in the transaction. Accordingly, the licensee will enter into proposed bulk power transactions of the types hereinafter described which, on balance, provide net benefits to the licensee. There are net benefits in a transaction if the licensee recovers the cost of the transaction, (as defined in subparagraph (1)(d) hereof) and there is no demonstrable net detriment to the licensee arising from the transaction.

(1) As used herein:

- (a) "Bulk Power" means electric power and any attendant energy, supplied or made available at transmission or sub-transmission voltage by one electric system to another.
- (b) "Neighboring Entity" means a private or public corporation, a governmental agency or authority, a municipality, a cooperative, or a lawful association of any of the foregoing owning or operating, or proposing to own or operate, facilities for the generation and transmission of electricity which meets each of the following criteria: (1) its existing or proposed facilities are economically and technically feasible of interconnection with those of the licensee and (2) with the exception of municipalities, cooperatives, governmental agencies or authorities, and associations, it is, or upon commencement of operations will be, a public utility and subject to regulation with respect to rates and service under the laws of North Carolina or South Carolina or under the Federal Power Act; provided, however, that as to associations, each member of such association is either a public utility as discussed in this clause (2) or a

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municipality, a cooperative or a governmental agency or authority.

- (c) Where the phrase "neighboring entity" is intended to include entities engaging or proposing to engage only in the distribution of electricity, this is indicated by adding the phrase "including distribution systems."
 - (d) "Cost" means any appropriate operating and maintenance expenses, together with all other costs, including a reasonable return on the licensee's investment, which are reasonably allocable to a transaction. However, no value shall be included for loss of revenue due to the loss of any wholesale or retail customer as a result of any transaction hereafter described.
- (2)
- (a) The licensee will interconnect and coordinate reserves by means of the sale and exchange of emergency and scheduled maintenance bulk power with any neighboring entity(ies), when there are net benefits to each party, on terms that will provide for all of the licensee's properly assignable costs as may be determined by the Federal Energy Regulatory Commission and consistent with such cost assignment will allow the other party the fullest possible benefits of such coordination.
 - (b) Emergency service and/or scheduled maintenance service to be provided by each party will be furnished to the fullest extent available from the supplying party and desired by the party in need. The licensee and each party will provide to the other emergency service and/or scheduled maintenance service if and when available from its own generation and, in accordance with recognized industry practice, from generation of others to the extent it can do so without impairing service to its customers, including other electric systems to whom it has firm commitments.
 - (c) Each party to a reserve coordination arrangement will establish its own reserve criteria, but in no event shall the minimum installed reserve on each system be less than 15%, calculated as a percentage of estimated peak load responsibility. Either party, if it has, or has firmly planned, installed reserves in excess of the amount called for by its own reserve criterion, will offer any such excess as may in fact be available at the time for which it is sought and for such period as the selling party shall determine for purchase in accordance with reasonable industry practice by the other party to meet such other party's own reserve requirements. The parties will provide such amounts of spinning reserve as may be adequate to avoid the imposition of unreasonable

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demands on the other part(ies) in meeting the normal contingencies of operating its (their) system(s). However, in no circumstances shall such spinning reserve requirement exceed the installed reserve requirement.

- (d) Interconnections will not be limited to low voltages when higher voltages are available from the licensee's installed facilities in the area where interconnection is desired and when the proposed arrangement is found to be technically and economically feasible.
 - (e) Interconnection and reserve coordination agreements will not embody provisions which impose limitations upon the use or resale of power and energy sold or exchanged pursuant to the agreement. Further, such arrangements will not prohibit the participants from entering into other interconnection and coordination arrangements, but may include appropriate provisions to assure that (i) the licensee receives adequate notice of such additional interconnection or coordination, (ii) the parties will jointly consider and agree upon such measures, if any, as are reasonably necessary to protect the reliability of the interconnected systems and to prevent undue burdens from being imposed on any system, and (iii) the licensee will be fully compensated for its costs. Reasonable industry practice as developed in the area from time to time will satisfy this provision.
- (3) The licensee currently has on file, and may hereafter file, with the Federal Energy Regulatory Commission contracts with neighboring entity(ies) providing for the sale and exchange of short-term power and energy, limited term power and energy, economy energy, non-displacement energy, and emergency capacity and energy. The Licensee will enter into contracts providing for the same or for like transactions with any neighboring entity on terms which enable the licensee to recover the full costs allocable to such transaction.
- (4) The licensee currently sells capacity and energy in bulk on a full requirements basis to several entities engaging in the distribution of electric power at retail. In addition, the licensee supplies electricity directly to ultimate users in a number of municipalities. Should any such entity(ies) or municipality(ies) desire to become a neighboring entity as defined in subparagraph (1)(b) hereof (either alone or through combination with others), the licensee will assist in facilitating the necessary transition through the sale of partial requirements firm power and energy to the extent that, except for such transition, the licensee would otherwise be supplying firm power and energy. The provision of such firm partial requirements service shall be under such rates, terms and conditions as shall be found by the Federal Energy Regulatory Commission to

No changes this page

provide for the recovery of the licensee's cost. The licensee will sell capacity and energy in bulk on a full requirements basis to any municipality currently served by the licensee when such municipality lawfully engages in the distribution of electric power at retail.

- (5) (a) The licensee will facilitate the exchange of electric power in bulk in wholesale transactions over its transmission facilities (1) between or among two or more neighboring entities including distribution systems with which it is interconnected or may be interconnected in the future, and (2) between any such entity(ies) and any other electric system engaging in bulk power supply between whose facilities the licensee's transmission lines and other transmission lines would form a continuous electric path, provided that permission to utilize such other transmission lines has been obtained. Such transaction shall be undertaken provided that the particular transaction reasonably can be accommodated by the licensee's transmission system from a functional and technical standpoint and does not constitute the wheeling of power to a retail customer. Such transmission shall be on terms that fully compensate the licensee for its cost. Any entity(ies) requesting such transmission arrangements shall give reasonable notice of its (their) schedule and requirements.
- (b) The licensee will include in its planning and construction program sufficient transmission capacity as required for the transactions referred to in subparagraph (a) of this paragraph, provided that (1) the neighboring entity(ies) gives the licensee sufficient advance notice as may be necessary reasonably to accommodate its (their) requirements from a functional and technical standpoint and (2) that such entity(ies) fully compensate the licensee for its cost. In carrying out this subparagraph (b), however, the licensee shall not be required to construct or add transmission facilities which (a) will be of no demonstrable present or future benefit to the licensee, or (b) which could be constructed by the requesting entity(ies) without duplicating any portion of the licensee's existing transmission lines, or (c) which would jeopardize the licensee's ability to finance or construct on reasonable terms facilities needed to meet its own anticipated system requirements. Where regulatory or environmental approvals are required for the construction or addition of transmission facilities needed for the transactions referred to in subparagraph (a) of this paragraph it shall be the responsibility of the entity(ies) seeking the transaction to participate in obtaining such approvals, including sharing in the cost thereof.
- (6) To increase the possibility of achieving greater reliability and economy of electric generation and transmission facilities, the licensee will discuss load projections and system development plans with any neighboring entity(ies).

No changes this page

- (7) When the licensee's plans for future nuclear generating units (for which application will hereafter be made to the Nuclear Regulatory Commission) have reached the stage of serious planning, but before firm decisions have been made as to the size and desired completion date of the proposed nuclear units, the licensee will notify all neighboring entities including distribution systems with peak loads smaller than the licensee's that the licensee plans to construct such nuclear units. Neither the timing nor the information provided need be such as to jeopardize obtaining the required site at the lowest possible cost.
- (8) The foregoing commitments shall be implemented in a manner consistent with the provisions of the Federal Power Act and all other lawful local, state and Federal regulation and authority. Nothing in these commitments is intended to determine in advance the resolution of issues which are properly raised at the Federal Energy Regulatory Commission concerning such commitments, including allocation of costs or the rates to be charged. The licensee will negotiate (including the execution of a contingent statement of intent) with respect to the foregoing commitments with any neighboring entity including distribution systems where applicable engaging in or proposing to engage in bulk power supply transactions, but the licensee shall not be required to enter into any final arrangement prior to resolution of any substantial questions as to the lawful authority of an entity to engage in the transactions.

In addition, the licensee shall not be obligated to enter into a given bulk power supply transaction if: (1) to do so would violate, or incapacitate it from performing, any existing lawful contracts it has with a third party; (2) there is contemporaneously available to it a competing or alternative arrangement which affords it greater benefits which would be mutually exclusive of such arrangement; (3) to do so would adversely affect its system operations or the reliability of power supply to its customers, or (4) if to do so would jeopardize the licensee's ability to finance or construct on reasonable terms facilities needed to meet its own anticipated system requirements.

9



UNITED STATES
NUCLEAR REGULATORY COMMISSION

WASHINGTON, D.C. 20555-0001

April 3, 2006

Docket Nos. 50-413
50-414

AMENDMENT TO INDEMNITY AGREEMENT NO. B-100
AMENDMENT NO. ~~10~~ 11

Effective April 3, 2006, Indemnity Agreement No. B-100, between Duke Energy Corporation, North Carolina Municipal Power Agency Number 1, North Carolina Electric Membership Corporation, Saluda River Electric Cooperative, Inc. Piedmont Municipal Power Agency and the Nuclear Regulatory Commission, dated January 3, 1984, as amended, is hereby further amended as follows:

Delete the name "Duke Energy Corporation" in the Indemnity Agreement wherever it appears and substitute the name "Duke Power Company LLC"

"Saluda River Electric Cooperative, Inc."

FOR THE UNITED STATES NUCLEAR REGULATORY COMMISSION


Christopher I. Grimes, Director
Division of Policy and Rulemaking
Office of Nuclear Reactor Regulation

Enclosure 2

**Duke Energy Corporation
2006 Summary Annual Report**



Changing minds.
Changing habits.

2006 SUMMARY ANNUAL REPORT



IN THIS REPORT

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ABOUT THE COVER

Liqin Jiang is a load forecast analyst. Each day, she uses temperature, humidity, wind and other key metrics to forecast customer power demand for Duke Energy's Midwest operations for the next seven to 10 days. She must be as precise as possible to ensure that adequate supplies of power are available to meet that demand. Her analyses are just one example of how the Duke Energy team works each day to balance — and ultimately to solve — the new energy equation.

FORWARD-LOOKING STATEMENT

This report includes statements that do not directly or exclusively relate to historical facts. Such statements are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. One can typically identify forward-looking statements by the use of forward-looking words such as: may, will, could, project, believe, expect, estimate, continue, potential, plan, forecast and other similar words. Those statements represent Duke Energy's intentions, plans, expectations, assumptions and beliefs about future events and are subject to risks, uncertainties and other factors, many of which are outside Duke Energy's control and could cause actual results to differ materially from the results expressed or implied by those forward-looking statements. Those factors include: state, federal and foreign legislative and regulatory initiatives that affect cost and investment recovery, have an impact on rate structures, and affect the speed at and degree to which competition enters the electric and natural gas industries; the outcomes of litigation and regulatory investigations, proceedings or inquiries; industrial, commercial and residential growth in Duke Energy's service territories; additional competition in Duke Energy's markets and continued industry consolidation; the influence of weather on company operations, including the economic, operational and other effects of hurricanes, tornados or other natural phenomena; the timing and extent of changes in commodity prices, interest rates and foreign currency exchange rates; general economic conditions, including any potential effects arising from terrorist attacks and any consequential hostilities; changes in environmental and other laws and regulations to which Duke Energy and its subsidiaries are subject; the results of financing efforts, including Duke Energy's ability to obtain financing on favorable terms, which can be affected by various factors, including Duke Energy's credit ratings and general economic conditions; declines in the market prices of equity securities and resultant cash funding requirements for Duke Energy's defined benefit pension plans; the level of creditworthiness of counterparties to Duke Energy's transactions; the amount of collateral required to be posted from time to time in Duke Energy's transactions; growth in opportunities for Duke Energy's business units, including the timing and success of efforts to develop domestic and international power; the performance of electric generation facilities; the effect of accounting pronouncements issued periodically by accounting standard-setting bodies; the ability to successfully complete merger, acquisition or divestiture plans, including the prices at which Duke Energy is able to sell assets; and the success of the business following a merger, acquisition or divestiture.

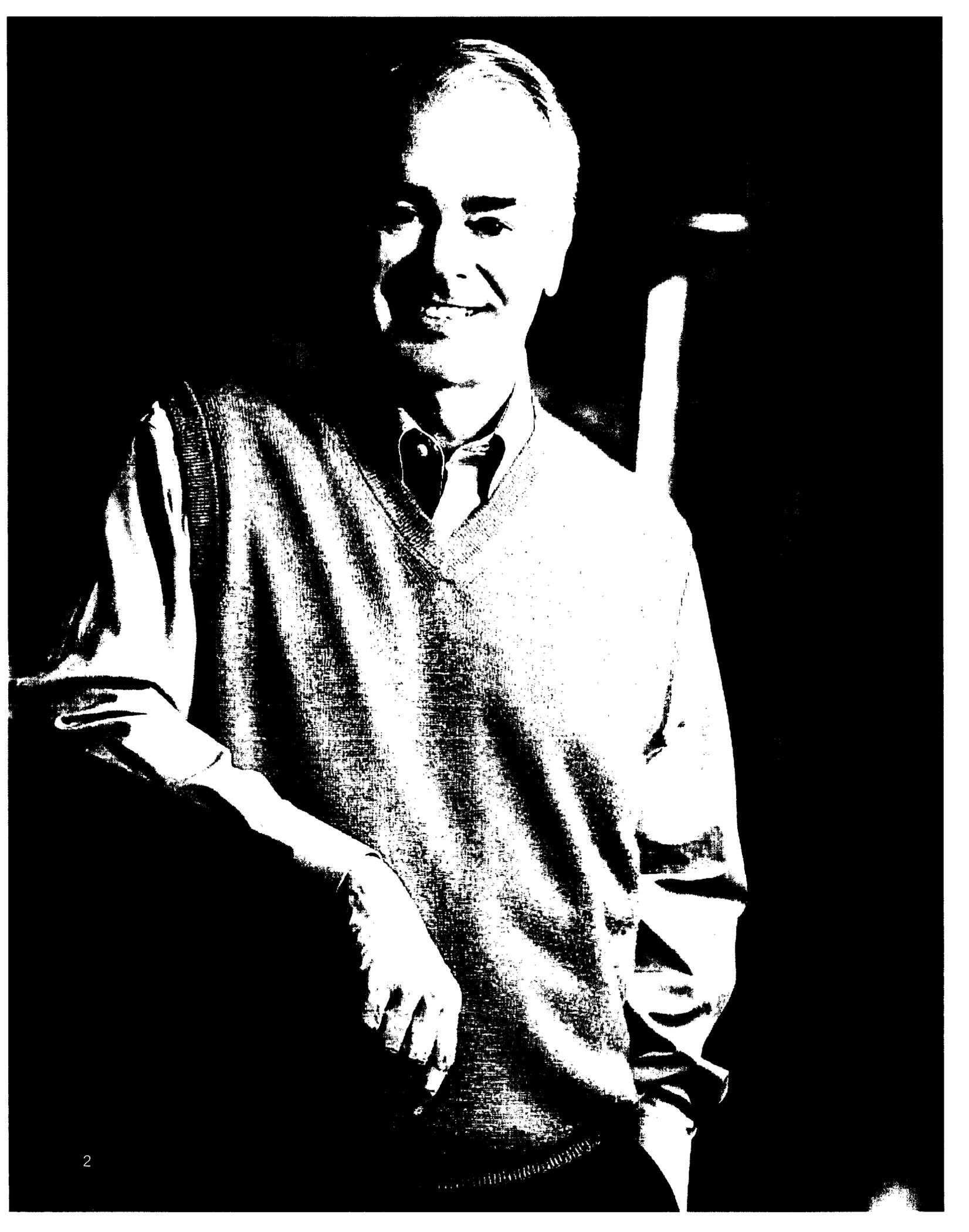
In light of these risks, uncertainties and assumptions, the events described in the forward-looking statements might not occur or might occur to a different extent or at a different time than Duke Energy has described. Duke Energy undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Information contained in this report is unaudited, and is subject to change.

... to solve the new energy equation.

We face a new energy equation with many variables. Increasing demand for energy is a key driver of rising energy prices. As a result, there is a renewed focus on renewable energy and energy efficiency — “save-a-watts” vs. megawatts. There is mounting concern about global climate change and further reducing air emissions. And, we must continue to grow earnings and dividends.

These variables present both challenges and opportunities. We believe we can solve this new equation with our sustainability focus. This means working to balance the needs of all of our stakeholders. These efforts will keep our prices affordable and our service reliable as we continue to work to reduce our environmental footprint and earn superior returns.

This delicate balancing act requires us to challenge conventional wisdom with new thinking and innovation. It means changing our own minds and habits and those of our stakeholders. We must still generate megawatts, but we believe we can produce significant save-a-watts as well. In 2006, we repositioned Duke Energy to do just that. Read on ...



Dear fellow investors, customers, employees and all who have a vested interest in our success — our partners, suppliers, policymakers, regulators and communities:

I want to thank the entire Duke Energy team for accomplishing both a merger and a spinoff last year. Never before in my career have I seen people work so hard to resolve so many complex issues. Our many financial, operational and policy accomplishments in 2006 were the result of your dedication and support.

For our other stakeholders, let me summarize our key accomplishments simply by saying that we did what we said we would do in our 2006 Charter.

2006 ongoing diluted earnings per share of \$1.81 exceeded 2005 ongoing diluted earnings per share of \$1.73. Duke Energy's total shareholder return for 2006, before the spinoff of Spectra Energy in early 2007, was 26.3 percent. We outperformed both the Philadelphia Stock Exchange Utility Sector Index (20 percent) and the S&P 500 Index (15.8 percent).

The strategic steps we took last year positioned the company for growth in 2007 and beyond. We established an industry-leading electric power platform through the successful execution of the merger with Cinergy — and we did it in 11 months.

(LEFT) JAMES E. ROGERS, CHAIRMAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER

Looking back. Looking forward.

2006 was a transformational year for Duke Energy. By taking decisive actions, we lowered our risk profile and repositioned the company. As a leading pure-play electric company with a strong balance sheet, we are in a favorable position to achieve our 2007 goals, which will drive earnings and dividend growth over the long term.

2006 Major Achievements

- Merged with Cinergy to increase the scale and scope of our power business.
- Reduced our risk profile by selling our unregulated power plants outside the Midwest and by selling our Commercial Marketing and Trading business.
- Formed a joint venture with Morgan Stanley Real Estate Fund for Crescent Resources.
- Repurchased \$500 million of stock.
- Acquired, filed for certificate, or announced our intent to build new generation assets throughout our five states. We estimate that we will need to increase our generating capacity by approximately 6,400 megawatts over the next 10 years.
- Announced numerous expansions of our gas transmission system.
- Achieved our 2006 employee incentive target.
- Spun off Spectra Energy on Jan. 2, 2007.

Goals for 2007*

- Establish the identity and culture of the new Duke Energy, unifying our people, values, strategy, processes and systems.
- Optimize our operations by focusing on safety, simplicity, accountability, inclusion, customer satisfaction, cost management and employee development.
- Achieve public policy, regulatory and legislative outcomes that balance our customers' needs for reliable energy at competitive prices with our shareholders' expectation of superior returns.
- Invest in energy infrastructure that meets rising customer demands for reliable energy in an efficient and environmentally sound manner.
- Achieve 2007 financial objectives and position the company to meet future growth targets.

*See the 2007 Duke Energy Charter on page 9.

We reduced our earnings volatility and business risk by selling our commercial marketing and trading operations, and effectively half of our real estate development company, Crescent Resources. These transactions raised almost \$2 billion in after-tax cash, most of which will be invested in our lower-risk, energy infrastructure businesses.

In customer satisfaction, we have consistently ranked in the top quartile in several independent utility studies. Last year, our utility companies in the South and Midwest finished in the top 10 nationally in the Key Account Benchmark Study. In addition, we ranked first in the South and best in the nation among small and mid-sized business customers, according to J.D. Power and Associates.

We provided leadership on industry issues. I currently serve as chairman of Edison Electric Institute and I co-chair the National Action Plan on Energy Efficiency and the Alliance to Save Energy. Other members of the Duke Energy leadership team also help to shape the state and federal policy decisions that affect our business.

We continued to build a high-performance, sustainability-focused culture characterized by diversity, inclusion, employee development and leadership. And we established new safety incentives for 2007 to reinforce our concern for each other and our customers.

SO WHY DID WE CHOOSE TO GET LARGER AND THEN GET SMALLER?

Very simply, scale and focus.

Our merger with Cinergy in April 2006 gave our electric business the scale it needed to stand alone. To unlock even greater value, three months later we announced that we would separate our natural gas business and our electric business into two strong pure-play companies: Spectra Energy for gas and Duke Energy for electric power. We completed the spinoff of Spectra Energy in January 2007. Today Duke Energy is one of the top five electric companies in the United States in market capitalization.

Having the strategic focus of a pure-play electric company will help us meet the challenges and seize the opportunities to solve what we call the new energy equation.

In this equation, we must meet our customers' needs for affordable and reliable electric power while meeting more stringent environmental rules that will inevitably increase costs.

We must raise capital for long-term investments in more environmentally friendly generation capacity, renewable energy and energy efficiency. And we must reassure investors who may be wary of long-term capital construction programs.

Balancing these factors and solving the new energy equation will require a new approach to utility regulation. It will require us to change minds and change habits. It will require us to see and understand the goals of each of our stakeholder groups. This letter and the rest of this report will detail our plans to do that.

WHAT INVESTORS CAN EXPECT IN 2007 AND BEYOND

Our strategy to increase earnings and dividends in the long term is straightforward:

- Steadily improve our sales growth
- Earn solid returns on our significant capital investments, and
- Continue achieving additional cost reductions from the merger and from our continuous improvement efforts.

These three drivers — sales, investments and cost savings — are essential to achieving both our 2007 financial objectives and long-term growth.

You can read all of our 2007 objectives in our Charter on page 9. Our 2007 employee incentive target of \$1.15 per share is based on ongoing diluted earnings. The \$1.15 serves as the basis for 4 to 6 percent annual earnings growth through the end of 2009. We expect dividend growth to be in line with earnings growth.

Our business plan projects a quarterly dividend increase of \$0.01 beginning in the third quarter of 2007. This dividend increase — to be decided by the board of directors — would be in line with our expectation to increase dividends consistent with a 70 to 75 percent payout target.

SOLVING THE NEW ENERGY EQUATION: CHANGING MINDS AND CHANGING HABITS

Our actions in 2006 put us in a strong position to grow as we address the variables of the new energy equation:

- Building new power plants to meet steadily increasing demand
- Using a diverse mix of fuels and technologies at our new plants to limit our future price, reliability and environmental risks
- Deploying new technologies to modernize our transmission and distribution grids to boost efficiency and reliability, and to support new energy efficiency initiatives
- Obtaining legislation and regulatory treatment that will let us recover our financing costs as we build new and more efficient power plants (megawatts) and as we promote energy efficiency (“save-a-watts”) with new initiatives on both sides of the meter
- Realizing the efficiencies and cost savings from the merger while maintaining our operational excellence, and
- Shaping new federal rules that limit carbon emissions to ensure our customers and other stakeholders are fairly treated.

We will solve the new energy equation by challenging conventional wisdom. We will invest in new technology. We will balance the variables by working collaboratively with all stakeholders to find the best and fairest solutions.

Let me briefly highlight each variable and spell out our strategy for addressing it. This will also give you a good overview of our near-term and long-term growth strategies.

Building new power plants to meet steadily increasing demand. In the Carolinas, we are adding between 40,000 and 60,000 new customers annually. In Indiana, Kentucky and Ohio, we are adding 11,000 to 16,000 new customers each year. For the next three years, we expect annual kilowatt-hour sales growth of about 1.5 percent in the Carolinas and about 1 percent in the Midwest.

We are required by law to meet the electric power needs of our customers as economically and reliably as possible. Each year, we perform an extensive analysis to update our

forecasts for customer power demand and study all viable and economical options to meet that demand. In the past, we have been successful in meeting our customer growth by operating our power plants efficiently, by purchasing peaking power plants and by buying power on the wholesale market as needed.

Today's growth projections suggest that we will need to increase our generating capacity by approximately 6,400 megawatts over the next 10 years. Most of this new capacity will be in the Carolinas, and the remainder in Indiana.

Even now, we need nearly 1,500 megawatts of new generation in Ohio to meet existing demand. We plan to build or buy new generation there if the state enacts legislation that will allow utilities to own generation facilities.

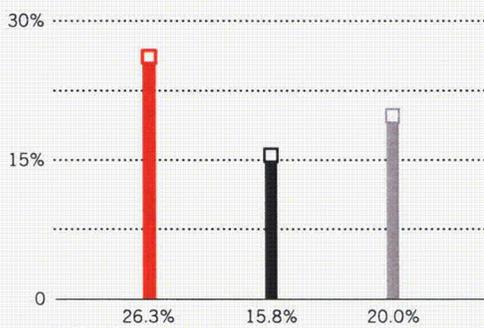
Our newest base load plants — those designed to operate around the clock — were completed in 1986 in the Carolinas and in 1991 in the Midwest. It takes six to 10 years to plan, permit and construct such plants. We are seeking permits now for plants that we'll need in 2011, when we expect to have more than 250,000 additional customers.

We anticipate annual capital expenditures of approximately \$3.5 billion from 2007 through 2009 for expansion of our generation capacity, environmental retrofits, nuclear fuel, maintenance and other expenses. Included in this amount is expansion capital for:

- Expanding generation in North Carolina
- Planning a new cleaner-coal integrated gasification combined cycle (IGCC) plant in Indiana, and
- Exploring the development of a new nuclear plant in South Carolina.

We expect that new generation and other infrastructure investments over the next three years will increase the total rate base in our five states by about 25 percent from the current \$16 billion to \$20 billion (less depreciation and amortization). The returns generated from a growing rate base will ultimately translate into long-term earnings growth — and we expect our rates to remain below the national average.

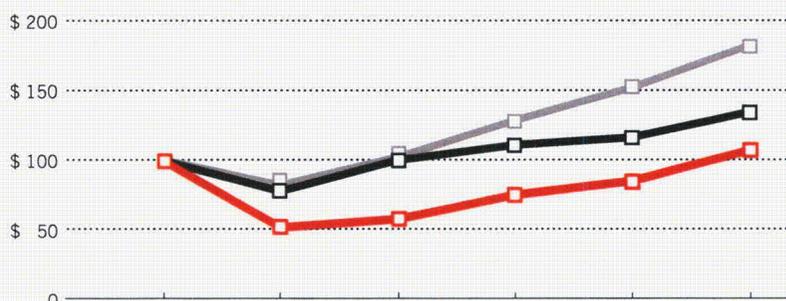
COMPARISON OF 2006 TOTAL RETURN



LEGEND

- Duke Energy Corporation
- S&P 500 Index
- Philadelphia Stock Exchange Utility Sector Index

COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL RETURN



	Dec. 01	Dec. 02	Dec. 03	Dec. 04	Dec. 05	Dec. 06
■	\$ 100	\$ 51.80	\$ 57.98	\$ 75.50	\$ 85.39	\$ 107.81
■	\$ 100	\$ 77.90	\$ 100.25	\$ 111.15	\$ 116.61	\$ 135.02
■	\$ 100	\$ 81.65	\$ 101.95	\$ 128.57	\$ 151.99	\$ 182.44

Assumes \$100 was invested on December 31, 2001 in company common stock and each index. Values are as of December 31 assuming dividends are reinvested.

OVER A FIVE-YEAR PERIOD BEGINNING DECEMBER 31, 2001, DUKE ENERGY'S TOTAL SHAREHOLDER RETURN (TSR) HAS LAGGED BOTH THE S&P 500 INDEX AND THE PHILADELPHIA STOCK EXCHANGE UTILITY INDEX. BUT, IN 2006, INVESTORS RESPONDED FAVORABLY TO THE DECISIVE ACTIONS WE TOOK TO LOWER OUR RISK PROFILE AND REPOSITION DUKE ENERGY AS A LEADING PURE-PLAY ELECTRIC COMPANY. DUKE ENERGY'S TSR FOR 2006 (PRE-SPINOFF OF SPECTRA ENERGY) WAS 26.3 PERCENT, WHICH EXCEEDED THE PHILADELPHIA STOCK EXCHANGE UTILITY SECTOR INDEX (20 PERCENT) AND THE S&P 500 INDEX (15.8 PERCENT).

Using a diverse mix of fuels and technologies at our new plants to limit our future price, reliability and environmental risks. One of the reasons our average price for electricity is below the national average is that 98 percent of our energy is generated from coal and nuclear power.

For our Cliffside Station, we proposed building two new 800-megawatt units using supercritical coal technology. This is the most environmentally efficient pulverized coal technology available today. Because of their increased efficiencies, these plants typically burn 10 percent less coal than conventional units and emit significantly less sulfur dioxide and nitrogen oxide.

As I was finishing this letter, we received a notice of decision from the North Carolina Utilities Commission (NCUC), which authorized building one of the two units. The commission also accepted our commitment to invest 1 percent of our revenues in the Carolinas for energy efficiency, subject to appropriate regulatory treatment, and our plan to retire older, less efficient units.

Our cost estimates were based on two units, and we still need an air permit for this project. So as you read this, we are studying the Cliffside project to determine how to proceed. We won't make a decision until we have a clearer understanding of the overall costs as well as the conditions of the air permit. We are also evaluating the possibility of enhancing and accelerating natural gas-fired plants in our portfolio.

In Indiana, we continue to explore development of a new 630-megawatt IGCC plant. IGCC technology is less proven, but has the potential to significantly reduce emissions. Additionally, the geology of the plant location is conducive to underground storage of captured carbon emissions. We believe that investing in this next generation of coal-plant technology is an important part of meeting our environmental commitments.

Because the Cliffside and IGCC projects use more environmentally friendly technologies, they were authorized for significant federal tax credits by the U.S. Department of Energy upon their completion. This is further evidence that Duke Energy is on the forefront of new cleaner coal technology.

We are also proposing to build a new nuclear plant in South Carolina. New nuclear plants will encounter challenges, including used fuel storage, cost recovery and a new licensing process. But nuclear energy has one big advantage: It produces no greenhouse gas emissions, and we believe that will help offset the other challenges.

Deploying new technologies to modernize our transmission and distribution grids to boost efficiency and reliability, and to support new energy efficiency initiatives. Complementing our capital investments in new generation is our renewed commitment to energy efficiency. Our job is to educate and support our customers — to change minds and habits — to help them better manage their energy use to reduce both peak and overall demand.

Energy efficiency can be measured in save-a-watts, the number of megawatts we don't need to supply when customers are being smart about their energy consumption. Efficient energy practices are just as important as coal, nuclear, natural gas and renewable energy. That's why we think of efficiency as the "fifth fuel."

With our strong customer relationships and back office systems, we are well positioned to make energy efficiency a significant part of our portfolio. Duke Energy has appointed a vice president of energy efficiency, a chief technology officer and a vice president of regulatory strategy. You will meet them in the pages that follow. We believe that their focused approach will make energy efficiency a new asset for all of our stakeholders, especially our customers and investors.

Energy efficiency is the core of our commitment to building a sustainable business model. We intend to manage financial, environmental and social opportunities and risks effectively, so we'll still be doing business many years from now.

You can be part of our commitment to sustainability leadership, too. We are again offering to make a \$1 donation to The Nature Conservancy for every shareholder who signs up for electronic delivery of our annual report, proxy statement and our other financial information. Currently, more than 80,000 of you have chosen electronic delivery, and we intend to make an equivalent donation in dollars to The Nature Conservancy. Electronic delivery helps us in two ways: It preserves our natural resources, and it significantly

reduces our printing and mailing costs. You need to sign up only once, and you can do so at this Web link: <https://www.icsdelivery.com/duk/index.html>.

Obtaining legislation and regulatory treatment that will let us recover our financing costs as we build new and more efficient power plants (megawatts) and as we promote energy efficiency (save-a-watts) with new initiatives on both sides of the meter. We are working this year to create a regulatory framework that balances the needs of our customers, our investors and our environment. Allowing us to recover financing costs as we incur them would lower the overall cost of projects as well as allow us to spread out rate increases over the course of the building cycle, avoiding large one-time increases.

We are pursuing such legislation in the Carolinas that would cover both the Cliffside station in North Carolina and a proposed new nuclear station in South Carolina. We are also seeking to recover our upfront development costs for the nuclear plant. We have been clear that we will not move forward with a nuclear plant unless we know that we can recover our financing costs in rates as we build.

In Ohio, we are pursuing a two-part regulatory strategy: First, we filed a request to extend the Rate Stabilization Plan through 2010. Second, we are also promoting legislation that would allow a regulated distribution company the choice of whether to build or to purchase new generation.

Success on this front depends on our ability to change minds. We need to persuade legislators and regulators to give energy efficiency investments the same weight as new generation investments. Conventional wisdom says that regulators reward us for selling more of our product, not less. We want to change the paradigm, by persuading them that utilities should be rewarded for energy efficiency as well as sales. If we can earn almost as much for saving a watt as for making a watt, everyone will benefit. With this kind of economic impartiality, we can provide reliable service, conserve precious resources and reduce emissions while still delivering a fair return to our investors.

We believe we can succeed with our regulatory agenda. We are seeking a consensus on policies that balance the needs of all of our stakeholders. This collaborative approach has produced constructive regulatory outcomes for our stakeholders before.

2007 Duke Energy Charter

We are Duke Energy, a leading energy company focused on electric power and gas distribution operations in the Americas. We energize our communities and enhance the quality of life for the people who live there. Our purpose is to create superior and sustainable value for our customers, employees, communities and investors through the production, delivery and sale of energy and energy services.

To be successful in 2007 and beyond, we must:

- Establish the identity and culture of the new Duke Energy, unifying our people, values, strategy, processes and systems.
- Optimize our operations by focusing on safety, simplicity, accountability, inclusion, customer satisfaction, cost management and employee development.
- Achieve public policy, regulatory and legislative outcomes that balance our customers' needs for reliable energy at competitive prices with our shareholders' expectation of superior returns.
- Invest in energy infrastructure that meets rising customer demands for reliable energy in an energy efficient and environmentally sound manner.
- Achieve 2007 financial objectives and position the company to meet future growth targets.

In conducting our business, we value:

- Stewardship** — A commitment to health, safety, environmental responsibility and our communities.
- Integrity** — Ethically and honestly doing what we say we will do.
- Safety** — A relentless commitment to working safely and looking out for the safety of our co-workers and others with whom we do business.
- Respect for the Individual** — Embracing diversity and inclusion, enhanced by openness, sharing, trust, teamwork and involvement.
- High Performance** — Achieving superior business results, stretching our capabilities and valuing the contributions of every employee.
- Win-Win Relationships** — Having relationships which focus on the creation of value for all parties.
- Initiative** — Having the courage, creativity and discipline to lead change and shape the future.

We will be successful when:

- Our investors realize a superior return on their investment over time.
- Our customers, suppliers and communities benefit from our business relationships.
- Every employee starts each day with a sense of purpose, and ends each day safely with a sense of accomplishment.

“Our challenges are as great as our opportunities, but I am confident that by listening to all of our stakeholders and engaging them in our efforts, we will solve the new energy equation — for the benefit of all.”

Realizing the efficiencies and cost savings from the merger while maintaining our operational excellence.

We are on track to realize \$650 million in net savings from the Cinergy merger over the first five years. We are beginning to see the full benefits of those savings as most of the merger-related rate reductions expire this year. In 2007, we are focusing on continuous improvement. We intend to carefully manage our costs and simplify our operations to deliver our products and services as reliably and efficiently as possible.

Shaping new federal rules that limit carbon emissions to ensure our customers and other stakeholders are fairly treated.

Duke Energy is the third-largest consumer of coal in the United States, so we are mindful of our environmental responsibilities. A growing body of scientific evidence suggests that the burning of fossil fuels is changing our climate. We are committed to making the best technology choices, ones that will limit our emissions and optimize our investments so that we can keep our prices competitive.

Reducing greenhouse gases with advanced power generation technology will take decades and cost billions of dollars. The work will continue well into this century. But if we don't begin to solve the problem now, the costs will go even higher.

To demonstrate our corporate commitment to tackling this issue, in January 2007, Duke Energy joined the United States Climate Action Partnership (USCAP). This diverse coalition of businesses and environmental groups includes Alcoa, DuPont, Caterpillar, General Electric and other utilities — FPL Group, PG&E Corp. and PNM Resources — as well as Environmental Defense, Natural Resources Defense Council, World Resources Institute and the Pew Center on Global Climate Change. Together, we have begun a dialogue and offered recommendations on national policies for dealing with this pressing issue. Additionally,

in partnership with the U.S. Department of Energy, we are researching underground carbon storage at our East Bend Station in Kentucky.

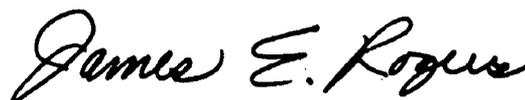
PATIENCE IS NEEDED TO CHANGE MINDS AND HABITS

The strategies I've outlined will position Duke Energy to be a leader on several fronts, including new technologies, energy efficiency, continuous improvement and sustainability. Our challenges are as great as our opportunities, but I am confident that by listening to all of our stakeholders and engaging them in our efforts, we will solve the new energy equation — for the benefit of all.

I again thank our employees, management and board of directors — both past and present — for our many successes in 2006. You achieved our strategic agenda while keeping the gas flowing and the lights on.

I thank our investors for your support during the merger and the spinoff. Your confidence in us is the best evidence that the new direction we have taken to become one of the nation's premier electric companies is the right direction.

We are energized by the prospects of a bright future. We have a solid investment proposition, and we are in a strong position to change minds and habits to create significant value for all of our stakeholders. From a sustainability standpoint, I believe that our grandchildren will be proud of how we are addressing the energy and environmental issues of our day.



James E. Rogers
Chairman, President and Chief Executive Officer

March 2, 2007

FINANCIAL HIGHLIGHTS^a

(In millions, except per-share amounts)	2006	2005	2004	2003 ^c	2002
Statement of Operations					
Operating revenues	\$ 15,184	\$ 16,297	\$ 19,596	\$ 17,623	\$ 14,757
Operating expenses	12,493	13,416	16,441	16,632	12,313
Gains on sales of investments in commercial and multi-family real estate	201	191	192	84	106
Gains (losses) on sales of other assets and other, net	276	534	(416)	(199)	32
Operating income	3,168	3,606	2,931	876	2,582
Other income and expenses, net	1,008	1,809	304	550	352
Interest expense	1,253	1,066	1,282	1,331	1,116
Minority interest expense	61	538	200	62	91
Earnings from continuing operations before income taxes	2,862	3,811	1,753	33	1,727
Income tax expense (benefit) from continuing operations	843	1,282	507	(52)	544
Income from continuing operations	2,019	2,529	1,246	85	1,183
(Loss) income from discontinued operations, net of tax	(156)	(701)	244	(1,246)	(149)
Income (loss) before cumulative effect of change in accounting principle	1,863	1,828	1,490	(1,161)	1,034
Cumulative effect of change in accounting principle, net of tax and minority interest	—	(4)	—	(162)	—
Net income (loss)	1,863	1,824	1,490	(1,323)	1,034
Dividends and premiums on redemption of preferred and preference stock	—	12	9	15	13
Earnings (loss) available for common stockholders	\$ 1,863	\$ 1,812	\$ 1,481	\$ (1,338)	\$ 1,021
Ratio of Earnings to Fixed Charges^d	3.2	4.7	2.3	—^b	2.0
Common Stock Data					
Shares of common stock outstanding ^e					
Year-end	1,257	928	957	911	895
Weighted average – basic	1,170	934	931	903	836
Weighted average – diluted	1,188	970	966	904	838
Earnings (loss) per share					
Basic	\$ 1.59	\$ 1.94	\$ 1.59	\$ (1.48)	\$ 1.22
Diluted	\$ 1.57	\$ 1.88	\$ 1.54	\$ (1.48)	\$ 1.22
Dividends per share	\$ 1.26	\$ 1.17	\$ 1.10	\$ 1.10	\$ 1.10
Balance Sheet					
Total assets	\$ 68,700	\$ 54,723	\$ 55,770	\$ 57,485	\$ 60,122
Long-term debt including capital leases, less current maturities	\$ 18,118	\$ 14,547	\$ 16,932	\$ 20,622	\$ 20,221
Capitalization					
Common equity	55%	50%	45%	37%	36%
Preferred stock	0%	0%	0%	0%	1%
Trust preferred securities	0%	0%	0%	0%	3%
Total common equity and preferred securities	55%	50%	45%	37%	40%
Minority interests	2%	2%	4%	5%	5%
Total debt	43%	48%	51%	58%	55%

^a Significant transactions reflected in the results above include: 2006 merger with Cinergy (see Note 2 to the Consolidated Financial Statements in Duke Energy's 2006 Form 10-K, "Acquisitions and Dispositions"), 2006 Crescent joint venture transaction and subsequent deconsolidation effective September 7, 2006 (see Note 2 to the Consolidated Financial Statements in Duke Energy's 2006 Form 10-K, "Acquisitions and Dispositions"), 2005 DENA disposition (see Note 13 to the Consolidated Financial Statements in Duke Energy's 2006 Form 10-K, "Discontinued Operations and Assets Held for Sale"), 2005 deconsolidation of DEFS effective July 1, 2005 (see Note 2 to the Consolidated Financial Statements in Duke Energy's 2006 Form 10-K, "Acquisitions and Dispositions"), 2005 DEFS sale of TEPPCO (see Note 2 to the Consolidated Financial Statements in Duke Energy's 2006 Form 10-K, "Acquisitions and Dispositions") and 2004 DENA sale of the Southeast plants (see Note 2 to the Consolidated Financial Statements in Duke Energy's 2006 Form 10-K, "Acquisitions and Dispositions").

^b Earnings were inadequate to cover fixed charges by \$241 million for the year ended December 31, 2003.

^c As of January 1, 2003, Duke Energy adopted the remaining provisions of Emerging Issues Task Force (EITF) 02-03, "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and for Contracts Involved in Energy Trading and Risk Management Activities" (EITF 02-03) and SFAS No. 143, "Accounting for Asset Retirement Obligations" (SFAS No. 143). In accordance with the transition guidance for these standards, Duke Energy recorded a net-of-tax and minority interest cumulative effect adjustment for change in accounting principles. (See Note 1 to the Consolidated Financial Statements in Duke Energy's 2006 Form 10-K, "Summary of Significant Accounting Policies," for further discussion.)

^d Includes pre-tax gains of approximately \$0.9 billion, net of minority interest, related to the sale of TEPPCO GP and LP in 2005 (see Note 2 to the Consolidated Financial Statements in Duke Energy's 2006 Form 10-K, "Acquisitions and Dispositions").

^e 2006 increase primarily attributable to issuance of approximately 313 million shares in connection with Duke Energy's merger with Cinergy (see Note 2 to the Consolidated Financial Statements in Duke Energy's 2006 Form 10-K, "Acquisitions and Dispositions").

See Notes to Consolidated Financial Statements in Duke Energy's 2006 Form 10-K.

DUKE ENERGY BUSINESS SEGMENTS

U.S. Franchised Electric and Gas



2007 EBIT
CONTRIBUTION

U.S. Franchised Electric and Gas, which operates in North Carolina, South Carolina, Indiana, Ohio and Kentucky, is our largest business segment and our primary source of earnings growth.

We expect this segment to represent approximately 79 percent of forecasted 2007 ongoing total segment earnings before interest and taxes (EBIT).^{*} It includes:

- A \$16 billion retail rate base
- 3.9 million electric customers
- 500,000 gas customers in Ohio and Kentucky
- 47,000 square miles of service territory
- 28,000 megawatts of regulated generation.

Commercial Power



2007 EBIT
CONTRIBUTION

Duke Energy's Commercial Power business owns and operates unregulated power plants, primarily in the Midwest. Almost all of the results for this business come from sales to retail customers in Ohio under that state's Rate Stabilization

Plan. Also in this segment is Duke Energy Generation Services (DEGS), which develops, owns and operates electric generation sources that serve large energy consumers, municipalities, utilities and industrial facilities. We expect this segment to represent approximately 7 percent of forecasted 2007 ongoing total segment EBIT.^{*} It includes:

- 8,100 megawatts of unregulated generation, most of which is dedicated to regulated customers.

Duke Energy International



2007 EBIT
CONTRIBUTION

Duke Energy's international electric generation operations are located in Central and South America. We expect this segment to represent approximately 11 percent of forecasted 2007 ongoing total segment EBIT.^{*} It includes:

- Approximately 4,000 megawatts of generation, primarily hydroelectric power, in six countries: Argentina, Brazil, Ecuador, El Salvador, Guatemala and Peru.

Crescent Resources



2007 EBIT
CONTRIBUTION

Formed more than 40 years ago by Duke Energy, Crescent Resources manages land holdings and develops high-quality commercial, residential and multi-family real estate projects. We expect this segment to represent

approximately 3 percent of forecasted 2007 ongoing total segment EBIT.^{*} In 2006, Duke Energy worked with Morgan Stanley Real Estate Fund to create an effective 50/50 joint venture.

- Crescent Resources is in 10 states, primarily in the southeastern and southwestern United States.

Taking the U.S. Franchised Electric and Gas and Commercial Power segments together, we expect more than 85 percent of Duke Energy's forecasted 2007 ongoing total segment EBIT will come from sales to regulated customers.

^{*}2007 forecasted ongoing total segment EBIT excludes results for the operations labeled Other.

DUKE ENERGY AT A GLANCE:

Repositioning our business

In January 2007, Duke Energy Corporation became one of the largest pure-play electric power holding companies in the United States. Our utility companies supply and deliver energy to 3.9 million U.S. customers. We have about 37,000 megawatts of electric generating capacity in the Midwest and the Carolinas, natural gas distribution services in Ohio and Kentucky, and approximately 4,000 megawatts of electric generation in Latin America. Duke Energy is also a joint-venture partner in a U.S. real estate company.

GIANNA MANES IS SENIOR VICE PRESIDENT OF REGULATED PORTFOLIO OPTIMIZATION AND FUELS AT DUKE ENERGY'S U.S. FRANCHISED ELECTRIC AND GAS BUSINESS. THE ORGANIZATION SHE LEADS BUYS AND SELLS ELECTRICITY IN THE WHOLESALE MARKET AND PURCHASES COAL AND NATURAL GAS FOR THE GENERATION FLEET.



Changing minds by thinking differently.

Over the next three years, Duke Energy's regulated businesses plan to invest more than \$9 billion to strengthen customer service and reliability, and to meet steadily growing demand. Besides investing in additional megawatt-hours from new plants, we are supporting a "save-a-watt" business model focused on energy efficiency to offset the need for more plants, even as demand continues to grow. With this new model, energy efficiency becomes a sustainable system resource that plays a more significant role in our plans to meet customers' increasing demand for electricity.

We are working with policymakers to find the best way to address the timely recovery of these investments. We believe that recovering financing costs as we build and implementing a regulatory framework that encourages investments in energy efficiency will result in smaller, more manageable rate increases. This is a win-win proposition for our customers and our investors. We also believe that investments in energy efficiency should be put on an equal footing with investments in new generation. With comparable earnings on investments, we would be economically impartial to meeting our customers' growing demand for electricity with investments in energy efficiency or new generation.

BEVERLY MARSHALL (LEFT), VICE PRESIDENT FOR FEDERAL POLICY AND GOVERNMENT AFFAIRS AT DUKE ENERGY,
AND JULIE GRIFFITH, VICE PRESIDENT FOR STATE GOVERNMENT AFFAIRS AT DUKE ENERGY INDIANA,
ARE TWO KEY MEMBERS OF DUKE ENERGY'S PUBLIC POLICY TEAM.

Defining the new energy equation

For more than a century, we have supplied our customers with affordable and reliable electricity. Our product is considered an essential service. It has also made possible many innovative technologies that enhance our customers' standard of living. And it has helped keep our local and state economies competitive in the global marketplace.

Providing adequate power was once as simple as balancing supply and demand. Although that is still the core of what we do, times have changed. Today, we face the unprecedented challenge of solving a new energy equation.

During a time of rising and volatile fuel prices, historic environmental challenges and industry restructuring, the demand for electricity continues to grow. With our commitment to sustainability, we must balance the growing demand for power with the investments needed to supply it — while reducing our environmental impact and keeping prices affordable.

This requires new thinking on both the policy and technology fronts.

To meet the growing demand for power, we are investing in a new generation of highly efficient and environmentally advanced power plants, new environmental controls for existing plants, and transmission and distribution system upgrades. Our emphasis on new energy efficiency programs and technologies will help meet growing demand.

We call energy efficiency the “fifth fuel” because it complements coal, nuclear power, natural gas and renewable energy, the four primary sources of electric power for the future. We see it as one of our most promising solutions, because the most environmentally sound, inexpensive and reliable kilowatt-hour is the one we don’t have to produce. Generating “save-a-watts” is just one part of the equation that requires our customers to change how they use electricity. We are looking at ways to help them do that.

UNDERSTANDING THE VARIABLES

Solving the new energy equation means understanding all of its variables. One of the most significant and unpredictable variables is future environmental regulation. Today’s irregular patchwork of federal and state environmental requirements has already prompted substantial investments.

Recognition of global warming as a serious problem has increased the call for regulation of greenhouse gases, primarily carbon. Mandatory carbon dioxide (CO₂) emission reductions are being considered in Congress. When legislation passes, utilities will need to make substantial investments to comply. It is critical that any such carbon regulations be phased in to avoid causing economic disruption and that the affected companies receive emission allowances to defray the cost of compliance.

POLICY LEADERSHIP

Our stakeholders, particularly our customers, investors and communities, expect us to play a leading role in shaping a national policy that addresses this national and global challenge. We take that responsibility seriously. Our goal is a policy that will slow the growth of greenhouse gases and then begin to reduce them — while protecting the economy and our customers from price shocks.

Another variable is the prospect of mandatory renewable portfolio standards (RPS) at both the federal and state level. Twenty-two states currently have such standards, which require electric utilities to generate anywhere from 5 to 20 percent of their power from “climate-friendly” renewable energy sources such as solar, wind, geothermal and agricultural waste, over varying periods of time. Congress is evaluating legislative proposals for a national RPS.

As a company focused on sustainability, we have invested in pilot projects involving wind and agricultural waste so that we can gain an understanding of the technologies and costs that would be required on a larger scale before mandatory standards are put in place. Today, we are also the second-largest generator of renewable hydroelectric power in the United States.

Like any other publicly traded company, we have a responsibility to meet our customers’ needs while recovering our investments and earning a good return on those investments for our shareholders. To solve the new energy equation, we must use nuclear, coal, natural gas, renewable energy and energy efficiency. Our strategy for doing so is outlined on the following pages.



Balancing supply and demand

When you flip that light switch, adjust your air conditioning, turn your television on or boot up your computer, you expect power. But do you think about where it comes from? Duke Energy generates electricity from a variety of fuels: coal, natural gas, nuclear and renewable hydroelectric sources. Energy efficiency, the “fifth fuel,” is also part of the mix. This diversity means that we’re not overly dependent on any single fuel, and it helps us address fuel price fluctuations and environmental risks. We must also keep our fuel mix in balance to meet steadily growing demand. This is all part of the company’s Integrated Resource Plan, which determines the best options to meet our customers’ electricity needs over the next 20 years. Using input from many stakeholders, we update the plan periodically with the goal of finding the most efficient and economical resources — both in power generation and in energy efficiency — to meet future demand.

JANICE HAGER IS MANAGING DIRECTOR OF INTEGRATED RESOURCE PLANNING FOR DUKE ENERGY.
HER TEAM ENSURES THAT DUKE ENERGY’S SUPPLY OF ELECTRICITY KEEPS PACE WITH GROWING CUSTOMER DEMAND
WHILE COMPLYING WITH ENVIRONMENTAL REQUIREMENTS.



Balancing regulated and non-regulated assets

When electric generation was deregulated in Ohio in 2001, many people expected a fully competitive market to develop in the first five years. But that didn't happen. As the end of that five-year period drew near, regulators, utilities and customers realized that an immediate shift to market-based rates in 2006 would probably result in large price increases over a short time, as had occurred in other states. To minimize rate shock and to permit a gradual transition to market-based rates, state regulators worked with Ohio's electric utilities, including Duke Energy Ohio, to develop rate stabilization plans (RSPs). These plans provide customers with stable, predictable rates for a number of years — in Duke Energy's case, from 2006 through 2008. In late 2006, Duke Energy Ohio asked regulators to extend its RSP by an additional two years, through 2010. Under the proposed extension, which is being reviewed, the utility's unregulated generating assets in Ohio would continue to serve the state's retail customers. The plan supports continued electric system reliability and sends clear price signals to customers, while helping to maintain a stable revenue stream for the company.

**DAVE CELONA, VICE PRESIDENT FOR GOVERNMENT AND REGULATORY AFFAIRS
AT DUKE ENERGY OHIO, IS WORKING TO PROVIDE STABILITY TO OHIO'S ELECTRIC INDUSTRY BY PROMOTING
THE EXTENSION OF THE COMPANY'S RATE STABILIZATION PLAN.**



Balancing reliability and cost

Just as demand for electric power is increasing, so is the demand for even greater reliability of that power supply. This is primarily driven by our increasingly digital society. More and more appliances and equipment — from plasma televisions to automated assembly lines — are using more kilowatt-hours to power more digital circuits. A power interruption of even a few seconds is not only inconvenient, but it can have a major economic impact as well. At Duke Energy, we work around the clock to supply power reliably. One way we do that is to ensure that we operate our supply and delivery operations — generation, transmission and distribution — efficiently and safely, and in a way that protects the environment. This balanced approach helps keep our reliability and customer satisfaction high, and it helps us better manage our operation and maintenance costs, which is important to our investors. Our power delivery networks play a critical role in our energy efficiency and reliability efforts. Investing in a smart grid will help us achieve our “fifth fuel” initiatives and enhance our service and reliability.

**THEOPOLIS HOLEMAN IS SENIOR VICE PRESIDENT OF POWER DELIVERY FOR
DUKE ENERGY'S U.S. FRANCHISED ELECTRIC AND GAS OPERATIONS. HIS TEAM IS RESPONSIBLE
FOR KEEPING POWER QUALITY AND RELIABILITY HIGH — 24/7.**



Changing habits with a smarter grid

We believe we can change energy habits, including our own, by deploying new energy-saving technologies. One promising technology available now is advanced metering — the replacement of the simple billing meter with one capable of two-way communication over our distribution grid. The day when all of our customers will be able to log in to our Web site and see their hourly energy use is not far off.

With our customers' permission, these new meters would give us the ability to control high-energy-use appliances and equipment during peak demand times, without inconveniencing customers or business owners, who would also share in the savings.

Smart meters will also enhance our ability to measure and verify the impacts of our energy efficiency programs. This is critical for energy efficiency to become a reliable system resource for meeting customer demand for electricity. Remote metering over our network would also let us predict trouble, pinpoint outages and restore power faster. This solution should be more economical than paying for a new power plant, and most of the smart grid's cost would be offset by the operational and power procurement savings.

Advanced metering is just one of the energy and cost-saving technologies we are exploring to change minds and habits.

DAVID MOHLER (LEFT) IS VICE PRESIDENT AND CHIEF TECHNOLOGY OFFICER AT DUKE ENERGY. TED SCHULTZ IS VICE PRESIDENT FOR ENERGY EFFICIENCY. THEIR TEAMS ARE COMMITTED TO DEPLOYING THE BEST PRACTICES AND TECHNOLOGIES TO HELP OUR CUSTOMERS USE ENERGY MORE WISELY.

Solving the new energy equation

It is clear that we need to invest in enhanced reliability and in the expansion of our capacity to generate electricity to meet growing customer demand. We know that investments in new state-of-the-art generation, renewables and energy efficiency can be made reasonably with appropriate and timely cost recovery.

Historically, regulators have rewarded utilities for selling more of their product, not less. To solve the new energy equation, we need to change minds about the types of investments that should be eligible for recovery through rates.

We are especially interested in building public support for investments in energy efficiency — the “fifth fuel,” which lowers overall customer demand and reduces or eliminates greenhouse gases and other emissions.

We are working to shift the paradigm in the way regulators treat the business of energy efficiency and in the way utilities develop and deliver such programs. We believe utilities are uniquely positioned to provide universal access to energy efficiency services and new technologies to their customers. This would dramatically change the way utilities develop and deliver energy efficiency programs as part of their standard customer offerings.

To create a sustainable “fifth fuel” system resource accessible by all customers, energy efficiency investments must be on par with new generation investments.

STRIKING A BALANCE

Changing the regulatory paradigm will also help us avoid some of the price jumps that can occur when a new plant, project, initiative or program finally gets up and running. Such constructive regulatory treatment would give us and others in our industry further incentives to explore and invest in these programs and projects.

BUILDING A CONSENSUS

To achieve this goal, we are collaborating with numerous stakeholder groups. We hope to build a consensus that will convince lawmakers and regulators that everyone wins with appropriate regulatory treatment of investments in efficiency and renewable energy.

Our new chief technology officer and new vice president of energy efficiency and their teams are committed to achieving success on these two fronts. They know that our customers need innovative products and services to help them better manage their energy costs and reduce their own environmental footprints — while maintaining the comfort and conveniences they want and expect.

We believe that this balanced strategy is a winning proposition for all stakeholders. Our customers will save money, the environment will be cleaner and our investors will earn fair returns on their investments.



Duke Energy provides the solution

The U.S. Environmental Protection Agency (EPA) facility at Research Triangle Park in North Carolina is the agency's major center for air pollution research and regulation. With 1.2 million square feet for laboratories, computing facilities and offices, it is the largest facility ever designed and built by the EPA. To lead by example, the EPA designed the complex — which was completed in 2001 — to operate with sustainable building practices, including energy efficiency. "The key to energy efficiency is having the right information," says Sam Pagán, the facility's energy director. "Our plans called for a unified system to monitor and meter all of our energy use, and we tried numerous vendors and technologies. Duke Energy was the only company to come up with and deliver a viable solution — a Web-based system that monitors in real time how much water, natural gas, fuel oil and electricity we are using. We now have the mechanism to better manage our annual energy needs and save the EPA considerable energy dollars."

SAM PAGÁN IS DIRECTOR OF THE ENERGY MANAGEMENT AND CONSERVATION STAFF AT THE EPA'S RESEARCH TRIANGLE PARK FACILITY IN NORTH CAROLINA. THE SPRAWLING COMPLEX OF LABS, OFFICES, AND COMPUTING FACILITIES USES AN ENERGY-MONITORING SOLUTION CREATED BY DUKE ENERGY.



(FROM LEFT) JOHN BOONE, BUSINESS DEVELOPMENT MANAGER, TOM FENIMORE, MANAGER OF ENERGY MANAGEMENT SERVICES, AND KEN KERNODLE, CUSTOMER RELATIONS MANAGER, WORKED ON THE DUKE ENERGY TEAMS THAT DESIGNED, DEVELOPED AND DELIVERED AN ENERGY MANAGEMENT SOLUTION FOR THE EPA.



Advancing the “fifth fuel” — U.S. EPA case study

As Sam Pagán of the U.S. Environmental Protection Agency (EPA) notes on a previous page, when the agency needed an energy management and monitoring system for its massive complex of labs, offices and computing facilities in Research Triangle Park in North Carolina, Duke Energy delivered. Three teams from Duke Energy — account management, business development and custom delivery — collaborated with the EPA's energy management team to get the job done.

The first idea was to measure the allocation of electric power and its costs building by building. But it soon became apparent that to achieve the EPA's objective

to view total energy use in real time and analyze that data — a more comprehensive solution would be needed.

The teams worked together to replace ineffective measurement and metering systems with a new energy monitoring and reporting system. The new system tracks the use of city water, natural gas, fuel oil, chilled and heated water and electricity for the whole complex. It collects the data on a secure Web site and makes it available to campus energy management systems. Controllers working from a central office, or from anywhere on campus with a wireless laptop computer, can monitor and project the energy needs for individual buildings or for the entire complex.

The Duke Energy team also earned the right to install and maintain the system, which may serve as a model for other EPA facilities. As part of the company's renewed focus on energy efficiency, Duke Energy consults with its other large business customers on the benefits of total energy measurement systems.



Meeting steadily growing demand

Plans to modernize our Cliffside Steam Station in North Carolina will ensure that our customers in the Carolinas have an affordable and reliable supply of power to support the region's economic growth. Our plan called for replacing four old coal units with two supercritical and highly efficient 800-megawatt coal units using advanced emissions controls.

In late February 2007, we received a notice of decision from the North Carolina Utilities Commission, which authorized building one of the two units. The commission also accepted our commitment to invest 1 percent of our revenues in the Carolinas for energy efficiency, subject to appropriate regulatory treatment, and our plan to retire older, less efficient units.

Our estimates were based on two units, and as this annual report was being published, we still needed an air permit for this project. We are studying the commission's decision and the project to determine how to proceed. We won't make a decision until we have a clearer understanding of the overall costs as well as the conditions of the air permit. We are also evaluating the possibility of enhancing and accelerating natural gas-fired plants in our portfolio.

Another important element of our generation strategy is the 2,234-megawatt William States Lee nuclear plant we are proposing to build in South Carolina's Cherokee County. We also continue to explore building an advanced cleaner coal plant in Indiana, and we are pursuing additional energy efficiency programs and renewable technologies.

The net result of these initiatives will help us meet steadily increasing customer demand while reducing multiple environmental impacts of our operations, including carbon emissions.

RICK ROPER IS GENERAL MANAGER OF DUKE ENERGY'S CLIFFSIDE STEAM STATION IN WESTERN NORTH CAROLINA. THE 760-MEGAWATT BASE LOAD POWER PLANT HAS BEEN IN COMMERCIAL OPERATION SINCE 1940.

Challenging conventional wisdom

Our customers want us to solve the new energy equation, and our track record gives them confidence that we can do it. They want better information about their own energy use and more options to control it. For Duke Energy, that means not only providing our customers with electricity, but also showing them how to personalize their energy use. That's our commitment.

We will start by digitizing our electric distribution and transmission grids. These huge networks already link meters, transformers, substations and other technologies with a communication and control infrastructure. By taking our mostly analog distribution grid and converting it to a digital network, we can create an information-rich communication system. Our plan is to create the "utility of the future."

UTILITY OF THE FUTURE

As the electric grid goes digital, we can meet our customers' growing appetite for better energy-efficiency information, programs and technologies; for plug-in electric hybrid vehicles; for distributed generation, which is power produced from smaller and more localized generating units, and for more base load power generated from renewable sources.

A NEW BUSINESS MODEL

The utility of the future will focus on generating, delivering and using energy more efficiently. The business model is based on capturing information and relaying it to our customers, who can use it to make better energy decisions. This model will also help us balance supply and demand, and respond faster to service interruptions.

For example, new "smart meters" will tell customers exactly how much electricity they are using at any given time. These meters will also tell us when, how and in what quantities customers are using power. This will allow us to provide exactly what they need along the most efficient distribution circuits. In essence, the meter becomes an interactive information gateway, not just a passive billing device. The usage data we compile will also help us make better long-term decisions about the need for new transmission and distribution systems.

The utility of the future will make us all more efficient. Already on the drawing board are designs for new transformers that will convert voltages with greater efficiency for homes and businesses. New electric wire alloys will let us transmit power with less resistance. All of

the components of the energy delivery system will be linked through real time communication over wires already in place in every home and business.

We have several other initiatives already under way, including our broadband-over-power-line (BPL) pilot programs in Charlotte, N.C., and Cincinnati, Ohio. Our energy monitoring and metering solution at the EPA labs and computing center at Research Triangle Park in North Carolina (see pages 23-25) can be the platform for the expansion of this technology to residential, commercial and industrial customers.

FORMING ALLIANCES

Our imaginative initiatives aren't limited to smart metering and exploring new technologies. To promote energy efficiency, we are forming new collaboratives with our stakeholders, including alliances with retailers and suppliers, to inform customers — both small and large — of readily available tools and technologies to reduce energy use.

Duke Energy is well positioned to solve energy problems for our customers. We understand energy use, we have a low cost of capital, and we are working through alliances, and with third parties to implement the best solutions for customers.

The long-term goal for the utility of the future is simple: to provide greater reliability with less environmental impact at a lower cost to our customers. New programs delivered through new channels will make it happen.



Balancing customer and shareholder interests

Our primary goals are to deliver competitively priced, reliable energy to our customers while protecting the environment and earning reasonable returns for our investors. In this growing economy, we need to make major investments in a new generation of power plants, as well as in our transmission and distribution systems, in order to meet increasing customer demands for energy. Given the uncertainties about future environmental regulations, we also want to expand our portfolio to include more energy-efficient products and services, and more renewable energy options. We are convinced that a diverse resource portfolio will be more cost-effective and sustainable over the long term. The new challenges we face demand new regulatory solutions. Too often, traditional regulatory policies pit customer interests against shareholder interests. We are committed to finding regulatory strategies that align the interests of customers and shareholders, resulting in benefits to both in all five states where we do business.

KAY PASHOS IS VICE PRESIDENT FOR REGULATORY STRATEGY AT DUKE ENERGY.
HER TEAM IS RESPONSIBLE FOR PERSUADING STATE REGULATORS TO APPROVE THE COMPANY'S REGULATORY STRATEGY,
WHICH TAKES INTO ACCOUNT THE NEEDS OF BOTH CUSTOMERS AND SHAREHOLDERS.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except per-share amounts)	Years Ended December 31,		
	2006	2005	2004
Operating Revenues			
Non-regulated electric, natural gas, natural gas liquids, and other	\$ 3,158	\$ 7,212	\$ 11,322
Regulated electric	7,678	5,406	5,041
Regulated natural gas and natural gas liquids	4,348	3,679	3,233
Total operating revenues	15,184	16,297	19,596
Operating Expenses			
Natural gas and petroleum products purchased	1,829	5,827	9,225
Operation, maintenance and other	4,415	3,540	3,313
Fuel used in electric generation and purchased power	3,403	1,610	1,576
Depreciation and amortization	2,049	1,728	1,750
Property and other taxes	769	571	513
Impairments and other charges	28	140	64
Total operating expenses	12,493	13,416	16,441
Gains on Sales of Investments in Commercial and Multi-Family Real Estate	201	191	192
Gains (Losses) on Sales of Other Assets and Other, net	276	534	(416)
Operating Income	3,168	3,606	2,931
Other Income and Expenses			
Equity in earnings of unconsolidated affiliates	732	479	161
(Losses) Gains on sales and impairments of equity investments	(20)	1,225	(4)
Gain on sale of subsidiary stock	15	—	—
Other income and expenses, net	281	105	147
Total other income and expenses	1,008	1,809	304
Interest Expense	1,253	1,066	1,282
Minority Interest Expense	61	538	200
Earnings From Continuing Operations Before Income Taxes	2,862	3,811	1,753
Income Tax Expense from Continuing Operations	843	1,282	507
Income From Continuing Operations	2,019	2,529	1,246
(Loss) Income From Discontinued Operations, net of tax	(156)	(701)	244
Income Before Cumulative Effect of Change in Accounting Principle	1,863	1,828	1,490
Cumulative Effect of Change in Accounting Principle, net of tax and minority interest	—	(4)	—
Net Income	1,863	1,824	1,490
Dividends and Premiums on Redemption of Preferred and Preference Stock	—	12	9
Earnings Available For Common Stockholders	\$ 1,863	\$ 1,812	\$ 1,481
Common Stock Data			
Weighted-average shares outstanding			
Basic	1,170	934	931
Diluted	1,188	970	966
Earnings per share (from continuing operations)			
Basic	\$ 1.73	\$ 2.69	\$ 1.33
Diluted	\$ 1.70	\$ 2.60	\$ 1.29
(Loss) earnings per share (from discontinued operations)			
Basic	\$ (0.14)	\$ (0.75)	\$ 0.26
Diluted	\$ (0.13)	\$ (0.72)	\$ 0.25
Earnings per share (before cumulative effect of change in accounting principle)			
Basic	\$ 1.59	\$ 1.94	\$ 1.59
Diluted	\$ 1.57	\$ 1.88	\$ 1.54
Earnings per share			
Basic	\$ 1.59	\$ 1.94	\$ 1.59
Diluted	\$ 1.57	\$ 1.88	\$ 1.54
Dividends per share	\$ 1.26	\$ 1.17	\$ 1.10

See Notes to Consolidated Financial Statements in Duke Energy's 2006 Form 10-K.

CONSOLIDATED BALANCE SHEETS

(In millions, except per-share amounts)	December 31,	
	2006	2005
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 948	\$ 511
Short-term investments	1,514	632
Receivables (net of allowance for doubtful accounts of \$94 at December 31, 2006 and \$127 at December 31, 2005)	2,256	2,580
Inventory	1,358	863
Assets held for sale	28	1,528
Unrealized gains on mark-to-market and hedging transactions	107	87
Other	729	1,756
Total current assets	6,940	7,957
Investments and Other Assets		
Investments in unconsolidated affiliates	2,305	1,933
Nuclear decommissioning trust funds	1,775	1,504
Goodwill	8,175	3,775
Intangibles, net	905	65
Notes receivable	224	138
Unrealized gains on mark-to-market and hedging transactions	248	62
Assets held for sale	134	3,597
Investments in residential, commercial and multi-family real estate (net of accumulated depreciation of \$17 at December 31, 2005)	—	1,281
Other	2,304	2,678
Total investments and other assets	16,070	15,033
Property, Plant and Equipment		
Cost	58,330	40,823
Less accumulated depreciation and amortization	16,883	11,623
Net property, plant and equipment	41,447	29,200
Regulatory Assets and Deferred Debits		
Deferred debt expense	320	269
Regulatory assets related to income taxes	1,361	1,338
Other	2,562	926
Total regulatory assets and deferred debits	4,243	2,533
Total Assets	\$68,700	\$54,723
LIABILITIES AND COMMON STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	\$ 1,686	\$ 2,431
Notes payable and commercial paper	450	83
Taxes accrued	434	327
Interest accrued	302	230
Liabilities associated with assets held for sale	26	1,488
Current maturities of long-term debt	1,605	1,400
Unrealized losses on mark-to-market and hedging transactions	134	204
Other	1,976	2,255
Total current liabilities	6,613	8,418
Long-term Debt	18,118	14,547
Deferred Credits and Other Liabilities		
Deferred income taxes	7,003	5,253
Investment tax credit	175	144
Unrealized losses on mark-to-market and hedging transactions	238	10
Liabilities associated with assets held for sale	18	2,085
Asset retirement obligations	2,301	2,058
Other	7,327	5,020
Total deferred credits and other liabilities	17,062	14,570
Commitments and Contingencies		
Minority Interests	805	749
Common Stockholders' Equity		
Common stock, \$0.001 par value, 2 billion shares authorized; 1,257 million and zero shares outstanding at December 31, 2006 and December 31, 2005, respectively	1	—
Common stock, no par, 2 billion shares authorized; zero and 928 million shares outstanding at December 31, 2006 and December 31, 2005, respectively	—	10,446
Additional paid-in capital	19,854	—
Retained earnings	5,652	5,277
Accumulated other comprehensive income	595	716
Total common stockholders' equity	26,102	16,439
Total Liabilities and Common Stockholders' Equity	\$68,700	\$54,723

See Notes to Consolidated Financial Statements in Duke Energy's 2006 Form 10-K.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)	Years Ended December 31,		
	2006	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 1,863	\$ 1,824	\$ 1,490
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization (including amortization of nuclear fuel)	2,215	1,884	2,037
Cumulative effect of change in accounting principle	—	4	—
Gains on sales of investments in commercial and multi-family real estate	(201)	(191)	(201)
Gains on sales of equity investments and other assets	(365)	(1,771)	(193)
Impairment charges	48	159	194
Deferred income taxes	250	282	867
Minority Interest	61	538	195
Equity in earnings of unconsolidated affiliates	(732)	(479)	(161)
Purchased capacity levelization	(14)	(14)	92
Contributions to company-sponsored pension plans	(172)	(45)	(279)
(Increase) decrease in:			
Net realized and unrealized mark-to-market and hedging transactions	(134)	443	216
Receivables	844	(249)	(231)
Inventory	(24)	(80)	(48)
Other current assets	1,276	(944)	(33)
Increase (decrease) in:			
Accounts payable	(1,524)	117	(5)
Taxes accrued	(69)	53	188
Other current liabilities	(594)	622	91
Capital expenditures for residential real estate	(322)	(355)	(322)
Cost of residential real estate sold	143	294	268
Other, assets	1,005	193	(155)
Other, liabilities	194	533	158
Net cash provided by operating activities	3,748	2,818	4,168
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures	(3,381)	(2,327)	(2,161)
Investment expenditures	(89)	(43)	(46)
Acquisitions, net of cash acquired	(284)	(294)	—
Cash acquired from acquisition of Cinergy	147	—	—
Purchases of available-for-sale securities	(33,436)	(40,317)	(65,929)
Proceeds from sales and maturities of available-for-sale securities	32,596	40,131	65,098
Net proceeds from the sales of equity investments and other assets, and sales of and collections on notes receivable	2,861	2,375	1,619
Proceeds from the sales of commercial and multi-family real estate	254	372	606
Settlement of net investment hedges and other investing derivatives	(163)	(296)	—
Distributions from equity investments	152	383	—
Purchases of emission allowances	(228)	(18)	—
Sales of emission allowances	194	—	—
Other	49	(92)	20
Net cash used in investing activities	(1,328)	(126)	(793)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from the:			
Issuance of long-term debt	2,369	543	153
Issuance of common stock and common stock related to employee benefit plans	127	41	1,704
Payments for the redemption of:			
Long-term debt	(2,098)	(1,346)	(3,646)
Preferred stock of a subsidiary	(12)	(134)	(176)
Decrease in cash overdrafts	(2)	—	—
Notes payable and commercial paper	(412)	165	(67)
Distributions to minority interests	(304)	(861)	(1,477)
Contributions from minority interests	247	779	1,277
Dividends paid	(1,488)	(1,105)	(1,065)
Repurchase of common shares	(500)	(933)	—
Proceeds from Duke Energy Income Fund	104	110	—
Other	8	24	19
Net cash used in financing activities	(1,961)	(2,717)	(3,278)
Changes in cash and cash equivalents included in assets held for sale	(22)	3	39
Net increase (decrease) in cash and cash equivalents	437	(22)	136
Cash and cash equivalents at beginning of period	511	533	397
Cash and cash equivalents at end of period	\$ 948	\$ 511	\$ 533
Supplemental Disclosures			
Cash paid for interest, net of amount capitalized	\$ 1,154	\$ 1,089	\$ 1,323
Cash paid (refunded) for income taxes	\$ 460	\$ 546	\$ (339)
Acquisition of Cinergy Corp.			
Fair value of assets acquired	\$ 17,304	\$ —	\$ —
Liabilities assumed	\$ 12,709	\$ —	\$ —
Issuance of common stock	\$ 8,993	\$ —	\$ —
Significant non-cash transactions:			
Conversion of convertible notes to stock	\$ 632	\$ 28	\$ —
AFUDC-equity component	\$ 58	\$ 30	\$ 25
Transfer of DEFS Canadian Facilities	\$ —	\$ 97	\$ —
Debt retired in connection with disposition of business	\$ —	\$ —	\$ 840
Note receivable from sale of southeastern plants	\$ —	\$ —	\$ 48
Remarketing of senior notes	\$ —	\$ —	\$ 1,625

See Notes to Consolidated Financial Statements in Duke Energy's 2006 Form 10-K.

CONSOLIDATED STATEMENTS OF COMMON STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME

(In millions)	Accumulated Other Comprehensive Income (Loss)									
	Common Stock Shares	Common Stock	Additional Paid-in Capital	Retained Earnings	Foreign Currency Adjustments	Net Gains (Losses) on Cash Flow Hedges	Minimum Pension Liability Adjustment	SFAS No. 158 Adjustment	Other	Total
Balance December 31, 2003	911	\$ 9,513	\$ —	\$ 4,066	\$ 315	\$ 298	\$(444)	\$ —	\$ —	\$ 13,748
Net income	—	—	—	1,490	—	—	—	—	—	1,490
Other Comprehensive Income	—	—	—	—	—	—	—	—	—	—
Foreign currency translation adjustments	—	—	—	—	279	—	—	—	—	279
Foreign currency translation adjustments reclassified into earnings as a result of the sale of Asia-Pacific Business	—	—	—	—	(54)	—	—	—	—	(54)
Net unrealized gains on cash flow hedges ^b	—	—	—	—	—	311	—	—	—	311
Reclassification into earnings from cash flow hedges ^c	—	—	—	—	—	(83)	—	—	—	(83)
Minimum pension liability adjustment ^d	—	—	—	—	—	—	28	—	—	28
Total comprehensive income	—	—	—	—	—	—	—	—	—	1,971
Dividend reinvestment and employee benefits	5	128	—	—	—	—	—	—	—	128
Equity offering	41	1,625	—	—	—	—	—	—	—	1,625
Common stock dividends	—	—	—	(1,018)	—	—	—	—	—	(1,018)
Preferred and preference stock dividends	—	—	—	(9)	—	—	—	—	—	(9)
Other capital stock transactions, net	—	—	—	(4)	—	—	—	—	—	(4)
Balance December 31, 2004	957	\$ 11,266	\$ —	\$ 4,525	\$ 540	\$ 526	\$(416)	\$ —	\$ —	\$ 16,441
Net income	—	—	—	1,824	—	—	—	—	—	1,824
Other Comprehensive Income	—	—	—	—	—	—	—	—	—	—
Foreign currency translation adjustments ^a	—	—	—	—	306	—	—	—	—	306
Net unrealized gains on cash flow hedges ^b	—	—	—	—	—	413	—	—	—	413
Reclassification into earnings from cash flow hedges ^c	—	—	—	—	—	(1,026)	—	—	—	(1,026)
Minimum pension liability adjustment ^d	—	—	—	—	—	—	356	—	—	356
Other ^f	—	—	—	—	—	—	—	17	—	17
Total comprehensive income	—	—	—	—	—	—	—	—	—	1,890
Dividend reinvestment and employee benefits	3	85	—	—	—	—	—	—	—	85
Stock repurchase	(33)	(933)	—	—	—	—	—	—	—	(933)
Conversion of debt	1	28	—	—	—	—	—	—	—	28
Common stock dividends	—	—	—	(1,093)	—	—	—	—	—	(1,093)
Preferred and preference stock dividends	—	—	—	(12)	—	—	—	—	—	(12)
Other capital stock transactions, net	—	—	—	33	—	—	—	—	—	33
Balance December 31, 2005	928	\$ 10,446	\$ —	\$ 5,277	\$ 846	\$ (87)	\$ (60)	\$ —	\$ 17	\$ 16,439
Net income	—	—	—	1,863	—	—	—	—	—	1,863
Other Comprehensive Income	—	—	—	—	—	—	—	—	—	—
Foreign currency translation adjustments	—	—	—	—	103	—	—	—	—	103
Net unrealized gains on cash flow hedges ^b	—	—	—	—	—	6	—	—	—	6
Reclassification into earnings from cash flow hedges ^c	—	—	—	—	—	36	—	—	—	36
Minimum pension liability adjustment ^d	—	—	—	—	—	—	(1)	—	—	(1)
Other ^f	—	—	—	—	—	—	—	(15)	—	(15)
Total comprehensive income	—	—	—	—	—	—	—	—	—	1,992
Retirement of old Duke Energy shares	(927)	(10,399)	—	—	—	—	—	—	—	(10,399)
Issuance of new Duke Energy shares	927	1	10,398	—	—	—	—	—	—	10,399
Common stock issued in connection with Cinergy merger	313	—	8,993	—	—	—	—	—	—	8,993
Conversion of Cinergy options to Duke Energy options	—	—	59	—	—	—	—	—	—	59
Dividend reinvestment and employee benefits	6	22	172	—	—	—	—	—	—	194
Stock repurchase	(17)	(69)	(431)	—	—	—	—	—	—	(500)
Common stock dividends	—	—	—	(1,488)	—	—	—	—	—	(1,488)
Conversion of debt to equity	27	—	632	—	—	—	—	—	—	632
Tax benefit due to conversion of debt to equity	—	—	34	—	—	—	—	—	—	34
Adjustment due to SFAS No. 158 adoption ^e	—	—	—	—	—	—	61	(311)	—	(250)
Other capital stock transactions, net	—	—	(3)	—	—	—	—	—	—	(3)
Balance December 31, 2006	1,257	\$ 1	\$ 19,854	\$ 5,652	\$ 949	\$ (45)	\$ —	\$(311)	\$ 2	\$ 26,102

^a Foreign currency translation adjustments, net of \$62 tax benefit in 2005. The 2005 tax benefit related to the settled net investment hedges (see Note 8 to the Consolidated Financial Statements in Duke Energy's 2006 Form 10-K). Substantially all of the 2005 tax benefit is a correction of an immaterial accounting error related to prior periods.

^b Net unrealized gains on cash flow hedges, net of \$3 tax expense in 2006, \$233 tax expense in 2005, and \$170 tax expense in 2004.

^c Reclassification into earnings from cash flow hedges, net of \$19 tax expense in 2006, \$583 tax benefit in 2005, and \$45 tax benefit in 2004. Reclassification into earnings from cash flow hedges in 2006, is due primarily to the recognition of Duke Energy North America's (DENA) unrealized net gains related to hedges on forecasted transactions which will no longer occur as a result of the sale to LS Power of substantially all of DENA's assets and contracts outside of the Midwestern United States and certain contractual positions related to the Midwestern assets (see Notes 8 and 13 to the Consolidated Financial Statements in Duke Energy's 2006 Form 10-K).

^d Minimum pension liability adjustment, net of \$0 tax benefit in 2006, \$228 tax expense in 2005, and \$18 tax expense in 2004.

^e Adjustment due to SFAS No. 158 adoption, net of \$144 tax benefit in 2006. Excludes \$595 recorded as a regulatory asset (see Note 22 to the Consolidated Financial Statements in Duke Energy's 2006 Form 10-K).

^f Net of \$9 tax benefit in 2006, and \$10 tax expense in 2005.

See Notes to Consolidated Financial Statements in Duke Energy's 2006 Form 10-K.



WILLIAM BARNET III



G. ALEX BERNHARDT SR.



MICHAEL G. BROWNING



PHILLIP R. COX



ANN MAYNARD GRAY



JAMES H. HANCE JR.



JAMES T. RHODES



JAMES E. ROGERS



MARY L. SCHAPIRO



DUDLEY S. TAFT

BOARD OF DIRECTORS

William Barnet III

Chairman, President and CEO, The Barnet Co. Inc.;
Chair, Finance and Risk Management Committee;
Member, Nuclear Oversight Committee

Barnet joined Duke Energy's board in 2005. He has been mayor of Spartanburg, S.C., since 2002. He serves on the board of directors of Bank of America and is a trustee of the Duke Endowment. Barnet was named to the South Carolina Business Hall of Fame in 2004.

G. Alex Bernhardt Sr.

Chairman and CEO, Bernhardt Furniture Co.;
Member, Audit and Nuclear Oversight Committees

Bernhardt joined Duke Energy's board in 1991. Besides leading the family business in Lenoir, N.C., he serves on the board of directors of Communities In Schools. He is director emeritus and past president of the American Furniture Manufacturers Association and past president of the International Home Furnishings Marketing Association.

Michael G. Browning

President and Chairman of the Board, Browning Investments Inc.;
Member, Compensation, Corporate Governance, and Finance and Risk Management Committees

Browning joined Cinergy's board in 1994. He is a former director of PSI Energy. He is a member of the boards of directors of the Indianapolis Convention & Visitors Association and the Indianapolis Museum of Art. He serves on the St. Vincent Hospital and Health Care Center advisory board and on the Indiana Public Officers Compensation Commission.

Phillip R. Cox

President and CEO, Cox Financial Corp.;
Chair, Audit Committee

Cox became a Cinergy director in 1994. He is a former director of Cincinnati Gas & Electric. He is chairman of the board of Cincinnati Bell. He is a board member of Touchstone Mutual Funds, The Timken Company and Diebold Inc. He also serves on the boards of the Cincinnati Business Committee and the University of Cincinnati.

Ann Maynard Gray

Former President, Diversified Publishing Group of ABC Inc.;
Lead Director; Chair, Corporate Governance Committee;
Member, Compensation, and Finance and Risk Management Committees

Gray became a Duke Energy director in 1994. She has held a number of senior positions with American Broadcasting Companies, including senior vice president of finance, treasurer and vice president of planning. She serves on the boards of the Phoenix Companies and Elan Corp. plc, and she is a past member of the board of trustees of J.P. Morgan Funds.

James H. Hance Jr.

Retired Vice Chairman, Chief Financial Officer and Board Member, Bank of America;
Chair, Compensation Committee; Member, Finance and Risk Management Committee

Hance joined Duke Energy's board in 2005. A certified public accountant, he spent 17 years with Price Waterhouse. He serves on the boards of directors for Sprint Nextel Corp., Cousins Properties Inc. and Rayonier Corp. He is a trustee of Washington University and of Johnson & Wales University.

James T. Rhodes

Retired Chairman, President and CEO, Institute of Nuclear Power Operations (INPO);

Chair, Nuclear Oversight Committee; Member, Audit Committee
Rhodes became a director of Duke Energy in 2001. A former president and CEO of Virginia Power, he is a member of the Electric Power Research Institute's advisory council. Rhodes is a former board member of INPO, the Nuclear Energy Institute, Virginia Electric and Power Co., Dominion Resources Inc., Edison Electric Institute, the Southeastern Electric Exchange and NationsBank N.A.

James E. Rogers

Chairman, President and CEO, Duke Energy

Rogers became chairman of Duke Energy in 2007. He was chairman and CEO of Cinergy prior to its merger with Duke Energy. Rogers is chairman and serves on the Executive Committee of the Edison Electric Institute. He is a director of Fifth Third Bancorp and Cigna Corp. He is a member of the boards of directors of the Nuclear Energy Institute, the Institute of Nuclear Power Operations, the Alliance to Save Energy, the National Coal Council and the Nicholas Institute for Environmental Policy Solutions.

Mary L. Schapiro

Chairman and CEO, National Association of Securities Dealers (NASD);

Member, Audit and Corporate Governance Committees
Schapiro became a Cinergy director in 1999. She is a member of the board of governors of NASD, the world's largest private-sector securities regulator. Previously, as chairman of the Commodity Futures Trading Commission, she participated in the President's Working Group on Financial Markets. She also served as a commissioner on the Securities and Exchange Commission for six years. She currently serves on the board of directors of Kraft Foods Inc. and the board of trustees of Franklin and Marshall College.

Dudley S. Taft

President and CEO, Taft Broadcasting Co.;
Member, Compensation and Nuclear Oversight Committees

Taft served on Cinergy's board beginning in 1994 and was a director of Cincinnati Gas & Electric from 1985 until 1995. He serves on the boards of the Unifi Mutual Holding Co., Fifth Third Bancorp and Tribune Co. He is chairman of the Cincinnati Association for the Arts and a trustee of Boys and Girls Clubs of Greater Cincinnati.



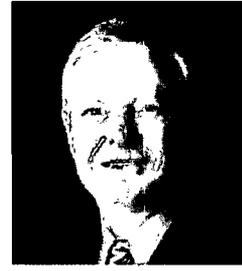
HENRY B. BARRON JR.



PAUL H. BARRY



LYNN J. GOOD



DAVID L. HAUSER



JULIA S. JANSON



MARC E. MANLY



WILLIAM R. MCCOLLUM JR.



SANDRA P. MEYER



THOMAS C. O'CONNOR



CATHY S. ROCHE



CHRISTOPHER C. ROLFE



ELLEN T. RUFF



JIM L. STANLEY



R. SEAN TRAUSCHKE



B. KEITH TRENT



JAMES L. TURNER

EXECUTIVE MANAGEMENT

Henry B. Barron Jr.

Group Executive and Chief Nuclear Officer

Barron became Duke Energy's chief nuclear officer in 2004. He is responsible for the safe operation of the company's three nuclear generating stations. He joined Duke Power in 1972 as a nuclear power plant engineer.

Paul H. Barry

Senior Vice President and Chief Development Officer

Barry is responsible for all corporate development, mergers and acquisitions. He previously served as group executive and president of Duke Energy Americas, where his responsibilities included non-regulated generation and services, trading and marketing, and international operations.

Lynn J. Good

Senior Vice President and Treasurer

Good leads the treasury functions for the company, as well as insurance, market and credit risk management, and corporate financial planning and analysis. She previously served as executive vice president and chief financial officer for Cinergy.

David L. Hauser

Group Executive and Chief Financial Officer

Hauser became Duke Energy's CFO in 2004. He leads the financial function, which includes the controller's office, treasury, tax, risk management and insurance. Since Hauser joined Duke Power in 1973, he has held various leadership positions, including controller.

Julia S. Janson

Senior Vice President, Ethics and Compliance, and Corporate Secretary

Janson directs Duke Energy's ethics and compliance program and serves as corporate secretary. Until the recent merger, she was with Cinergy, where she was named corporate secretary in 2000, and chief compliance officer in 2004.

Marc E. Manly

Group Executive and Chief Legal Officer

Manly leads a group that comprises the legal department, internal audit services, the ethics and compliance office, and the corporate secretary. He served as Cinergy's executive vice president and chief legal officer from 2002 until Cinergy merged with Duke Energy.

William R. McCollum Jr.

Group Executive and Chief Regulated Generation Officer

McCollum is responsible for the company's regulated fossil fuel and hydroelectric power generation, including portfolio optimization, engineering, construction, project management and procurement. He joined Duke Power as a nuclear power plant engineer in 1974.

Sandra P. Meyer

President, Duke Energy Ohio and Duke Energy Kentucky

Meyer leads Duke Energy's Ohio and Kentucky operations, which serve more than 810,000 customers. She was formerly group vice president of customer service, sales and marketing for Duke Power.

Thomas C. O'Connor

Group Executive and President, Commercial Businesses

O'Connor is responsible for the Midwest non-regulated generation, Duke Energy International, Duke Energy Generation Services, the telecommunications businesses, the company's equity interest in Crescent Resources, and all corporate development and merger and acquisition activities.

Cathy S. Roche

Senior Vice President and Chief Communications Officer

Roche is responsible for directing and managing Duke Energy's communications with internal and external audiences, as well as executive communications, corporate publications, advertising, and brand management and strategy.

Christopher C. Rolfe

Group Executive and Chief Administrative Officer

Rolfe leads several of Duke Energy's corporate functions, including human resources, information technology and operations services. He previously served as group executive and chief human resources officer.

Ellen T. Ruff

President, Duke Energy Carolinas

Ruff leads Duke Energy's utility business in North Carolina and South Carolina, which serves more than 2.2 million customers. She was formerly group vice president of planning and external relations for Duke Power.

Jim L. Stanley

President, Duke Energy Indiana

Stanley leads Duke Energy's Indiana utility business, which serves more than 760,000 customers. He previously served as vice president of field operations for Duke Energy's Midwest service area.

R. Sean Trauschke

Vice President, Investor Relations

Trauschke is responsible for monitoring trends in investment markets and for maintaining key relationships with investors, financial analysts and financial institutions. He was formerly the company's vice president of risk management, chief risk officer and chief credit officer.

B. Keith Trent

Group Executive and Chief Strategy and Policy Officer

Trent is responsible for strategy, federal policy and government affairs, energy efficiency and technology initiatives, environmental health and safety policy, corporate communications, and sustainability and community affairs. He was formerly chief development officer and general counsel.

James L. Turner

Group Executive and President, U.S. Franchised Electric and Gas

Turner has overall profit and loss responsibility for the company's U.S. Franchised Electric and Gas business, which serves 3.9 million customers in five states. Prior to the merger of Duke Energy and Cinergy, Turner served as president of Cinergy.

NON-GAAP FINANCIAL MEASURES

2006 AND 2005 ONGOING DILUTED EARNINGS PER SHARE ("EPS")

Duke Energy's 2006 Summary Annual Report references 2006 and 2005 ongoing diluted EPS of \$1.81 and \$1.73, respectively. Ongoing diluted EPS is a non-GAAP (generally accepted accounting principles) financial measure, as it represents diluted EPS from continuing operations plus the per-share effect of any discontinued operations from our Crescent Resources real estate development company ("Crescent") prior to the deconsolidation of Crescent in September 2006, adjusted for the per-share impact of special items. Special items represent certain charges and credits which management believes will not be recurring on a regular basis. The following is a reconciliation of reported diluted EPS from continuing operations to ongoing diluted EPS for 2006 and 2005:

	2006	2005
Diluted EPS from continuing operations, as reported	\$ 1.70	\$ 2.60
Diluted EPS from discontinued operations, as reported	(0.13)	(0.72)
Diluted EPS, as reported	1.57	1.88
Adjustments to reported EPS:		
Diluted EPS from discontinued operations excluding Crescent Resources, and cumulative effect of change in accounting principle	0.13	0.73
Diluted EPS impact of special items (see detail below)	0.11	(0.88)
Diluted EPS, ongoing	\$1.81	\$1.73

The following is the detail of the \$(0.11) in special items impacting diluted EPS for 2006:

(In millions, except per-share amounts)	Pre-Tax Amount	Tax Effect	2006 Diluted EPS Impact
Natural Gas Transmission gain on contract settlement	\$ 24	\$ (8)	\$ 0.01
Duke Energy portion of gain on Duke Energy Field Services' ("DEFS") asset sale	14	(5)	0.01
Costs to achieve the Cinergy merger	(128)	45	(0.07)
Costs to achieve the spinoff of Spectra Energy	(60)	7	(0.05)
Impairment of Campeche investment	(50)	—	(0.04)
Gain on sale of interest in Crescent	246	(124)	0.10
Gain related to the issuance of units of Natural Gas Transmission's Canadian income fund	15	(5)	0.01
Settlement reserves	(165)	58	(0.09)
Impairment of Bolivia investment	(28)	31	—
Tax adjustment	—	8	0.01
Total Diluted EPS impact			\$(0.11)

The following is the detail of the \$0.88 in special items impacting diluted EPS for 2005:

(In millions, except per-share amounts)	Pre-Tax Amount	Tax Effect	2005 Diluted EPS Impact
Gain on sale of TEPPCO GP (net of minority interest of \$343 million)	\$791	\$(293)	\$ 0.51
Gain on sale of TEPPCO LP units	97	(36)	0.06
Loss on de-designation of Field Services' hedges, net of settlements on 2005 positions	(23)	9	(0.01)
Additional liabilities related to mutual insurance companies	(28)	10	(0.02)
Gain on transfer of 19.7 percent interest in DEFS to ConocoPhillips	576	(213)	0.37
Impairment of Campeche investment	(20)	6	(0.01)
Initial and subsequent net mark-to-market gains on de-designating Southeast Duke Energy North America ("DENA") hedges	21	(8)	0.01
Loss on Southeast DENA contract termination	(75)	28	(0.04)
Tax adjustments	—	12	0.01
Total Diluted EPS impact			\$ 0.88

PROCEEDS FROM CERTAIN SIGNIFICANT 2006 DISPOSITION TRANSACTIONS

Duke Energy's 2006 Summary Annual Report references the nearly \$2 billion in after-tax proceeds raised from selling the commercial marketing and trading ("CMT") operations and effectively half of Crescent. The following represents the components of the after-tax proceeds from these transactions:

(In millions)	
Proceeds related to Creation of Crescent Joint Venture	
Net proceeds from issuance of debt by Crescent	\$1,190
Proceeds received from sale of equity interest	415
Estimated income tax payments resulting from transaction	(135)
Reduction in reported cash due to deconsolidation of Crescent	(30)
Net after-tax proceeds	\$1,440
Proceeds on Sale of CMT	
Net proceeds received (including working capital and base price)	\$700
Estimated income tax payments resulting from transaction	(145)
Net after-tax proceeds	\$555
Total combined net after-tax proceeds	\$1,995

2007 EMPLOYEE INCENTIVE TARGET MEASURE

Duke Energy's 2006 Summary Annual Report references the company's 2007 employee incentive target. The EPS measure used for employee incentive bonuses is based on ongoing diluted EPS. Ongoing diluted EPS is a non-GAAP financial measure as it represents diluted EPS from continuing operations adjusted for the per-share impact of special items. Special items represent certain charges and credits which management believes will not be recurring on a regular basis. The most directly comparable GAAP measure for ongoing diluted EPS is reported diluted EPS from continuing operations, which includes the impact of special items. Due to the forward-looking nature of this non-GAAP financial measure, information to reconcile it to the most directly comparable GAAP financial measure is not available at this time, as management is unable to forecast any special items for any future periods.

ANTICIPATED ONGOING DILUTED EPS GROWTH PERCENTAGES

Duke Energy's 2006 Summary Annual Report references the company's anticipated growth in ongoing diluted EPS through the end of 2009. These growth percentages are based on anticipated ongoing diluted EPS. Ongoing diluted EPS is a non-GAAP financial measure, as it represents diluted EPS from continuing operations adjusted for the per-share impact of special items. Special items represent certain charges and credits which management believes will not be recurring on a regular basis. The most directly comparable GAAP measure for ongoing diluted EPS is reported diluted EPS from continuing operations, which includes the impact of special items. Due to the forward-looking nature of this non-GAAP financial measure for future periods, information to reconcile this non-GAAP financial measure to the most directly comparable GAAP financial measure is not available at this time, as management is unable to forecast any special items for any future periods.

FORECASTED 2007 ONGOING SEGMENT AND TOTAL SEGMENT EBIT

Duke Energy's 2006 Summary Annual Report includes a discussion of forecasted 2007 ongoing EBIT for each of Duke Energy's reportable segments as a percentage of forecasted 2007 ongoing total segment EBIT. Forecasted 2007 ongoing segment and total segment EBIT amounts are non-GAAP financial measures, as they reflect segment and total segment EBIT, adjusted for the impact of special items. Special items represent certain charges and credits which management believes will not be recurring on a regular basis. The most directly comparable GAAP measure for forecasted ongoing segment EBIT is reported segment EBIT from continuing operations, which includes the impact of special items. The most directly comparable GAAP measure for ongoing total segment EBIT is reported total segment EBIT, which includes the impact of special items. Due to the forward-looking nature of these non-GAAP financial measures for future periods, information to reconcile these non-GAAP financial measures to the most directly comparable GAAP financial measures is not available at this time, as management is unable to forecast any special items for any future periods.

INVESTOR INFORMATION

Annual Meeting

The 2007 Annual Meeting of Duke Energy Shareholders will be:

Date: Thursday, May 10, 2007

Time: 10 a.m.

Place: O.J. Miller Auditorium,
Energy Center
526 South Church Street
Charlotte, NC 28202

Shareholder Services

Shareholders may call (800) 488-3853 or (704) 382-3853 with questions about their stock accounts, legal transfer requirements, address changes, replacement dividend checks, replacement of lost certificates or other services. Additionally, registered users of DUK-Online, our online account management service, may access their accounts through the Internet.

Send written requests to:

Investor Relations
Duke Energy
P.O. Box 1005
Charlotte, NC 28201-1005

For electronic correspondence, visit www.duke-energy.com/contactIR.

Stock Exchange Listing

Duke Energy's common stock is listed on the New York Stock Exchange. The company's common stock trading symbol is DUK.

Web Site Addresses

Corporate home page:
www.duke-energy.com
Investor Relations:
www.duke-energy.com/investors

InvestorDirect Choice Plan

The InvestorDirect Choice Plan provides a simple and convenient way to purchase common stock directly through the company, without incurring brokerage fees. Purchases may be made weekly. Bank drafts for monthly purchases, as well as a safekeeping option for depositing certificates into the plan, are available. The plan also provides for full reinvestment, direct deposit or

cash payment of dividends. Additionally, participants may register for DUK-Online, our online account management tool.

Financial Publications

Duke Energy's current annual report, SEC Form 10-K and related financial publications can be found on our Web site at www.duke-energy.com/investors. Printed copies are also available free of charge upon request.

Electronic Delivery

As part of our commitment to sustainability leadership, we are again offering to make a \$1 donation to The Nature Conservancy for every shareholder who signs up for electronic delivery of our annual report, proxy statement and our other financial information. Currently, more than 80,000 of you have chosen electronic delivery, and we intend to make an equivalent donation in dollars to The Nature Conservancy. This effort helps preserve our natural resources and significantly reduces our printing and mailing costs.

You only need to sign up once. To enroll in electronic delivery, go to <https://www.icsdelivery.com/duk/index.html>. To learn more about the work of The Nature Conservancy, visit <http://www.nature.org>.

Duplicate Mailings

If your shares are registered in different accounts, you may receive duplicate mailings of annual reports, proxy statements and other shareholder information. Call Investor Relations for instructions on eliminating duplications or combining your accounts.

Transfer Agent and Registrar

Duke Energy maintains shareholder records and acts as transfer agent and registrar for the company's common stock issues.

Dividend Payment

Duke Energy has paid quarterly cash dividends on its common stock for 80 consecutive years. For the rest of 2007, dividends on common stock are expected to be paid, subject to declaration by the Board of Directors, on June 18, Sept. 17 and Dec. 17, 2007.

Bond Trustee

If you have questions regarding your bond account, call (800) 275-2048, or write to:

The Bank of New York
Global Trust Services
101 Barclay Street
New York, NY 10286

NYSE CEO Certification

Duke Energy Corporation has filed the certification of its chief executive officer and chief financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 as exhibits to its Annual Report on Form 10-K for the year ended December 31, 2006. In November 2006, Duke Energy Corporation's chief executive officer, as required by Section 303A.12(a) of the NYSE Listed Company Manual, certified to the NYSE that he was not aware of any violation by Duke Energy Corporation of the NYSE's corporate governance listing standards.

Send Us Feedback

We welcome your opinion on Duke Energy's 2006 Summary Annual Report. Please visit www.duke-energy.com/investors, where you can view the online Annual Report and provide feedback on both the print and online versions. Or contact Investor Relations directly.

Duke Energy is an equal opportunity employer. This report is published solely to inform shareholders and is not to be considered an offer, or the solicitation of an offer, to buy or sell securities.

Sustainability At Duke Energy

Duke Energy is no newcomer to sustainability. Our commitment to conduct our business in a way that creates long-term benefits for our stakeholders, our environment and our company has been part of our core business philosophy for years. As such, our approach to sustainability has five focus areas:

Provide innovative products and services for a carbon-constrained, competitive world.

Why it matters: Our customers want products and services that keep them competitive regionally and globally, yet respond to environmental concerns.

Reduce our environmental footprint.

Why it matters: As an energy company, we have a large impact on the environment and depend on natural resources for much of our fuel.

Attract and retain a diverse, high-quality work force.

Why it matters: Energy companies will be differentiated by the quality, creativity and customer focus of their employees.

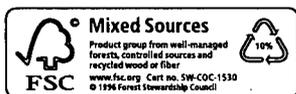
Help build strong communities.

Why it matters: Our success is linked to the health and prosperity of the communities we serve.

Be profitable and demonstrate strong governance and transparency.

Why it matters: Creating shareholder value and earning the trust and confidence of our many stakeholders keeps us in business.

Duke Energy's annual and periodic updates on sustainability performance are available on our Web site at this link: <http://www.duke-energy.com/environment/sustainability.asp>.



Products with a Mixed Sources label support the development of responsible forest management worldwide. The wood comes from Forest Stewardship Council (FSC)-certified well-managed forests, company-controlled sources and/or recycled material. The recycling symbol identifies post-consumer recycled content in these products.



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Enclosure 3

**North Carolina Electric Membership Corporation
2006 Audited Financial Statements**

Financial Statements and Report of
Independent Certified Public Accountants
North Carolina Electric Membership Corporation
As of December 31, 2006, 2005 and 2004

North Carolina Electric Membership Corporation

Notes to Financial Statements
December 31, 2006, 2005 and 2004

Note A - Summary of Significant Accounting Policies

Basis of Accounting

North Carolina Electric Membership Corporation (the Company) is a member-owned cooperative of 26 electric membership cooperatives (the members) in North Carolina. The Company was formed in 1949 to develop itself as a full-requirements supplier, providing power generation, wholesale electric service and transmission to its members who, in turn, service more than 880,000 homes, farms and businesses in North Carolina. The Company follows accounting principles generally accepted in the United States of America and the practices prescribed in the Uniform System of Accounts of the Federal Energy Regulatory Commission (FERC) as modified and adopted by the Rural Utilities Service (RUS).

Electric Plant

Electric plant is stated at original cost, which is the cost of the plant when placed into service plus the cost of subsequent additions and includes engineering and other indirect construction costs. The cost of renewals and betterments of property is capitalized. The cost of maintenance and repairs and replacements and renewals of items determined to be less than units of property is charged to expense when incurred. At the time properties are disposed of, the original cost plus the cost of removal less salvage of such property is charged to accumulated depreciation, except in certain cases of properties sold as entireties where profit or loss is recognized.

Depreciation and Decommissioning

Depreciation is computed using the straight-line method over the estimated service lives of the property as follows:

	<u>Estimated Lives</u>
Catawba Nuclear Station (Catawba)	21-40 years
Diesel generation equipment	30 years
Load management equipment	15 years
Building and improvements	35 years
Furniture and fixtures	5-10 years
Computers and telecommunications equipment	3-10 years
Vehicles	4 years

The Company reviews its long-lived assets for impairment whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. If this review indicates that the asset will not be recoverable based on the expected undiscounted net cash flows of the related asset, an impairment loss is recognized and the asset's carrying value is reduced. No such impairment loss was recognized in 2006, 2005 or 2004.

North Carolina Electric Membership Corporation

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors of
North Carolina Electric Membership Corporation:

We have audited the accompanying balance sheets of **North Carolina Electric Membership Corporation** (the Company), a North Carolina corporation, as of December 31, 2006 and 2005, and the related statements of operations and members' equity and cash flows for the years ending December 31, 2006, 2005 and 2004. 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 and assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of North Carolina Electric Membership Corporation as of December 31, 2006 and 2005, and the results of its operations and its cash flows for the years ending December 31, 2006, 2005 and 2004, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 1, 2007, on our consideration of North Carolina Electric Membership Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

GRANT THORNTON LLP

Raleigh, North Carolina
March 1, 2007

North Carolina Electric Membership Corporation

Balance Sheets

December 31, 2006 and 2005

(in thousands)

Assets	2006	2005	Members' Equity and Liabilities	2006	2005
Electric plant:			Members' equity:		
In-service	\$1,498,979	\$1,475,720	Membership fees	\$ 1	\$ 1
Accumulated depreciation	(814,842)	(778,024)	Patronage capital	32,542	26,176
	684,137	697,696	Net unrealized (loss) gain on available-for-sale securities and hedging activities	(4,106)	5,467
Nuclear fuel, at amortized cost	34,821	24,875		28,437	31,644
Construction work-in-process	224,326	35,474			
	943,284	758,045	Long-term debt	957,334	798,089
Other assets and investments:			Current liabilities:		
Long-term investments	28,099	24,012	Current maturities of long-term debt	68,464	62,375
Noncurrent receivables	11,619	13,135	Short-term debt	0	36,116
Investments in associated organizations	7,792	12,053	Accounts payable	91,257	102,945
Special deposits	9,335	28,607	Accrued interest	14,539	13,079
Decommissioning fund	88,846	78,777	Other accrued expenses	21,088	18,382
	145,691	156,584		195,348	232,897
Current assets:			Deferred credits and other liabilities:		
Cash and cash equivalents	13,261	25,979	Asset retirement obligation	113,568	108,201
Short-term investments	3,561	11,194	Accrued Department of Energy assessment	1,481	2,013
Accounts receivable	130,900	135,058	Other noncurrent liabilities	10,909	7,970
Accounts receivable – Affiliated companies, net	1,342	946		125,958	118,184
Interest receivable	1,032	1,098	Commitments and contingencies		
Other current assets	1,403	37,690	(Notes G, H, I, J and K)		
	151,499	211,965			
Deferred charges:					
Regulatory assets (Note A)	25,722	27,294			
Deferred loss on debt extinguishment (Note F)	10,603	11,975			
Debt issuance costs	5,218	5,695			
Preliminary project costs	7,418	7,418			
Other	17,642	1,838			
	66,603	54,220			
	<u>\$1,307,077</u>	<u>\$1,180,814</u>		<u>\$1,307,077</u>	<u>\$1,180,814</u>

The accompanying notes are an integral part of these financial statements.

North Carolina Electric Membership Corporation

Statements of Operations and Members' Equity

For the Years Ended December 31, 2006, 2005 and 2004

(in thousands)

	2006	2005	2004
Operating revenues	<u>\$911,164</u>	<u>\$874,456</u>	<u>\$784,176</u>
Operating expenses:			
Fuel and purchased power	656,779	635,744	543,168
Other production expenses	123,442	114,817	114,764
Depreciation and amortization	43,953	42,945	45,921
Administrative and general	17,389	15,369	16,541
General taxes	12,137	12,037	11,796
	<u>853,700</u>	<u>820,912</u>	<u>732,190</u>
Operating margin	<u>57,464</u>	<u>53,544</u>	<u>51,986</u>
Other income:			
Interest and dividend income	6,059	6,149	5,979
Other	1,092	2,673	1,022
	<u>7,151</u>	<u>8,822</u>	<u>7,001</u>
Interest charges:			
Interest expense	55,948	55,964	56,673
Debt fees and expenses	2,301	2,338	2,314
	<u>58,249</u>	<u>58,302</u>	<u>58,987</u>
Net margin	<u>6,366</u>	<u>4,064</u>	<u>0</u>
Change in net unrealized (loss) gain on available-for-sale securities and hedging activities	<u>(9,573)</u>	<u>912</u>	<u>(2,714)</u>
Comprehensive (loss) income	<u>(3,207)</u>	<u>4,976</u>	<u>(2,714)</u>
Members' equity, beginning of year	<u>31,644</u>	<u>26,668</u>	<u>29,382</u>
Members' equity, end of year	<u>\$ 28,437</u>	<u>\$ 31,644</u>	<u>\$ 26,668</u>

The accompanying notes are an integral part of these financial statements.

North Carolina Electric Membership Corporation

Statements of Cash Flows

For the Years Ended December 31, 2006, 2005 and 2004

(in thousands)

	2006	2005	2004
Cash flows from operating activities:			
Net margin	\$ 6,366	\$ 4,064	\$ 0
Adjustments to reconcile net margin to net cash and cash equivalents provided by operating activities:			
Depreciation and amortization	43,953	42,945	45,921
Other amortization	2,441	3,154	5,023
Amortization of nuclear fuel	14,386	15,324	14,623
Deferred charges	(1,377)	(838)	(1,180)
Other noncurrent assets and liabilities	4,454	1,472	4,996
Changes in other operating assets and liabilities:			
Accounts receivable	3,762	(19,445)	(9,831)
Interest receivable	66	(157)	132
Accounts payable	(11,688)	35,365	6,562
Accrued interest	1,460	(313)	13,237
Wholesale power cost adjustment	14,389	(13,501)	5,218
Other	(1,215)	264	277
Net cash and cash equivalents provided by operating activities	<u>76,997</u>	<u>68,334</u>	<u>84,978</u>
Cash flows from investing activities:			
Additions to electric plant	(237,264)	(50,217)	(41,439)
Increase in decommissioning fund	(8,770)	(4,735)	(3,746)
(Increase) decrease in long-term investments	(3,643)	12,624	472
Decrease (increase) decrease in short-term investments	7,741	(4,222)	1,657
Other, net	23,003	(2,612)	(1,522)
Net cash and cash equivalents used in investing activities	<u>(218,933)</u>	<u>(49,162)</u>	<u>(44,578)</u>
Cash flows from financing activities:			
Principal payments of long-term debt	(49,643)	(47,009)	(33,700)
Proceeds from long-term debt	214,977	0	0
(Payments) proceeds from short-term debt	(36,116)	36,116	0
Net cash and cash equivalents provided by (used in) financing activities	<u>129,218</u>	<u>(10,893)</u>	<u>(33,700)</u>
Net (decrease) increase in cash and cash equivalents	<u>(12,718)</u>	<u>8,279</u>	<u>6,700</u>
Cash and cash equivalents, beginning of year	<u>25,979</u>	<u>17,700</u>	<u>11,000</u>
Cash and cash equivalents, end of year	<u>\$ 13,261</u>	<u>\$ 25,979</u>	<u>\$ 17,700</u>
Supplemental disclosures of cash flow information:			
Implementation of SFAS No. 143:			
(Disposal) addition of decommissioning asset	\$ 0	\$ 0	\$(26,206)
Increase (decrease) in deferred credits and other liabilities	0	0	32,003
(Decrease) increase in regulatory asset	0	0	(5,797)
Cash paid during the year for interest	<u>59,107</u>	<u>57,069</u>	<u>43,435</u>

North Carolina Electric Membership Corporation

Notes to Financial Statements

December 31, 2006, 2005 and 2004

The Company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 143, "Accounting for Asset Retirement Obligations," on January 1, 2003, to provide for the expected cost of decommissioning Catawba. SFAS No. 143 establishes accounting and reporting standards for the way companies recognize and measure retirement obligations that result from the operation of a long-lived asset. SFAS No. 143 requires that the fair value of asset retirement obligations be recorded in the balance sheet at the time the liability is incurred which, in most cases, will be when the asset is placed in service. The cost associated with recognizing this obligation is capitalized into the cost of the related long-lived asset. The implementation of SFAS No. 143 on January 1, 2003, resulted in a cumulative effect of a change in accounting principle of \$34,999,000, which was recorded as a regulatory asset and is being amortized through 2026. Additionally, implementation resulted in a net increase in Electric Plant of \$28,824,000 and an increase in deferred credits and other liabilities of \$63,823,000. In compliance with a Nuclear Regulatory Commission (NRC) regulation, amounts recovered through rates for estimated decommissioning costs (plus interest thereon) are maintained in a separate external trust fund.

In November 2003, the NRC extended the licenses for Catawba through December 31, 2043. As such, in 2004 the Company received an updated site study that included consideration of the extended licenses for Catawba. Using this study, the Company estimates its portion of expected decommissioning costs to be approximately \$281,056,000 in 2003 dollars. The new study resulted in a change in accounting estimate of \$5,797,000, which was recorded as a reduction to the regulatory asset and is being amortized through 2026. In addition, the new study resulted in a net decrease in Electric Plant of \$26,206,000 and a decrease in deferred credits and other liabilities of \$32,003,000.

The estimate of the expected cost for decommissioning is adjusted periodically to reflect changing price levels and technology. The decommissioning cost estimates are based on the plant location and cost characteristics for Catawba and assume prompt dismantlement and removal of the plant from service. The actual decommissioning costs are expected to vary from the estimates because of changes in assumed dates of decommissioning, changes in regulatory requirements, changes in technology and changes in costs of labor, materials and equipment.

Regulatory Assets and Deferred Charges

The Company currently complies with the provisions of SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation," as amended and, accordingly, has recorded regulatory assets related to its operations. This statement requires that regulatory assets be probable of future recovery at each balance sheet date. If recovery of the regulatory assets becomes unlikely or uncertain, these accounting standards may no longer apply. The Company periodically reviews these criteria to ensure the continuing application of SFAS No. 71 is appropriate. Based on a current evaluation of the various factors and conditions that are expected to impact future cost recovery, the Company believes that its regulatory assets are probable of future recovery.

North Carolina Electric Membership Corporation

Notes to Financial Statements

December 31, 2006, 2005 and 2004

Deferred charges, other than preliminary project costs (Note I), are amortized using the straight-line method over the following estimated periods:

	<u>Estimated Periods</u>
Regulatory assets	1 to 23 years
Deferred loss on debt extinguishment (Note F)	15 to 24 years
Debt issuance costs	19 to 24 years
Other	1 to 5 years

Nuclear Fuel

The cost of nuclear fuel, including a provision for the estimated cost of permanent storage of spent fuel, is being amortized based on core burn-up and amounted to \$14,386,000 in 2006, \$15,324,000 in 2005 and \$14,623,000 in 2004. Final disposition of the spent fuel may require future adjustments to fuel expense. Pending ultimate disposition, sufficient storage capacity for spent fuel is available. The accumulated amortization is \$161,155,000 and \$146,769,000 at December 31, 2006 and 2005, respectively.

Derivative Accounting

The Company complies with the provisions of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended. SFAS No. 133, as amended, establishes accounting and reporting standards for derivative instruments and for hedging activities. SFAS No. 133 requires that certain derivative instruments be recorded in the balance sheet as either an asset or liability measured at fair value and that changes in the fair value be recognized currently in earnings unless specific hedge accounting criteria are met.

Substantially all of the Company's bulk power purchases and sales meet the definition of a derivative under SFAS No. 133. However, these transactions also meet the normal purchase and sale exception under SFAS No. 133 and, therefore, do not need to be accounted for as derivatives.

In addition, the Company uses derivative instruments to manage the risks associated with the impact of fluctuating natural gas fuel prices on purchased power contracts. These derivatives are carried at their fair market value as determined by broker quotes. Unrealized gains are recorded as derivative assets of \$4,000 and \$8,685,000 in other current assets in the accompanying balance sheets at December 31, 2006 and 2005, respectively. Unrealized losses of \$8,954,000 and \$6,210,000 are recorded as derivative liabilities in other accrued expenses in the accompanying balance sheets at December 31, 2006 and 2005, respectively. As these derivatives are designated as cash flow hedges, unrealized gains or losses are deferred as a component of members' equity and will be recognized concurrently with the hedged purchased power costs.

Membership Fees and Patronage Capital

The Company is organized and operates as a cooperative. Its cooperative members paid a total of \$700 in membership fees.

North Carolina Electric Membership Corporation

Notes to Financial Statements

December 31, 2006, 2005 and 2004

Patronage capital is the net margin retained by the Company, which is allocated to members based upon their respective purchases of power from the Company. The Company recorded a net margin of \$6,366,000 and 2006, and \$4,064,000 in 2005. The Company recorded no net margin in 2004.

Income Taxes

The Company is a not-for-profit membership corporation exempt from federal income taxes. In management's opinion, based on the applicable statutes, the Company is not subject to state income taxes.

For the years 1984 and prior, the Company claimed tax-exempt status under Section 501(c)(12) of the Internal Revenue Code of 1954 (the Code), as amended. In 1985, the Company reported as a taxable entity as a result of income received from Duke Power Company (Duke) under a capacity and energy sell-back agreement applicable to Catawba Units No. 1 and 2. As a taxable electric cooperative, the Company annually allocated its income and deductions between member and nonmember activities. Any member taxable income was offset with a patronage exclusion.

In 1999, the Company reapplied for tax-exempt status under Section 501(c)(12) of the Code. The application was approved by the Internal Revenue Service retroactively to January 1, 1996.

Cash and Cash Equivalents

The Company considers all temporary cash investments purchased with an original maturity of three months or less to be cash equivalents.

The Company had restricted cash related to the construction of the parking plants of \$165,000 and \$866,000 at December 31, 2006 and 2005, respectively.

All cash deposits are in federally insured financial institutions in the United States of America. However, at times, including at December 31, 2006 and 2005, deposits have exceeded the amount insured by the Federal Deposit Insurance Corporation.

Revenue Recognition

The Company recognizes revenue on the sale of power when supplied to members. Amounts for which revenue has been billed and not collected are included as accounts receivable in the accompanying balance sheets. Accounts receivable are due within 45 days and are stated as amounts due from members. Accounts outstanding for longer than the payment terms are considered past due. No provision for doubtful accounts was recorded during the years ended December 31, 2006, 2005 and 2004.

The Company has implemented a wholesale power cost adjustment as a means of collecting monthly costs in excess of budget amounts or returning monthly revenue in excess of budget amounts. Prior to 2006, the wholesale power cost adjustment (WPCA) was collected from or returned to the members over the six-month period following the month in which the variance occurred. During 2004, the Company incurred costs in excess of budget in the amount of \$39,854,000. In 2005, the Company incurred costs in excess of budget in the amount of \$54,440,000. Of the 2005 amount, \$25,657,000 was collected from members in 2005.

North Carolina Electric Membership Corporation

Notes to Financial Statements

December 31, 2006, 2005 and 2004

The Company revised the WPCA policy in 2005 such that the uncollected 2005 WPCA balance of \$28,783,000 at December 31, 2005, which is included in other current assets in the accompanying balance sheets, was collected over a 12-month period beginning in January 2006.

The Company once again revised the WPCA policy in 2006 such that the 2006 WPCA of \$14,394,000 will be collected over the 12-month period beginning in January 2008. Accordingly, the 2006 WPCA is included in other deferred charges in the accompanying balance sheets at December 31, 2006.

Member Power Supply Resource Policy

In February 1998, the Company adopted a policy allowing members to independently procure a portion of their future wholesale power supply if they so desired. The policy was revised in 2002 and 2003 to reflect changes in the marketplace. In June 2003, four members (Independent Members) elected to exercise their rights consistent with the policy to independently arrange for future purchases of capacity and energy. Each of the four Independent Members executed a wholesale power supply agreement with the Company effective January 1, 2004, that will remain in effect until December 31, 2046. The Independent Members continue to be responsible for their share of capacity and energy commitments made by the Company prior to January 1, 2004.

Concentration of Credit Risk

There were no members that accounted for 10% or greater of revenues or accounts receivable at December 31, 2006, 2005 and 2004, respectively.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" effective for fiscal years ending after June 15, 2007, for an employer without publicly traded equity securities. This statement requires recognition of the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in the statement of financial position and to recognize changes in that funded status in the year in which changes occur as a component of comprehensive income. In addition, this statement requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position. Management does not expect the adoption of SFAS No. 158 to have a material impact on the Company's financial position.

North Carolina Electric Membership Corporation

Notes to Financial Statements

December 31, 2006, 2005 and 2004

In May 2005, FASB issued SFAS No. 154, "Accounting Changes and Error Corrections." This statement provides guidance on the accounting for and reporting of accounting changes and error corrections. It requires retrospective application of voluntary changes in accounting principle and changes required by the accounting pronouncement to the prior periods' financial statements in the event the pronouncement does not include specific transition provisions. SFAS No. 154 is effective for annual periods beginning after December 15, 2005. The adoption of Statement No. 154 has not had a material impact on the Company's financial position or results of operations.

Note B - Jointly Owned Electric Plant and Related Agreements

On February 6, 1981, the Company entered into (a) the Catawba Nuclear Station Purchase, Construction and Ownership Agreement with Duke, together with (b) an Operating and Fuel Agreement and (c) an Interconnection Agreement (the Contracts). Contracts (a) and (b) basically provide for the purchase by the Company of a 56.25% undivided interest in Unit No. 1 of the Catawba Nuclear Station together with a 28.125% interest in the support facilities and for a sharing of direct construction and operating costs in relation to the respective ownership share of the parties. The Company's total investment in jointly owned facilities totaled \$1,426,397,000 and \$1,403,995,000, including capitalized interest expense net of related investment income, and is included in electric plant in-service in the accompanying balance sheets as of December 31, 2006 and 2005, respectively.

On December 20, 2006, the Company entered into an asset purchase agreement with Saluda River Electric Cooperative, Inc. (Saluda) to purchase 28.04% of Saluda's 18.75% undivided interest in Unit No. 1 of the Catawba Nuclear Station for a purchase price of \$42,000,000. This will increase the Company's undivided interest in Unit 1 of the Catawba Nuclear Station to 61.51%. In addition, NCEMC will receive an additional 2.63% undivided interest in the support facilities and sharing of direct construction and operating costs of the Catawba Nuclear Station. The Company expects the acquisition to be completed in 2007 or 2008 depending upon the regulatory approval process.

The cost of power purchased from Duke, as well as power purchased by the Company from other power supply sources, including Carolina Power & Light doing business as Progress Energy Carolinas, Inc. (PEC), Dominion North Carolina Power (VEPCO) and American Electric Power Company (AEP) has been recorded as purchased power on the accompanying statements of operations and members' equity.

North Carolina Electric Membership Corporation

Notes to Financial Statements

December 31, 2006, 2005 and 2004

Note C - Fair Value of Financial Instruments

A detail of the estimated fair values of the Company's financial instruments as of December 31, 2006 and 2005, is as follows (in thousands):

	2006		2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 13,261	\$ 13,261	\$ 25,979	\$ 25,979
Short-term investments	3,561	3,561	11,194	11,194
Long-term investments	28,099	28,099	24,012	24,012
Special deposits	9,335	9,335	28,607	28,607
Decommissioning fund	88,846	88,846	78,777	78,777
Long-term debt	1,025,798	1,099,534	860,464	982,231

For cash and cash equivalents, the carrying amount approximates fair value due to the short maturity of those instruments. The special deposits fund balance is contractually determined to meet certain funding requirements. The fair value of the Company's long-term debt is estimated by management based on the current rates offered to the Company for debt of similar maturities.

The Company's investments may be classified as available-for-sale, trading or held to maturity. Available-for-sale securities are carried at market value, with unrealized gains and losses added to or deducted from equity. Trading securities are also carried at market value, with unrealized gains and losses charged to income. Held-to-maturity securities are carried at amortized cost. All realized and unrealized gains and losses are determined using the specific identification method. All investments are classified as available-for-sale.

North Carolina Electric Membership Corporation

Notes to Financial Statements

December 31, 2006, 2005 and 2004

The amortized cost, gross unrealized holding gains, gross unrealized losses and fair value of available-for-sale securities by major security type at December 31, 2006 and 2005, are as follows (in thousands):

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Estimated Fair Value
Available-for-sale securities at December 31, 2006:				
U.S. Government and agency securities	\$ 70,917	\$ 764	\$(1,435)	\$ 70,246
Corporate bonds	16,818	129	(240)	16,707
Equity investments	35,426	5,589	0	41,015
Other	15,098	95	(59)	15,134
	<u>\$138,259</u>	<u>\$6,577</u>	<u>\$(1,734)</u>	<u>\$143,102</u>
Available-for-sale securities at December 31, 2005:				
U.S. Government and agency securities	\$ 43,562	\$ 943	\$ (645)	\$ 43,860
Corporate bonds	21,057	51	(470)	20,638
Equity investments	31,854	4,133	0	35,987
Other	69,104	74	(1,094)	68,084
	<u>\$165,577</u>	<u>\$5,201</u>	<u>\$(2,209)</u>	<u>\$168,569</u>

Proceeds from the sale of marketable securities were \$113,180,000, \$187,385,000 and \$186,059,000 in 2006, 2005 and 2004, respectively. Related net realized gains included in income were \$1,015,000, \$2,788,000 and \$1,471,000 in 2006, 2005 and 2004, respectively.

Note D - Investments in Associated Organizations

Investments in associated organizations are stated at cost at December 31, 2006 and 2005, and are as follows (in thousands):

	2006	2005
TSE Services Inc. preferred stock (Note K)	\$2,000	\$ 2,000
National Rural Utilities Cooperative Finance Corporation:		
Subordinated term certificates	4,970	9,486
Capital term certificates	311	313
Patronage capital certificates	251	150
Other investments	260	104
	<u>\$7,792</u>	<u>\$12,053</u>

The Subordinated Term Certificates bear interest between 4.44% and 6.75% per annum. The Capital Term Certificates bear interest at 3% to 5% per annum. These certificates are required to be maintained under debt agreements with the National Rural Utilities Cooperative Finance Corporation (NRUCFC) until maturity of the related debt instruments. These investments in associated organizations are similar to compensating bank balances and are necessary in order to maintain current financing arrangements.

North Carolina Electric Membership Corporation

Notes to Financial Statements

December 31, 2006, 2005 and 2004

Note E - Special Deposits

Special deposits include debt service reserve funds for pollution control bonds as required by the Company's bond agreements and agreements with Duke. Debt service reserve funds totaled \$9,877,000 and \$9,935,000 at December 31, 2006 and 2005, respectively.

In 1994, under the terms of its Catawba ownership agreements with Duke as discussed in Note B, the Company entered into an Amended Depository Agreement with Duke under which the Company was required to establish a Special Reserve Fund depository account in an amount equal to the greater of \$750,000 or 1% of the Company's estimated payments to Duke under the terms of the Interconnection Agreement plus one-sixth of the Company's estimated payments to Duke under terms of the Operating and Fuel Agreement during the current fiscal year. The depository account totaled \$19,515,000 as of December 31, 2005. In 2006, the Company agreed with Duke to eliminate the Special Reserve Fund requirement and the funds were released from restriction.

A portion of these deposits has been classified as short-term investments at December 31, 2006 and 2005.

Note F - Long-term Debt and Credit Facilities

Long-term debt consists of mortgage notes payable to the United States of America acting through the Federal Financing Bank (FFB) and the RUS, Pollution Control Revenue Bonds and promissory notes to NRUCFC. Substantially all assets of the Company are pledged as collateral for the debt. The terms of the mortgages, notes and bonds are as follows (in thousands):

	<u>2006</u>	<u>2005</u>
FFB mortgage and RUS note advances, interest and principal payable quarterly, maturing at various dates through 2026 with fixed interest rates ranging from 4.58% to 8.06% at December 31, 2006 and 2005	\$ 920,867	\$755,513
Pollution Control Revenue Bonds, Series 2000, with principal payments due in 2020 through 2024, guaranteed by NRUCFC, three series with interest payable monthly at varying rates (average of 3.80% at December 31, 2006, and 3.08% at December 31, 2005)	99,400	99,400
NRUCFC note, interest payable semiannually at 9.05%, principal payments due in 2024	4,970	4,970
NRUCFC note advances, interest and principal payable quarterly through June 14, 2023, interest rate of 6.40% and 3.60% at December 31, 2006 and 2005, respectively	561	581
	<u>1,025,798</u>	<u>860,464</u>
Less – Current maturities	<u>(68,464)</u>	<u>(62,375)</u>
	<u>\$ 957,334</u>	<u>\$798,089</u>

North Carolina Electric Membership Corporation

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Maturities of the long-term debt described above for the five-year period beginning January 1, 2007, and thereafter, are summarized below (in thousands):

<u>Years</u>	<u>Amount</u>
2007	\$ 68,464
2008	64,807
2009	68,478
2010	72,209
2011	76,312
Thereafter	675,528
	<u>\$1,025,798</u>

Catawba-related Debt

In July 1998, the Company refinanced substantially all FFB notes with an outstanding principal balance of \$1,015,104,000. The interest rates on these notes were reduced from rates ranging from 7.69% to 10.52% to a fixed rate of 5.61%. This rate will remain in effect for a 10-year period ending in 2008, at which time the Company has the option to reprice the outstanding principal for the remaining term. In conjunction with the refinancing, the Company paid a penalty of \$2,861,000 and financed an additional premium of \$114,435,000 over the term of the original debt. The Company individually assessed the refinanced notes to determine whether each transaction should be accounted for as an extinguishment. As a result, \$253,148,000 in debt was extinguished and replaced by \$271,391,000 in new debt, representing the fair value of the related notes. In addition, the Company wrote off \$713,000 and \$2,108,000 of related refinancing penalties and original debt issuance costs, respectively. The resulting loss on extinguishment of \$21,064,000 was recorded as a deferred charge to be amortized in accordance with the recovery period established by the Board of Directors. Likewise, the remaining unrecorded premium of \$96,192,000 will be recognized as interest expense over the term of the debt. The unamortized balance of the refinancing premium was \$66,077,000 and \$70,175,000 at December 31, 2006 and 2005, respectively. This transaction will result in a net economic gain of approximately \$68,647,000 over the term of the notes.

In September 2000, the Company issued Series 2000 Pollution Control Revenue Bonds, guaranteed by NRUCFC, in the amount of \$99,400,000. The bonds were issued in three series, with principal payments due in 2020 through 2024. Interest on the bonds is payable monthly at varying rates. In addition, the Company borrowed \$4,970,000 from NRUCFC to finance the purchase of a Subordinated Term Certificate with NRUCFC, a requirement for NRUCFC to guarantee the pollution control bonds.

In 2005, the Company received RUS approval to borrow funds from FFB in the amount of \$32,723,000 to finance a portion of the Company's share of capital additions at the Catawba Nuclear Station. The loan agreement consists of one master note agreement with a maturity date of December 31, 2026. During 2006, the Company requested and received \$24,073,000 of loan advances under this loan agreement.

North Carolina Electric Membership Corporation

Notes to Financial Statements

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Peaking Capacity Debt

In 2005, the Company entered into an agreement with NRUCFC for \$75,000,000 of interim financing to finance construction of 620 MW of peaking capacity prior to the time permanent financing was to be received from RUS. The outstanding balance at December 31, 2005, was \$31,600,000 and is classified as short-term debt in the accompanying balance sheets. In addition, the Company borrowed \$4,516,000 from NRUCFC to finance the purchase of short-term Subordinated Term Certificates with NRUCFC, a requirement for borrowing funds under the terms of the agreement with NRUCFC.

In 2005, subsequent to the Company obtaining interim financing, the Company received approval for an RUS-guaranteed FFB loan in an amount not to exceed \$318,221,000 to finance the construction of the peaking capacity project. The loan agreement consists of two master note agreements, one of which has a maturity date of December 31, 2011 and one which matures at December 31, 2026. During 2006, the Company requested and received loan advances totaling \$190,904,000.

Upon receipt of these advances in 2006, the balance outstanding on the NRUCFC interim financing and the short-term Subordinated Term Certificates loan was repaid.

Credit Facilities

In June 2004, the Company established a \$48,000,000 line of credit with NRUCFC, which was unused at December 31, 2006 and 2005, respectively. The Company renewed the line of credit with NRUCFC in June 2006. The line of credit is subject to an annual renewal process. Interest accrues at the NRUCFC line of credit rate (7.00% at December 31, 2006) at the time an advance is made. Advances on the line of credit are made on a revolving basis as needed.

In November 2005, the Company entered into an agreement with CoBank in which the Company established a \$20,000,000 credit facility that can be used as a line of credit or letters of credit or a combination of both. Advances are made on a revolving basis as needed. The interest rate available under this agreement would be determined at the time an advance is made. This agreement expires in November 2007 and is subject to an annual renewal process. No balance was outstanding at December 31, 2006 and 2005, respectively.

In June 2006, the Company entered into a line of credit agreement with NRUCFC that established a \$30,000,000 credit facility. The credit agreement expires in December 2007. Interest accrues at the NRUCFC line of credit rate (7.00% at December 31, 2006) at the time an advance is made. Advances on the line of credit are made on a revolving basis as needed. This line of credit was unused at December 31, 2006.

In addition, the Company has established three letter-of-credit arrangements with NRUCFC that total \$26,150,000 at December 31, 2006 and 2005, respectively, and expire at various dates through November 2007. Two of the letter-of-credit arrangements, which total \$5,150,000, are unsecured. The third letter-of-credit arrangement is a "master agreement" in the amount of \$21,000,000 and requires the purchase of commercial paper from NRUCFC at the rate of 50% of each letter of credit issued under the master agreement.

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As of December 31, 2006 and 2005, respectively, letters of credit totaling \$9,964,000 and \$5,230,000 had been issued under these three letter-of-credit arrangements to designated beneficiaries in support of transmission requirements. Commercial paper investments totaling \$750,000, as required in accordance with the terms of the \$21,000,000 master agreement, were outstanding at December 31, 2005, and are included as Special Deposits in the financial statements.

Note G - Employee Benefit Plans

All employees of the Company participate in the National Rural Electric Cooperative Association (NRECA) Retirement and Security Program (the Program), a defined benefit pension plan qualified under Section 401 and tax exempt under Section 501(a) of the Code. In this multiemployer plan, which is available to all member cooperatives of NRECA, the accumulated benefits and plan assets are not determined or allocated separately by individual employer. The Company makes annual contributions to the Program equal to the annual pension expense, except during a period when a moratorium is in effect. Payments to the Program for current period service cost were \$2,391,000 in 2006, \$2,142,000 in 2005 and \$1,902,000 in 2004.

All employees of the Company are eligible to participate in the NRECA Savings Plan, a defined contribution plan qualified under Section 401(k) and tax exempt under Section 501(a) of the Code. Eligible employees may make contributions to the plan of up to 15% of their salary. The Company matches employee contributions to the plan up to 3% of the employee's salary. Total company contributions to the NRECA Savings Plan were \$354,000 in 2006, \$328,000 in 2005 and \$308,000 in 2004.

Note H - Other Postemployment and Postretirement Benefits

The net postretirement benefit liability recognized by the Company, included in other noncurrent liabilities on the accompanying balance sheets, is summarized as follows (in thousands):

	<u>2006</u>	<u>2005</u>
Retired plan participants	\$1,054	\$1,270
Active plan participants	6,777	4,879
Unrecognized actuarial loss	(2,346)	(1,515)
Accumulated postretirement benefit obligation	<u>\$5,485</u>	<u>\$4,634</u>

Net postretirement benefit cost for 2006, 2005 and 2004 is included in administrative and general expenses and consists of the following components (in thousands):

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Service cost - Benefits attributed to service during the period	\$505	\$394	\$359
Interest cost on accumulated postretirement benefit obligation	362	303	274
Amortization of actuarial gain	131	75	43
Amortization of prior service cost	(69)	(17)	0
Net postretirement benefit cost	<u>\$929</u>	<u>\$755</u>	<u>\$676</u>

North Carolina Electric Membership Corporation

Notes to Financial Statements

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Disclosures required by SFAS No. 132, "Employers' Disclosure about Pensions and Other Postretirement Benefits," with regard to the Company's postretirement benefits are as follows (in thousands):

	<u>2006</u>	<u>2005</u>
Benefit obligation at December 31	\$5,485	\$4,634
Fair value of plan assets at December 31	0	0
Funded status – Accrued benefit cost recognized in the balance sheet	<u>\$5,485</u>	<u>\$4,634</u>
Weighted average assumptions as of December 31:		
Discount rate	5.75%	5.75%
Rate of compensation increase	N/A	N/A
Health care trend rate (decreases annually to 5.0% by 2015)	<u>12%</u>	<u>12%</u>
Benefit cost	\$ 929	\$ 755
Employer contribution	79	84
Plan participants' contributions	N/A	N/A
Benefits paid	<u>168</u>	<u>148</u>

Projected future benefit payments are as follows:

<u>Years</u>	<u>Amount</u>
2007	\$ 195
2008	223
2009	258
2010	305
2011	372
2012 to 2016	<u>\$2,426</u>

The Company has revised certain assumptions related to the computation of the accumulated postretirement benefit obligation, resulting in a net actuarial loss of \$2,346,000 in 2006. Increasing the assumed health care cost trend by one percentage point would increase the accumulated postretirement benefit obligation for 2006 by \$1,210,000.

Note I - Commitments and Contingencies

Department of Energy Assessment

The Energy Policy Act of 1992 gave the Department of Energy (DOE) the authority to assess utilities for the decommissioning of its facilities used for the enrichment of uranium included in nuclear fuel costs. In order to decommission these facilities, the DOE estimates that it would need to charge utilities a total of \$150,000,000, adjusted for inflation, annually, for 15 years based on enrichment services to date. Based on preliminary estimates from Duke, the Company recorded its share of the liability. A corresponding asset was recorded as nuclear fuel and is being amortized to nuclear fuel expense over the 15-year assessment period. The estimated remaining liability of \$1,481,000 and \$2,013,000 is included in the accompanying balance sheets in deferred credits and other liabilities at December 31, 2006 and 2005, respectively.

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Power Coordination and Purchased Power Agreements

In 1996, the Company began receiving 205 megawatts (MW) of capacity and energy from AEP. The agreement provides fixed capacity and energy prices through 2010.

In 1998, the Company negotiated a power supply agreement (PSA) and a network service agreement with PEC, which became effective January 1, 1999. In 2003, the Company modified its PSA with PEC to increase the amount of capacity purchased and to extend the terms for three of the capacity blocks it purchases from PEC.

In 2001, the Company entered into three PPAs with AEP, VEPCO and South Carolina Electric and Gas Company (SCE&G) to supply a total of 970 MW of capacity. The term of these agreements is from 10 to 25 years. In 2003, the VEPCO PPA, which provided 570 MW of capacity from January 1, 2005, through December 31, 2029, was terminated and replaced with a 150 MW PPA with VEPCO from January 1, 2005, through December 31, 2014. In 2004, the Company signed another agreement with PEC to replace the capacity lost in the termination of the VEPCO contract. This new PEC purchase was for 500 MW of peaking capacity and energy in 2005, 750 MW in 2006, 450 MW in 2007 and 300 MW from 2008 through 2024. This agreement was amended in 2007 so that the capacity amounts listed above would be reduced by 100 MW from the date of the amendment through December 31, 2011. The AEP agreement provides for fixed pricing. The VEPCO, SCE&G and PEC agreements provide for fixed capacity prices and indexed energy prices.

In 2002, the Company signed agreements with VEPCO, SCE&G and Southern Company (Southern) to purchase a total of 250 MW of peaking capacity and energy with load-following capability for a two-year period beginning January 1, 2004. The agreements provide for fixed capacity prices and indexed energy prices.

In 2003, the Company negotiated a network service agreement with VEPCO, which became effective January 1, 2004. In the fall of 2004, the Company began taking transmission service from PJM Interconnection (PJM), due to the integration of the AEP transmission system into the PJM footprint. In 2005, the Company's transmission service from VEPCO became transmission services from PJM upon VEPCO's integration into PJM.

In 2005, the Company signed an agreement with PEC for the purchase of 100 MW of capacity from February 2005 through January 2006. The Company signed agreements with Progress Ventures and AEP each for the sale of 50 MW for the same period. Subsequently, the Company renewed the 100 MW purchased of capacity and associated energy from PEC from February 2006 through May 2006. The Company signed an agreement with AEP for the sale of 100 MW for the same period. Finally, the Company signed two agreements with PEC for the purchase of 100 MW of capacity from June 2006 through May 2007 and 100 MW from June 2007 through May 2008. The Company signed agreements with AEP and Morgan Stanley, each for the sale of 50 MW from June 2006 through May 2007. The Company also signed two agreements with Morgan Stanley, each for the sale of 50 MW from June 2007 through May 2008.

In 2005, the Company signed an agreement with SCE&G for a 100 MW PPA for a one-year period with two options to extend, one through March 2007 and one through December 2007. The Company exercised both options. The agreement provides for fixed capacity prices and indexed energy prices.

The Company signed a load-following contract with Southern for 25 MW beginning on January 1, 2006, with a term of one year and no option to extend the contract. The contract calls for fixed capacity prices and indexed energy prices.

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In 2006, the Company signed a load-following contract with Duke for 25 MW beginning on January 1, 2007, and extending through December 31, 2007. The contract provides for fixed capacity prices and indexed energy prices with an option to extend. This resource replaced the Southern 25 MW purchase when it expired on December 31, 2006.

In 2007, the Company signed an agreement with PEC for the purchase of 100 MW of intermediate capacity and energy starting on April 1, 2007, through December 31, 2011. This agreement includes an option to extend five additional years and increase the capacity amount to 200 MW. This agreement provides for fixed capacity prices and system average plus an adder energy prices.

Plant Construction Agreement

During the mid-1990s, the Company purchased property, incurred licensing and architect fees and entered into an agreement to build a combined-cycle natural gas-fired electric generating plant. Construction of the plant was scheduled to begin in 1998. Due to changing power supply market conditions in 1996, the Company decided to delay the construction of the generating plant indefinitely. The Company has capitalized these preliminary project costs of \$9,418,000 through December 31, 2006 and 2005, respectively, in the accompanying balance sheets. The Company entered into an agreement with Dominion Davidson, Inc. to sell the property for approximately \$12,000,000, conditional upon achieving certain milestones. In accordance with the agreement, the Company received \$2,000,000 in 2002. In 2003, Dominion Davidson, Inc. terminated the agreement and forfeited the \$2,000,000 previously paid to the Company. The Company recorded this as a reduction to preliminary project costs at December 31, 2006 and 2005, in the accompanying balance sheets.

Peaking Capacity Project

In 2004, the Company entered into an agreement with Pratt and Whitney Power Systems (PWPS) to build 620 MW of peaking capacity to be operational in 2007.

At December 31, 2006 and 2005, the Company had capitalized \$211,303,118 and \$31,682,000, respectively, in costs associated with this project. These amounts are included in construction work-in-progress in the accompanying balance sheets.

Note J - Nuclear Insurance

Duke, acting on behalf of the joint owners of Catawba, maintains insurance coverage for public liability claims resulting from nuclear energy hazards. The Price-Anderson Act requires Duke Energy to insure against public liability claims resulting from nuclear incidents to the full limit of liability, approximately \$10.8 billion. This potential liability is covered by primary liability insurance provided by commercial insurance carriers in the amount of \$300 million and a mandatory industry-wide excess secondary insurance program of risk pooling. If losses at any nuclear power plant covered by the programs exceed the accumulated funds, the joint owners of Catawba could be assessed retroactive premium adjustments. The maximum assessment per reactor under the program for each nuclear accident is approximately \$101 million, subject to an annual limit of \$15 million per incident. Based on the Company's interest in Catawba, its maximum potential assessment per incident is approximately \$56.8 million, with an annual payment limitation of approximately \$8.4 million.

North Carolina Electric Membership Corporation

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Duke is a member of Nuclear Electric Insurance Limited (NEIL), which provides property and business interruption insurance coverage for Duke Energy's nuclear facilities under three policy programs:

Primary Property Insurance - This policy provides \$500 million of primary property damage coverage for each of Duke's nuclear facilities.

Excess Property Insurance - This policy provides excess property, decontamination and decommissioning liability insurance in the amount of \$2.25 billion for the Catawba Nuclear Station.

Business Interruption Insurance - This policy provides business interruption and/or extra expense coverage resulting from an accidental outage of a nuclear unit. Each Catawba unit is insured for up to \$3.5 million per week. Coverage amounts decline if more than one unit is involved in an accidental outage. Initial coverage begins after a 12-week deductible period and continues at 100% for 52 weeks and 80% for the next 110 weeks.

If NEIL's losses exceed its reserves for any of the above three programs, Duke Energy is liable for assessments of up to 10 times its annual premiums. The current maximum assessments are: Primary Property Insurance - \$38 million, Excess Property Insurance - \$46 million and Business Interruption Insurance - \$22 million. Based on the Company's interest in Catawba, its maximum potential share of these assessments is approximately \$29.8 million.

Note K - Related-party Transactions

In accordance with a management agreement, the Company provides staff services to the North Carolina Association of Electric Cooperatives, Inc. (NCAEC), the Tarheel Electric Membership Association, Inc. and subsidiary (TEMA), TSE Services Inc. (TSE), EMC Technologies, LLC (EMCT) and CEC Self Insurance Fund, Inc. (CECSIF), which are all related parties through common ownership. The management agreement provides that charges for these services include a component for general corporate expenses and an assessment for office space and computer equipment. The Company also charges the ElecTel Cooperative Credit Union (ElecTel), a related party, a fee for office space and use of the Company's copy machines. Charges to NCAEC were \$4,472,000 in 2006, \$4,611,000 in 2005 and \$4,947,000 in 2004. Charges to TEMA were \$2,620,000 in 2006, \$2,730,000 in 2005 and \$2,579,000 in 2004. Charges to TSE were \$2,342,000 in 2006, \$2,396,000 in 2005 and \$2,721,000 in 2004. Charges to EMCT were \$6,206,000 in 2006, \$6,538,000 in 2005 and \$6,180,000 in 2004. Charges to CECSIF were \$77,000 in 2006, \$75,000 in 2005 and \$65,000 in 2004. Charges to ElecTel were \$27,000 in 2006, 2005 and 2004.

The Company purchases various services from TSE, NCAEC and EMCT. Expenses related to services purchased from TSE totaled \$1,123,000 in 2006, \$1,182,000 in 2005 and \$1,315,000 in 2004. Expenses related to services purchased from NCAEC totaled \$567,000 in 2006, \$540,000 in 2005 and \$2,953,000 in 2004. Expenses related to services purchased from EMCT totaled \$5,695,000 in 2006, \$5,900,000 in 2005 and \$6,040,000 in 2004. In addition, the Company purchased miscellaneous materials from TEMA in 2006 that amounted to \$33,000. There were no amounts due TEMA at December 31, 2006.

During 2006, the Company loaned \$2,000,000 to TEMA to help TEMA meet temporary cash flow needs. The principal loan balance plus interest of \$3,000 was repaid during the year and there are no loan principal amounts outstanding at December 31, 2006.

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Notes to Financial Statements

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The Company has accounts receivable net of accounts payable with related parties at December 31, 2006 and 2005, as follows (in thousands). These amounts do not bear interest.

	<u>2006</u>	<u>2005</u>
Current:		
NCAEC	\$ 329	\$ 355
TEMA	413	229
TSE	592	353
EMCT	2	3
CECSIF	6	6
	<u>1,342</u>	<u>946</u>
Noncurrent – TSE	<u>8,605</u>	<u>8,605</u>
	<u>\$9,947</u>	<u>\$9,551</u>

The Company has designated \$27,000,000 for loans to members for economic development. At December 31, 2006 and 2005, outstanding loans totaling \$4,366,000 and \$5,923,000, respectively, have been included in accounts receivable and noncurrent receivables in the accompanying balance sheets. Economic development loans do not bear interest and have repayment terms of up to seven years with an initial payment deferral of up to four years available under certain circumstances. The contractual maturities of the economic development loans described above are as follows (in thousands):

<u>Years</u>	<u>Amount</u>
2007	\$1,352
2008	1,004
2009	702
2010	510
Thereafter	798
	<u>\$4,366</u>