

**Duke Energy Carolinas, LLC
Duke Energy Indiana, Inc.
Duke Energy Ohio, Inc.
Duke Energy Kentucky, Inc.
KO Transmission Company**

FERC ORDER 717

STANDARDS OF CONDUCT

WRITTEN PROCEDURES

Revised January 5, 2010

THIS PROCEDURE DOES NOT CREATE A CONTRACT OF EMPLOYMENT OR ALTER THE AT WILL NATURE OF ANY EMPLOYEE'S EMPLOYMENT IN ANY WAY.

Introduction

On October 16, 2008, the Federal Energy Regulatory Commission (FERC) issued Order No. 717 which revised the Standards of Conduct rules adopted in Order No. 2004 that apply to interstate natural gas pipelines and electric utilities ("Transmission Providers"). The Standards of Conduct rules govern the relationship between a Transmission Provider's transmission function employees and its marketing function employees. The overall goals of the Standards of Conduct are as follows: (a) a Transmission Provider must treat all transmission customers, affiliated and non-affiliated, on a not unduly discriminatory basis, and must not make or grant any undue preference or advantage to any person or subject any person to any undue prejudice or disadvantage with respect to any transportation of natural gas or transmission of electric energy in interstate commerce, or with respect to the wholesale sale of natural gas or of electric energy in interstate commerce; (b) a Transmission Provider's transmission function employees must function independently from its marketing function employees, except as permitted by the Standard of Conduct rules or FERC order; (c) a Transmission Provider and its employees, contractors, consultants and agents are prohibited from disclosing, or using as a conduit to disclose, non-public transmission function information to the Transmission Provider's marketing function employees; (d) a Transmission Provider must provide equal access to non-public transmission function information to all of its transmission customers, affiliated and non-affiliated, except in the case of confidential customer information or Critical Energy Infrastructure Information.

The following Compliance Procedures are applicable to Transmission Providers of the franchised electric utilities of Duke Energy Corporation (collectively, the Franchised Utilities):

- Duke Energy Carolinas LLC
- Duke Energy Indiana, Inc.
- Duke Energy Ohio, Inc.
- Duke Energy Kentucky, Inc.
- KO Transmission Company

Transmission Function Employee is defined as: an employee, contractor, consultant or agent of a Transmission Provider who actively and personally engages on a day-to-day basis in transmission functions. Transmission Function is defined as: the planning, directing, organizing or carrying out of day-to-day transmission operations, including the granting and denying of transmission service requests.

Marketing Function Employee is defined as: an employee, contractor, consultant or agent of a Transmission Provider or of an affiliate of a Transmission Provider who actively and personally engages on a day-to-day basis in marketing functions. Marketing Function is defined as: (1) in the case of public utilities and their affiliates, the sale for resale in interstate commerce, or the submission of offers to sell in interstate commerce, of electric energy or capacity, demand

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response, virtual transactions, or financial or physical transmission rights, all as subject to an exclusion for bundled retail sales, including sales of electric energy made by providers of the last resort (POLRs) acting in their POLR capacity; and (2) in the case of interstate pipelines and their affiliates, the sale for resale in interstate commerce, or the submission of offers to sell in interstate commerce, natural gas, subject to the following exclusions: (i) bundled retail sales, (ii) incidental purchases or sales of natural gas to operate interstate natural gas pipeline transmission facilities, (iii) sales of natural gas solely from a seller's own gathering or processing facilities, and (iv) sales by an intrastate natural gas pipeline, by a Hinshaw interstate pipeline exempt from the Natural Gas Act, or by a local distribution company making an on-system sale.

. Procedures

1. Written procedures.

1.1. Scope. These Compliance Procedures are designed to ensure compliance with the Standards of Conduct set forth in FERC Order No. 717 and subsequent orders. The Franchised Electric & Gas Compliance Manager (CM) shall ensure that Compliance Procedures are updated as needed, and that the posting of the procedures on the SOC Website is also updated accordingly. Reading the procedures is not a substitute for training for designated employees who are required to complete Standards of Conduct training as described herein. These Compliance Procedures cannot anticipate every situation. Employees should seek guidance from their supervisor, the compliance reporting mailbox at compliancereporting@duke-energy.com, the CM, the Law Department, or the Compliance Officer (CO) when questions arise.

1.2. Distribution. These Compliance Procedures shall be distributed to all transmission function employees, marketing function employees, officers, directors, supervisory employees, and any other employee likely to become privy to transmission function information. The CM shall ensure the Compliance Procedures are distributed annually with annual FERC training. The CM shall ensure that applicable new employees receive the Compliance Procedures. These Compliance Procedures will be posted on the Internet website.

1.3. Training. The CM will identify those employees, contractors, consultants or agents (collectively referred to as "employees") of a Transmission Provider or of an affiliate of a Transmission Provider that are transmission function employees, marketing function employees, officers, directors, supervisory employees, and any other employees likely to become privy to transmission function information. These employees will be required to receive such training annually. The Transmission Provider must provide training to new employees on the standards of conduct in the categories listed above within the first 30 days of their employment.

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1.3.1. Implementation. The CM will coordinate with the appropriate functions of Duke Energy in the implementation of the training programs and procedures and will review and revise existing Standards of Conduct training material as necessary to conform with changes to the Standards of Conduct reflected in Order No. 717 and subsequent orders. Training will normally be provided through computer or web-based training packages, but may on occasion be given via live, classroom sessions or video replays. Upon completion of the training, employees will be required to acknowledge that they have received training regarding the Standards of Conduct and agree to abide by them. Training and acknowledgment records will be maintained electronically in Duke Energy's Human Resources database or in the employees' personnel files.

1.3.2. Ethics & Compliance Program. Duke Energy has an Ethics and Compliance (E&C) program and as a part of this program adopted a Code of Business Ethics (COBE) highlighting the various compliance areas applicable to Duke Energy's business activities including the FERC Standards of Conduct. The E&C program and the COBE are seen as complementary to these Compliance Procedures.

1.4. Responsibility for Compliance.

1.4.1. The Compliance Officer (CO) for FERC Standards of Conduct related activities is Catherine Stempien. The CO is responsible for overseeing implementation of these procedures and enforcing them. She may delegate such roles to others as appropriate. The CM is responsible for implementing, monitoring, and responding to internal employee inquiries.

1.4.2. All employees are responsible for compliance with the Standards of Conduct and these Compliance Procedures.

1.4.3. Obligation to report. Any employee who knows of or suspects noncompliance with or a violation of these procedures or the Standards of Conduct is required to report such noncompliance or violation immediately. Known or suspected violations can be reported to the employee's supervisor, the Law Department, the CM, E&C, CO or Compliancereporting@duke-energy.com.

1.4.4. Prohibition against retaliation. Retaliation against an employee for raising concerns with management or regulatory agencies is considered harassment. Duke Energy will not tolerate harassment of any kind in the workplace, and forbids retaliation against any employee who has brought concerns to management or to regulatory agencies such as the FERC, Nuclear Regulatory Commission, Equal Employment Opportunity Commission, or Occupational Safety & Health Administration or has participated in the investigation or resolution of a harassment situation.

1.4.5. Consequences for violating Compliance Procedures. Violations of the Standards of Conduct can have serious consequences for Duke Energy. Therefore,

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employees who violate the Compliance Procedures or the Standards of Conduct may be subject to disciplinary action up to and including discharge.

2. Independent Functioning of Transmission Function Employees and Marketing Function Employees

2.1. The transmission function employees must function independently of the marketing function employees.

2.2. General Rule. Except as permitted in this part or otherwise permitted by FERC order, a Transmission Provider's transmission function employees must function independently of its marketing function employees. A Transmission Provider is prohibited from permitting its marketing function employees to conduct transmission functions or have access to the system control center or similar facilities used for transmission operations that differ in any way from the access available to other transmission customers. A Transmission Provider is prohibited from permitting its transmission function employees to conduct marketing functions.

Whether an employee is considered a Transmission Function Employee or a Market Function Employee depends on that employee's day-to-day responsibilities, and must be determined by the Law Department. Currently, examples of employees in Marketing Functions include those employees in Portfolio Optimization, and Commercial Asset Management, as well as some Duke Energy Generation Services areas. Transmission Function Employees are generally located in System Operations. Managers within Duke Energy Corporation or any of its Marketing Affiliates must notify the CM prior to any reorganization of a department or business unit that could impact classifications of employees.

Information Required to be posted on Internet Website

3. Marketing Affiliates. The names and addresses of all affiliates that employ or retain marketing function employees shall be posted on the Internet website. A complete list of Duke Energy's Marketing Affiliates is available at the Duke Energy SOC FERC Standards of Conduct website at www.Ferc.Duke-Energy.com (SOC Website).

4. Identification of Employee Information. The job titles and job descriptions of transmission function employees shall be posted on the Internet website.

5. Shared Facilities.

5.1. The Transmission Provider must post on its Internet Website a complete list of the employee-staffed facilities shared by any of the Transmission Provider's transmission function employees and marketing function employees. The list must include the types of facilities shared and the addresses of the facilities.

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5.2. Restrictions on work area access. All Duke Energy employees must comply with established procedures regarding restrictions on access to work areas.

5.2.1. Marketing function employees shall not be permitted to enter any secured Transmission Provider area absent special circumstances which shall be reviewed by Corporate Compliance or the Law Department and unless escorted.

5.2.2. Access to certain areas where marketing function employees work and to certain Transmission Function work areas, is restricted via electronic access system. Logs will be used as appropriate to record escorted visitor access into these work areas.

6. Transfers

6.1. Transfers A Transmission Provider must post notice on its Internet website of any transfer of a transmission function employee to a position as a marketing function employee, or any transfer of a marketing function employee to a position as a transmission function employee. The information must be posted within 7 days of the effective date and must remain on the Internet website for 90 days. No such job transfer may be used to circumvent any provision of this part. The information posted must include: the name of the transferring employee, the respective job titles held while performing each function (i.e., as a transmission function employee and as a marketing function employee), and the effective date of the transfer.

6.2. Conditions on transfers (Transmission to Marketing or Marketing to Transmission)

6.2.1. Employee transfers between the transmission function and a Marketing Affiliate are tracked and monitored by Compliance via an automated tool within the Human Resource transfer process.

6.2.2. Corporate Compliance works with Human Resources and the managers of the transferring employee to ensure that changes are made to physical and system access and that all compliance procedures are followed.

6.2.3. IT Security, as directed by Corporate Compliance, shall terminate all existing access to databases and applications for the transferring employee as of the effective date of the transfer and will confirm completion of this action with Corporate Compliance.

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6.2.4. Security Services, as directed by Corporate Compliance, shall remove all facility access for the transferring employee on the effective date of transfer and confirm completion of this action with Corporate Compliance. It is the responsibility of the employee's new manager to submit a facilities access request to establish new physical access to areas associated with the employee's new position.

6.2.5. Transfer of Information. The sending manager will review with the transferring employee all Transmission, Customer, or Market Information (paper or electronic) in the possession of the employee. Any such information must be left in the custody of the sending manager of the transferring employee until it is evaluated by the CM. Additionally, if necessary, the CM may recommend that the duties of the transferring employee be restricted to avoid the potential for noncompliance with the Standards of Conduct.

6.2.6. If the transferring employee has not completed Standards of Conduct training, he or she must take the training course within 30 days of the effective date of the transfer.

6.2.7. Under no circumstances may the transferring employee be a conduit of Transmission, Market or Customer Information between the Transmission Providers and Marketing Affiliates.

6.3. Subsequent Transfers: The following subsequent transfers may not occur without the prior review of the CM or Legal if the subsequent transfer occurs within one year of the previous transfer and the employee is in a transmission function or marketing function at either or both positions.

- transferring from the Transmission Provider to a Marketing Affiliate and a subsequent transfer back to the Transmission Provider
- transferring from a Marketing Affiliate to a Transmission Provider and a subsequent transfer back to a Marketing Affiliate

Cycling of employees that would have the effect of improper sharing of such employee between a Marketing Affiliate and a Transmission Provider shall be prohibited.

7. Voluntary Consent Provision. A transmission customer may voluntarily consent, in writing, to allow the Transmission Provider to disclose the transmission customer's non-public information to the Transmission Provider's marketing function employees. If the transmission customer authorizes the Transmission Provider to disclose its information to marketing function employees, the Transmission Provider must post notice on its Internet website of that consent along with a statement that it did not provide any preferences, either operational or rate-related, in exchange for that voluntary consent. The consent must be reviewed by Legal to ensure it is adequate.

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8. Potential Merger Partners. The Transmission Provider must post information concerning potential merger partners as affiliates that may employ or retain marketing function employees. Mergers include the acquisition of other companies.

All postings listed above must be made within seven (7) business days of the change, and the date on which the information was updated must be posted.

9. Inadvertent Disclosure.

9.1. If a Transmission Provider discloses non-public transmission function information, in a manner contrary to these procedures, the Transmission Provider must immediately post the information that was disclosed on its Internet website. Legal should review any such information prior to the posting.

9.2. If a Transmission Provider discloses, in a manner contrary to the requirements of these procedures, non-public transmission customer information or critical energy infrastructure information (CEII), or any other information that the FERC by law has determined is to be subject to limited dissemination, the Transmission Provider must immediately post notice on its Internet website that the information was disclosed. However, the Transmission Provider should not post the actual information that was disclosed.

10. Posting of Waivers. A Transmission Provider must post on its Internet website notice of each waiver of a tariff provision that it grants in favor of an affiliate, unless such waiver has been approved by the FERC. The posting must be made within one (1) business day of the act of a waiver. The Transmission Provider must also maintain a log of the acts of waiver, and must make it available to the FERC upon request. The records must be kept for a period of five (5) years from the date of each act of waiver.

11. Emergency Situations and Postings. In the event an emergency, such as an earthquake, flood, fire or hurricane severely disrupts a Transmission Provider's normal business operations, the posting requirements in this part may be suspended by the Transmission Provider. If the disruption lasts longer than one month, the Transmission Provider must so notify the FERC and may seek a further exemption from the posting requirement.

12. Exclusion from Postings.

12.1. Exclusion for specific transaction information. A Transmission Provider's transmission function employee may discuss with its marketing function employee a specific request for transmission service submitted by the marketing function employee. The Transmission Provider is not required to contemporaneously disclose if the information relates solely to a marketing function employee's specific request for transmission service.

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12.2. Exclusion for and recordation of certain information exchanges. A Transmission Provider's transmission function employees and marketing function employees may exchange certain non-public transmission function information, as described below, in which case the Transmission Provider must make and retain a contemporaneous record of all such exchanges except in emergency circumstances, in which case a record must be made of the exchange as soon as practicable after the fact. The Transmission Provider shall make the record available to the FERC upon request. The record may consist of hand-written or typed notes, electronic records such as e-mails and text messages, recorded telephone exchanges, and the like, and must be retained for a period of five years.

The non-public information subject to the exclusion is as follows:

(i) Information pertaining to compliance with Reliability Standards approved by the FERC, and

(ii) Information necessary to maintain or restore operation of the transmission system or generating units, or that may affect the dispatch of generating units.

Legal must be notified prior to making any such communication, unless an emergency situation exists. If there is an emergency, Legal should be notified as soon as possible.

13. *Separate Books and Records.* The Transmission Providers shall ensure that their books and records are kept separately from the books and records of all Marketing Affiliates.

14. Information Access and Prohibited Disclosure

14.1. Information Sharing Strictly Prohibited.

14.1.1. No Conduit Rule. (a) A Transmission Provider is prohibited from using anyone as a conduit for the disclosure of non-public transmission function information to its marketing function employees; (b) an employee, contractor, consultant or agent of a Transmission Provider, and an employee, contractor, consultant or agent of an affiliate of a Transmission Provider that is engaged in marketing functions, is prohibited from disclosing non-public transmission function information to any of the Transmission Provider's marketing function employees.

14.2. Information Security (General)

14.2.1. Network Server and Mainframe. Network servers and mainframes containing Transmission Information are segregated via controlled access.

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14.2.2. IT Personnel. Transmission Provider personnel and/or certain shared function personnel may have responsibilities for the Transmission Providers of IT security, system and server/application administration, and hardware and workstation support. Some of these personnel may also have similar responsibilities for other business units. All such employees receive Standards of Conduct training to ensure that they do not act as improper conduits of information between the Transmission Providers and the Marketing Affiliates.

14.2.3. Authorization.

14.2.3.1. Access to applications or data is granted only by the security administration group (or, in the case of OASIS, the OASIS Service Administrator), and only after the appropriate approvals are obtained.

14.2.3.2. The security administration group terminates access to applications or data upon a Transmission Provider employee's termination or transfer.

14.2.3.3. Employees transferring into or out of Transmission functions, in some cases, may require a new Local Area Network (LAN) ID.

14.2.4. Passwords. IDs and passwords must comply with the information security requirements stated in the Duke Energy information security policy posted on the Duke Energy Employee Portal.

14.3. Information Security (Transmission Function Applications).

14.3.1. Definition. A Transmission Function Application is any application that allows access to Transmission Information or Transmission Customer Information.

14.3.2. Marketing Function Employee Access Prohibited. A Marketing function employee is not allowed access to any Transmission Function application.

14.3.3. Exception. Marketing function employees must have the same access to OASIS as non-affiliated customers of the Transmission Providers via OASIS through [Duke Energy OASIS](#) or the SOC Website, and may only see information that is accessible to all other customers. Additionally, Marketing function employees may see Customer Information for which the customer has given consent.

14.3.4. Functions restricted. The security administration group (or OASIS Service Administrator, as appropriate) shall restrict user access to only that information which the particular user is entitled.

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15. Implementing tariffs

A Transmission Provider must strictly enforce all tariff provisions relating to the sale or purchase of open access transmission service, if the tariff provisions do not permit the use of discretion.

A Transmission Provider must apply all tariff provisions relating to the sale or purchase of open access transmission service in a fair and impartial manner that treats all transmission customers in a not unduly discriminatory manner, if the tariff provisions permit the use of discretion.

A Transmission Provider may not, through its tariffs or otherwise, give undue preference to any person in matters relating to the sale or purchase of transmission service (including, but not limited to, issues or price, curtailments, scheduling priority, ancillary services, or balancing).

A Transmission Provider must process all similar requests for transmission in the same manner and within the same period of time.