CAROLINA POWER & LIGHT CO
Form 10-K
March 01, 2013

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS

PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1943

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal period ended December 31, 2012 or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Exact name of registrants as specified in their charters, addresses of principal executive offices, telephone numbers and states of incorporation	**IRS Em Identifica**
DUKE ENERGY CORPORATION **550 South Tryon Street** **Charlotte, NC 28202-1803**	**20-277**

704-382-3853

State of Incorporation: Delaware

28 **DUKE ENERGY CAROLINAS, LLC** **56-020**

526 South Church Street

Charlotte, NC 28202-1803

704-382-3853

State of Incorporation: North Carolina

29 **PROGRESS ENERGY, INC.** **56-215**

410 South Wilmington Street

Raleigh, North Carolina 27601-1748

704-382-3853

State of Incorporation: North Carolina

32 **CAROLINA POWER & LIGHT COMPANY** **56-016**

d/b/a PROGRESS ENERGY CAROLINAS, INC.

410 South Wilmington Street

Raleigh, North Carolina 27601-1748

704-382-3853

State of Incorporation: North Carolina

74 **FLORIDA POWER CORPORATION** **59-024**

d/b/a PROGRESS ENERGY FLORIDA, INC.

299 First Avenue North

St. Petersburg, Florida 33701

704-382-3853

State of Incorporation: Florida

32 **DUKE ENERGY OHIO, INC.** **31-024**

139 East Fourth Street

Cincinnati, OH 45202

704-382-3853

State of Incorporation: Ohio

43 **DUKE ENERGY INDIANA, INC.** **35-059**

1000 East Main Street

Plainfield, IN 46168

704-382-3853

State of Incorporation: Indiana

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

Registrant	Title of each class	Name of each exchange on which registered
Duke Energy Corporation (Duke Energy)	Common Stock, $0.001 par value	New York Stock Exchange, Inc.
Duke Energy	5.125% Junior Subordinated Debentures due January 15, 2073	New York Stock Exchange, Inc.
Duke Energy Carolinas, LLC (Duke Energy Carolinas)	All of the registrant's limited liability company member interests are directly owned by Duke Energy.	
Progress Energy, Inc. (Progress Energy)	All of the registrant's common stock is directly owned by Duke Energy.	
Progress Energy Carolinas, Inc. (Progress Energy Carolinas)	All of the registrant's common stock is indirectly owned by Duke Energy.	
Progress Energy Florida, Inc. (Progress Energy Florida)	All of the registrant's common stock is indirectly owned by Duke Energy.	
Duke Energy Ohio, Inc. (Duke Energy Ohio)	All of the registrant's common stock is indirectly owned by Duke Energy.	
Duke Energy Indiana, Inc. (Duke Energy Indiana)	All of the registrant's common stock is indirectly owned by Duke Energy.	

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:

Registrant	Name of each exchange on which registered
Duke Energy	None
Duke Energy Carolinas	None
Progress Energy	None
Progress Energy Carolinas	$5 Preferred Stock, No Par Value; Serial Preferred stock, No Par Value
Progress Energy Florida	None
Duke Energy Ohio	None
Duke Energy Indiana	None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Duke Energy	Yes x	No ¨	Progress Energy Florida	Yes x	No ¨
Duke Energy Carolinas	Yes x	No ¨	Duke Energy Ohio	Yes ¨	No x
Progress Energy	Yes ¨	No x	Duke Energy Indiana	Yes ¨	No x
Progress Energy Carolinas	Yes x	No ¨			

Indicate by check mark if the registrant is not required to file reports to pursuant to Section 13 or Section 15(d) of the Exchange Act.

Duke Energy	Yes ¨	No x	Progress Energy Florida	Yes ¨	No x
Duke Energy Carolinas	Yes ¨	No x	Duke Energy Ohio	Yes ¨	No x
Progress Energy	Yes ¨	No x	Duke Energy Indiana	Yes ¨	No x
Progress Energy Carolinas	Yes ¨	No x			

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for

the past 90 days.

Duke Energy	Yes x	No ¨	Progress Energy Florida	Yes x	No ¨
Duke Energy Carolinas	Yes x	No ¨	Duke Energy Ohio	Yes x	No ¨
Progress Energy	Yes x	No ¨	Duke Energy Indiana	Yes x	No ¨
Progress Energy Carolinas	Yes x	No ¨			

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Duke Energy	Yes x	No ¨	Progress Energy Florida	Yes x	No ¨
Duke Energy Carolinas	Yes x	No ¨	Duke Energy Ohio	Yes x	No ¨
Progress Energy	Yes x	No ¨	Duke Energy Indiana	Yes x	No ¨
Progress Energy Carolinas	Yes x	No ¨			

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Duke Energy	Yes ¨	No x	Progress Energy Florida	Yes x	No ¨
Duke Energy Carolinas	Yes x	No ¨	Duke Energy Ohio	Yes x	No ¨
Progress Energy	Yes x	No ¨	Duke Energy Indiana	Yes x	No ¨
Progress Energy Carolinas	Yes x	No ¨			

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Duke Energy	Large accelerated filer x	Accelerated filer ¨	Non-accelerated filer ¨	Smaller reporting company ¨
Duke Energy Carolinas	Large accelerated filer ¨	Accelerated filer ¨	Non-accelerated filer x	Smaller reporting company ¨
Progress Energy	Large accelerated filer x	Accelerated filer ¨	Non-accelerated filer ¨	Smaller reporting company ¨
Progress Energy Carolinas	Large accelerated filer ¨	Accelerated filer ¨	Non-accelerated filer x	Smaller reporting company ¨
Progress Energy Florida	Large accelerated filer ¨	Accelerated filer ¨	Non-accelerated filer x	Smaller reporting company ¨
Duke Energy Ohio	Large accelerated filer ¨	Accelerated filer ¨	Non-accelerated filer x	Smaller reporting company ¨
Duke Energy Indiana	Large accelerated filer ¨	Accelerated filer ¨	Non-accelerated filer x	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Duke Energy	Yes ¨	No x	Progress Energy Florida	Yes ¨	No x
Duke Energy Carolinas	Yes ¨	No x	Duke Energy Ohio	Yes ¨	No x
Progress Energy	Yes ¨	No x	Duke Energy Indiana	Yes ¨	No x
Progress Energy Carolinas	Yes ¨	No x			

Estimated aggregate market value of the common equity held by nonaffiliates of Duke Energy Corporation at June 30, 2012.	30,788,000,000
Number of shares of Common Stock, $0.001 par value, outstanding at February 25, 2013.	704,653,826

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Duke Energy definitive proxy statement for the 2013 Annual Meeting of the Shareholders or an amendment to this Annual Report are incorporated by reference into PART III, Items 10, 11, 12, 13, and 14 hereof.

This combined Form 10-K is filed separately by seven registrants: Duke Energy, Duke Energy Carolinas, Progress Energy, Progress Energy Carolinas, Progress Energy Florida, Duke Energy Ohio and Duke Energy Indiana (collectively the Duke Energy Registrants). Information contained herein relating to any individual registrant is filed by such registrant solely on its own behalf. Each registrant makes no representation as to information relating exclusively to the other registrants.

Duke Energy Carolinas, Progress Energy, Progress Energy Carolinas, Progress Energy Florida, Duke Energy Ohio and Duke Energy Indiana meet the conditions set forth in General Instructions I(1)(a) and (b) of Form 10-K and are therefore filing this form with the reduced disclosure format specified in General Instructions I(2) of Form 10-K.

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PROGRESS ENERGY, INC. (PROGRESS ENERGY)			
CAROLINA POWER & LIGHT COMPANY d/b/a PROGRESS ENERGY CAROLINAS, INC. (PROGRESS ENERGY CAROLINAS)			
FLORIDA POWER CORPORATION d/b/a PROGRESS ENERGY FLORIDA, INC (PROGRESS ENERGY FLORIDA)			
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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This document includes 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. Forward-looking statements are based on management's beliefs and assumptions. These forward-looking statements, which are intended to cover Duke Energy and the applicable Duke Energy Registrants, are identified by terms and phrases such as "anticipate," "believe," "intend," "estimate," "expect," "continue," "should," "could," "may," "plan," "project," "predict," "potential," "forecast," "target," "guidance," "outlook," and similar expressions. Forward-looking statements involve risks and uncertainties that may cause actual results to be materially different from the results predicted. Factors that could cause actual results to differ materially from those indicated in any forward-looking statement include, but are not limited to:

- State, federal and foreign legislative and regulatory initiatives, including costs of compliance with existing and future environmental requirements, as well as rulings that affect cost and investment recovery or have an impact on rate structures;

- The ability to recover eligible costs and earn an adequate return on investment through the regulatory process;

- The costs of retiring Progress Energy Florida's Crystal River Unit 3 could prove to be more extensive than is currently identified. All costs associated with the retirement Crystal River Unit 3 asset, including replacement power may not be fully recoverable through the regulatory process;

- The ability to maintain relationships with customers, employees or suppliers post-merger;

- The ability to successfully integrate the Progress Energy businesses and realize cost savings and any other synergies expected from the merger;

- The risk that the credit ratings of the combined company or its subsidiaries may be different from what the companies expect;

- The impact of compliance with material restrictions or conditions related to the Progress Energy merger imposed by regulators could exceed our expectations;

- Costs and effects of legal and administrative proceedings, settlements, investigations and claims;

- Industrial, commercial and residential growth or decline in the respective Duke Energy Registrants' service territories, customer base or customer usage patterns;

- Additional competition in electric markets and continued industry consolidation;

- Political and regulatory uncertainty in other countries in which Duke Energy conducts business;

- The influence of weather and other natural phenomena on each of the Duke Energy Registrants' operations, including the economic, operational and other effects of storms, hurricanes, droughts and tornadoes;

- The ability to successfully operate electric generating facilities and deliver electricity to customers;

- The ability to recover, in a timely manner, if at all, costs associated with future significant weather events through the regulatory process;

- The impact on the Duke Energy Registrants' facilities and business from a terrorist attack, cyber security threats and other catastrophic events;

- The inherent risks associated with the operation and potential construction of nuclear facilities, including environmental, health, safety, regulatory and financial risks;

- The timing and extent of changes in commodity prices, interest rates and foreign currency exchange rates and the ability to recover such costs through the regulatory process, where appropriate;

- Unscheduled generation outages, unusual maintenance or repairs and electric transmission system constraints;

- The performance of electric generation facilities and of projects undertaken by Duke Energy's nonregulated businesses;

- The results of financing efforts, including the Duke Energy Registrants' ability to obtain financing on favorable terms, which can be affected by various factors, including the respective Duke Energy Registrants' 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 and nuclear decommissioning trust funds;

- The level of creditworthiness of counterparties to Duke Energy Registrants' transactions;

- Employee workforce factors, including the potential inability to attract and retain key personnel;

- Growth in opportunities for the respective Duke Energy Registrants' business units, including the timing and success of efforts to develop domestic and international power and other projects;

- Construction and development risks associated with the completion of Duke Energy Registrants' capital investment projects in existing and new generation facilities, including risks related to financing, obtaining and complying with terms of permits, meeting construction budgets and schedules, and satisfying operating and environmental performance standards, as well as the ability to recover costs from ratepayers in a timely manner or at all;

- The Subsidiary Registrants ability to pay dividends or distributions to Duke Energy Corporation holding company (the Parent);

- The effect of accounting pronouncements issued periodically by accounting standard-setting bodies;

- The impact of potential goodwill impairments;

- The ability to reinvest retained earnings of foreign subsidiaries or repatriate such earnings on a tax free basis; and

- The ability to successfully complete future merger, acquisition or divestiture plans.

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. The Duke Energy Registrants undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Glossary of Terms

The following terms or acronyms used in this Form 10-K are defined below:

Term or Acronym	Definition
the 2006 Plan	Duke Energy's 2006 Long-Term Incentive Plan
2010 Tax Relief Act	Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010
the 2010 Plan	Duke Energy's 2010 Long-Term Incentive Plan
ADEA	Age Discrimination in Employment Act
AFUDC	Allowance for Funds Used During Construction
Aguaytia	Aguaytia Integrated Energy Project
ANEEL	Brazilian Electricity Regulatory Agency
AOCI	Accumulated Other Comprehensive Income
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
ATRA	American Taxpayer Relief Act of 2012
Attiki	Attiki Gas Supply S.A.
BCA	Budget Control Act of 2011
Bison	Bison Insurance Company Limited
BPM	Bulk Power Marketing
Brunswick	Brunswick Nuclear Station
CAA	Clean Air Act
CAC	Citizens Action Coalition of Indiana, Inc.

CAIR	Clean Air Interstate Rule
Catamount	Catamount Energy Corporation
Catawba	Catawba Nuclear Station
CC	Combined Cycle
CCR	Coal Combustion Residuals
CCS	Carbon Capture and Storage
CG&E	The Cincinnati Gas & Electric Company
CRC	Cinergy Receivables Company, LLC
Cliffside Unit 6	Unit 6 of the Cliffside Facility in North Carolina
CT	Combustion Turbine
Cinergy	Cinergy Corp. (collectively with its subsidiaries)
CO_2	Carbon Dioxide
COL	Combined Construction and Operating License
CPCN	Certificate of Public Convenience and Necessity
CRES	Competitive Retail Electric Supplier
Crescent	Crescent Joint Venture (JV)
Crystal River Unit 3	Crystal River Nuclear Station – Unit 3
CSAPR	Cross-State Air Pollution Rule
CVO	Progress Energy’s contingent value obligation
CWIP	Construction Work in Progress
DAQ	Division of Air Quality
DB	Defined Benefit (Pension Plan)
DECAM	Duke Energy Commercial Asset Management
DEGS	Duke Energy Generation Services, Inc.
DEI	Duke Energy International, LLC
DEIGP	Duke Energy International Geracao Paranapenema S.A.

DENR.....	Department of Environment and Natural Resources
DERF.....	Duke Energy Receivables Finance Company, LLC
Duke Energy Retail.....	Duke Energy Retail Sales, LLC
DETM.....	Duke Energy Trading and Marketing, LLC
DOE.....	U.S. Department of Energy
DOJ.....	U.S. Department of Justice
DRIP.....	Dividend Reinvestment Plan
DSM.....	Demand Side Management
Duke Energy.....	Duke Energy Corporation (collectively with its subsidiaries)
Duke Energy Carolinas.....	Duke Energy Carolinas, LLC
Duke Energy Indiana.....	Duke Energy Indiana, Inc.
Duke Energy Kentucky.....	Duke Energy Kentucky, Inc.
Duke Energy Ohio.....	Duke Energy Ohio, Inc.
Duke Energy Registrants.....	Duke Energy, Duke Energy Carolinas, Progress Energy, Progress Energy Carolinas, Progress Energy Florida, Duke Energy Ohio, and Duke Energy Indiana
DukeNet.....	DukeNet Communications, LLC
DukeSolutions.....	DukeSolutions, Inc.
EIP.....	Progress Energy’s Equity Incentive Plan
EPA.....	U.S. Environmental Protection Agency
EPC.....	Engineering, Procurement and Construction
EPS.....	Earnings Per Share
ERISA.....	Employee Retirement Income Security Act
ESP.....	Electric Security Plan
ETR.....	Effective tax rate
FASB.....	Financial Accounting Standards Board

FCC	Federal Communications Commission
FERC	Federal Energy Regulatory Commission
FDEP	Florida Department of Environmental Protection
Florida Progress	Florida Progress Corporation
FPSC	Florida Public Service Commission
Funding Corp	Florida Progress Funding Corporation
GAAP	Generally Accepted Accounting Principles in the United States
GHG	Greenhouse Gas
Global	U.S. Global, LLC
GWh	Gigawatt-hours
HAP	Hazardous Air Pollutant
Harris	Shearon Harris Nuclear Station
IAP	State Environmental Agency of Parana
IBAMA	Brazil Institute of Environment and Renewable Natural Resources
IBNR	Incurred but not yet reported
IFRS	International Financial Reporting Standards
IGCC	Integrated Gasification Combined Cycle
IMPA	Indiana Municipal Power Agency
IRS	Internal Revenue Service
ITC	Investment Tax Credit
IURC	Indiana Utility Regulatory Commission
KPSC	Kentucky Public Service Commission
kV	Kilovolt
kWh	Kilowatt-hour
Levy	

	Progress Energy Florida's proposed nuclear plant in Levy County, Fla.
Legacy Duke Directors.....	Members of the pre-merger Duke Energy board of directors
LIBOR.....	London Interbank Offered Rate
MATS.....	Mercury and Air Toxics Standards (previously referred to as the Utility MACT Rule)
Mcf.....	Thousand cubic feet
McGuire.....	McGuire Nuclear Station
Merger Agreement.....	Agreement and Plan of Merger with Progress Energy, Inc.
Merger Sub.....	Diamond Acquisition Corporation
MGP.....	Manufactured gas plant
Midwest ISO.....	Midwest Independent Transmission System Operator, Inc.
MMBtu.....	Million British Thermal Unit
Moody's.....	Moody's Investor Services
MRO.....	Market Rate Offer
MTBE.....	Methyl tertiary butyl ether
MW.....	Megawatt
MVP.....	Multi Value Projects
MWh.....	Megawatt-hour
NCUC.....	North Carolina Utilities Commission
NDTF.....	Nuclear decommissioning trust funds
NEIL.....	Nuclear Electric Insurance Limited
NMC.....	National Methanol Company
NOL.....	Net operating loss
NO_x.....	Nitrogen oxide
Non-GHG.....	Non Greenhouse Gas
NPNS.....	Normal purchase/normal sale

NRC.....	U.S. Nuclear Regulatory Commission
NSPS.....	New Source Performance Standard
NSR.....	New Source Review
OCI.....	Other comprehensive income
Oconee.....	Oconee Nuclear Station
Ohio T&D.....	Ohio Transmission and Distribution
ORS.....	South Carolina Office of Regulatory Staff
OUCC.....	Indiana Office of Utility Consumer Counselor
OVEC.....	Ohio Valley Electric Corporation
PJM.....	PJM Interconnection, LLC
Preferred Securities.....	7.10% Cumulative Quarterly Income Preferred Securities due 2039, Series A issued by FPC Capital I
Preferred Securities Guarantee	Florida Progress' guarantee of all distributions related to the Preferred Securities
Progress Energy.....	Progress Energy, Inc.
Progress Energy Carolinas...	Carolina Power & Light Company d/b/a Progress Energy Carolinas, Inc.
Progress Energy Florida.....	Florida Power Corporation d/b/a Progress Energy Florida
Progress Energy Registrants	Progress Energy, Progress Energy Carolinas and Progress Energy Florida
Prosperity.....	Prosperity Mine, LLC
PSCSC.....	Public Service Commission of South Carolina
PSD.....	Prevention of Significant Deterioration
PUCO.....	Public Utilities Commission of Ohio
Q-Comm.....	Q-Comm Corporation
QF.....	Qualified Facilities
QSPE.....	Qualifying Special Purpose Entity

Relative TSR	TSR of Duke Energy stock relative to a pre-defined peer group
REPS	Renewable Energy and Energy Efficiency Portfolio Standard
Robinson	Robinson Nuclear Station
RSP	Rate Stabilization Plan
RTO	Regional Transmission Organization
Saluda	Saluda River Electric Cooperative, Inc.'s
SB 3	North Carolina General Assembly Senate Bill 3
SB 221	Ohio Senate Bill 221
SCEUC	South Carolina Energy Users Committee
SEC	Securities and Exchange Commission
Segment Income	Income from continuing operations net of income attributable to noncontrolling interests
SHGP	South Houston Green Power, L.P.
SO_2	Sulfur dioxide
Spectra Energy	Spectra Energy Corp.
Spectra Capital	Spectra Energy Capital, LLC (formerly Duke Capital LLC)
S&P	Standard & Poor's
SSO	Standard Service Offer
Stimulus Bill	The American Recovery and Reinvestment Act of 2009
Subordinated Notes	7.10% Junior Subordinated Deferrable Interest Notes due 2039 issued by Funding Corp.
Subsidiary Registrants	Duke Energy Carolinas, Progress Energy, Progress Energy Carolinas, Progress Energy Florida, Duke Energy Ohio and Duke Energy Indiana
TSR	Total shareholder return
U.S.	United States
USFE&G	U.S. Franchised Electric and Gas
Vectren	Vectren Energy Delivery of Indiana

Vermillion.....	Vermillion Generating Station
VIE.....	Variable Interest Entity
VSP.....	Voluntary Severance Program
WACC.....	Weighted Average Cost of Capital
Windstream.....	Windstream Corp.
WVPA.....	Wabash Valley Power Association, Inc.

ITEM 1. BUSINESS

DUKE ENERGY

General. Duke Energy Corporation (collectively with its subsidiaries, Duke Energy) is an energy company headquartered in Charlotte, North Carolina. Duke Energy operates in the U.S. primarily through its direct and indirect wholly owned subsidiaries, Duke Energy Carolinas, LLC (Duke Energy Carolinas), Carolina Power & Light Company d/b/a Progress Energy Carolinas, Inc. (Progress Energy Carolinas), Florida Power Corporation d/b/a Progress Energy Florida, Inc. (Progress Energy Florida), Duke Energy Ohio, Inc. (Duke Energy Ohio), and Duke Energy Indiana, Inc. (Duke Energy Indiana), as well as in Latin America through Duke Energy International, LLC (DEI). When discussing Duke Energy's consolidated financial information, it necessarily includes the results of its six separate subsidiary registrants, Duke Energy Carolinas, Progress Energy, Inc. (Progress Energy), Progress Energy Carolinas, Progress Energy Florida, Duke Energy Ohio, and Duke Energy Indiana (collectively referred to as the Subsidiary Registrants), which, along with Duke Energy, are collectively referred to as the Duke Energy Registrants. The financial information for Progress Energy, Progress Energy Carolinas and Progress Energy Florida includes results after July 2, 2012.

Duke Energy is a Delaware corporation. Its principal executive offices are located at 550 South Tryon Street, Charlotte, North Carolina 28202-1803. Duke Energy Carolinas is a North Carolina limited liability company. Its principal executive offices are located at 526 South Church Street, Charlotte, North Carolina 28202-1803. Progress Energy and Progress Energy Carolinas are North Carolina corporations. Their principal executive offices are located at 410 South Wilmington Street, Raleigh, North Carolina 27601-1748. Progress Energy Florida is a Florida corporation. Its principal executive offices are located at 299 First Avenue North, St. Petersburg, Florida 33701. Duke Energy Ohio is an Ohio corporation. Its principal executive offices are located at 139 East Fourth Street, Cincinnati, Ohio 45202. Duke Energy Indiana is an Indiana corporation. Its principal executive offices are located at 1000 East Main Street, Plainfield, Indiana 46168.

The telephone number for the Duke Energy Registrants is 704-382-3853. The Duke Energy Registrants electronically file reports with the Securities and Exchange Commission (SEC), including annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxies and amendments to such reports.

The public may read and copy any materials that the Duke Energy Registrants file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at http://www.sec.gov. Additionally, information about the Duke Energy Registrants, including its reports filed with the SEC, is available through Duke Energy's website at http://www.duke-energy.com. Such reports are accessible at no charge through Duke Energy's website and are made available as soon as reasonably practicable after such material is filed with or furnished to the SEC.

Merger with Progress Energy. On July 2, 2012, Duke Energy completed the merger contemplated by the Agreement and Plan of Merger (Merger Agreement), among Duke Energy, Diamond Acquisition Corporation, a North Carolina corporation and Duke Energy's wholly owned subsidiary (Merger Sub) and Progress Energy, Inc. (Progress Energy), a North Carolina corporation engaged in the regulated utility business of generation, transmission and distribution and sale of electricity in portions of North Carolina, South Carolina and Florida. As a result of the merger, Merger Sub was merged into Progress Energy and Progress Energy became a wholly owned subsidiary of Duke Energy.

The merger between Duke Energy and Progress Energy provides increased scale and diversity with potentially enhanced access to capital over the long term and a greater ability to undertake the significant construction programs necessary to respond to increasing environmental regulation, plant retirements and customer demand growth. Duke Energy's business risk profile is expected to improve over time due to the increased proportion of the business that is regulated. Additionally, cost savings, efficiencies and other benefits are expected from the combined operations.

Immediately preceding the merger, Duke Energy completed a one-for-three reverse stock split with respect to the issued and outstanding shares of Duke Energy common stock. The shareholders of Duke Energy approved the reverse stock split at Duke Energy's special meeting of shareholders held on August 23, 2011. All share and per share amounts presented within the Form 10-K reflect the impact of the one-for-three reverse stock split.

Progress Energy's shareholders received 0.87083 shares of Duke Energy common stock in exchange for each share of Progress Energy common stock outstanding as of July 2, 2012. Generally, all outstanding Progress Energy equity-based compensation awards were converted into Duke Energy equity-based compensation awards using the same ratio. The merger was structured as a tax-free exchange of shares.

For additional information on the details of this transaction including regulatory conditions and accounting implications, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 2 to the Consolidated Financial Statements, "Acquisitions and Dispositions of Businesses and Sales of Other Assets."

Duke Energy Business Segments. Duke Energy conducts its operations in the following business segments, all of which are considered reportable segments under the applicable accounting rules: U.S. Franchised Electric and Gas (USFE&G), Commercial Power and International Energy. The remainder of Duke Energy's operations are presented as Other. Duke Energy's chief operating decision maker regularly reviews financial information about each of these business segments in deciding how to allocate resources and evaluate performance. For additional information on each of these business segments, including financial and geographic information about each reportable business segment, see Note 3 to the Consolidated Financial Statements, "Business Segments."

The following sections describe the business and operations of each of Duke Energy's reportable business segments, as well as Other. (For more information on the operating outlook of Duke Energy and its reportable segments, see "Management's Discussion and Analysis of Financial Condition and Results of Operations, Introduction — Executive Overview and Economic Factors for Duke Energy's Business."

U.S. FRANCHISED ELECTRIC AND GAS

U.S. Franchised Electric and Gas (USFE&G) generates, transmits, distributes and sells electricity in most portions of North Carolina, northern South Carolina, central, north central and southern Indiana, west central Florida, and northern Kentucky. USFE&G also transmits, distributes and sells electricity in southwestern Ohio. Additionally, USFE&G transports and sells natural gas in southwestern Ohio and

northern Kentucky. It conducts operations primarily through Duke Energy Carolinas, Progress Energy Carolinas, Progress Energy Florida, Duke Energy Indiana, and the regulated transmission and distribution operations of Duke Energy Ohio (Duke Energy Indiana and Duke Energy Ohio are collectively referred to as Duke Energy Midwest). These electric and gas operations are subject to the rules and regulations of the Federal Energy Regulatory Commission (FERC), the North Carolina Utilities Commission (NCUC), the Public Service Commission of South Carolina (PSCSC), the Florida Public Service Commission (FPSC), the Public Utilities Commission of Ohio (PUCO), the Indiana Utility Regulatory Commission (IURC), and the Kentucky Public Service Commission (KPSC). The substantial majority of USFE&G's operations are regulated and, accordingly, these operations qualify for regulatory accounting treatment.

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USFE&G supplies electric service to 7.2 million residential, general service and industrial customers. Its service area covers approximately 104,000 square miles with an estimated population of 22 million. USFE&G provides regulated transmission and distribution services for natural gas to 500,000 customers in southwestern Ohio and northern Kentucky. Electricity is also sold wholesale to incorporated municipalities, electric cooperative utilities and other load serving entities.

Duke Energy Carolinas' and Progress Energy Carolinas' service areas share a diversified economy that is driven by service, manufacturing and government related output and jobs. Sales to general service customers, which include both service and government sectors, represent approximately one third of total retail sales and the main segments include health care, education, financial services, information technology and military buildings. Sales to industrial customers represent a little less than one third of total retail sales and key sectors are textiles, chemicals, rubber and plastics, paper, food & beverage and auto manufacturing.

Progress Energy Florida's service area has a strong base of residential customers and lower percentages of general service and industrial customers relative to the other Duke Energy utilities' states. Sales to general service customers, which include both service and government sectors, represent approximately 40% of total retail sales; the largest service segments include tourism, heath care and agriculture. Sales to industrial customers represent only around 10% of total retail sales and main sectors include phosphate rock mining and processing, electronics design and manufacturing, and citrus and other food processing.

Duke Energy Indiana's service area is characterized by a strong presence of manufacturing activity. Sales to industrial customers represent around 40% of total retail volumes; the larger segments within the industrial class include primary metals, transportation equipment, building materials, food & beverage and chemicals. Sales to general service customers represent approximately 30% of total retail and the largest contributors to general service sales include retail, financial, health care and education services.

Duke Energy Ohio's service area has a diversified economy that is driven by primarily by the services sector. The contribution of manufacturing to the regional economy is lower relative to Indiana and the Carolinas' service territories. Sales to general service customers, which include both service and government sectors, represent approximately 40% of total retail sales and the main segments include healthcare, education, real estate and rental leasing, financial & insurance services and wholesale trade services. Sales to industrial customers represent approximately one fourth of total retail sales and key industries are aerospace, primary metals, chemicals and food.

The number of residential, general service and industrial customers within the USFE&G service territory, as well as sales to these customers, is expected to increase over time. However, growth in the near-term is being hampered by the current economic conditions. While total industrial sales increased in 2012 when compared to 2011, the growth rate was modest when compared to historical periods.

Seasonality and the Impact of Weather

USFE&G's costs and revenues are influenced by seasonal patterns. Peak sales of electricity occur during the summer and winter months, resulting in higher revenue and cash flows during those periods. By contrast, fewer sales of electricity occur during the spring and fall, allowing for scheduled plant maintenance during those periods. Peak gas sales occur during the winter months. Residential and general service customers are most impacted by weather. Industrial customers are less weather sensitive. Estimated weather impacts are based on actual current period weather compared to normal weather

conditions, with normal weather conditions defined as the long-term average of actual historical weather conditions.

The estimated impact of weather on earnings is based on the number of customers, temperature variances from a normal condition and customers' historic usage levels and patterns. The methodology used to estimate the impact of weather does not and cannot consider all variables that may impact customer response to weather conditions such as humidity and relative temperature changes. The precision of this estimate may also be impacted by applying long-term weather trends to shorter term periods.

Degree-day data are used to estimate the energy required to maintain comfortable indoor temperatures based on each day's average temperature. Heating-degree days measure the variation in the weather based on the extent to which the average daily temperature falls below a base temperature, and cooling-degree days measure the variation in weather based on the extent to which the average daily temperature rises above the base temperature. Each degree of temperature below the base temperature counts as one heating-degree day and each degree of temperature above the base temperature counts as one cooling-degree day.

Competition

Retail. USFE&G's regulated utility businesses operate as the sole supplier of electricity within their service territories. USFE&G owns and operates all of the businesses and facilities necessary to generate, transmit and distribute electricity. Services are priced by state commission approved rates designed to include the costs of providing these services and a reasonable return on invested capital. This regulatory policy is intended to provide safe and reliable electricity at fair prices. USFE&G's competition in the regulated electric distribution business is primarily from the on-site generation of industrial customers.

USFE&G is not aware of any enacted or proposed legislation in North Carolina, South Carolina, Florida, Kentucky or Indiana that would give its retail customers the right to choose their electricity provider or otherwise restructure or deregulate the electric industry. However, USFE&G competes with suppliers of other forms of energy in connection with their retail customers.

Although there is no pending legislation at this time, if the retail jurisdictions served by USFE&G become subject to deregulation, the recovery of "stranded costs" could become a significant consideration. Stranded costs primarily include the generation assets of USFE&G's regulated utilities whose value in a competitive marketplace would be less than their current book value, as well as above-market purchased power commitments to qualified facilities (QFs). QFs are typically small power production facilities that generate power within a utility company's service territory for which the utility companies are legally obligated to purchase the energy of these facilities at an avoided cost rate. Thus far, all states that have passed restructuring legislation have provided for the opportunity to recover a substantial portion of stranded costs.

USFE&G's largest stranded cost exposure is primarily related to Progress Energy Florida's purchased power commitments with QFs, under which it has future minimum expected capacity payments through 2025 of $3.8 billion. Progress Energy Florida was obligated to enter into these contracts under provisions of the Public Utilities Regulatory Policies Act of 1978. Progress Energy Florida continues to seek ways to address the impact of escalating payments under these contracts. However, the FPSC allows full recovery of the retail portion of the cost of power purchased from QFs. See Note 5 to the Consolidated Financial Statements, "Commitments and Contingencies" for additional information related these purchased power commitments.

Wholesale. USFE&G competes with other utilities and merchant generators for bulk power sales and for sales to municipalities and cooperatives. USFE&G also competes with other utilities and marketers in the

wholesale electric business. The principal factors in competing for wholesale sales are price (including fuel costs), availability of capacity and power and reliability of service. Wholesale electric prices are influenced primarily by market conditions and fuel costs.

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Increased competition in the wholesale electric utility industry and the availability of transmission access could affect USFE&G's load forecasts, plans for power supply and wholesale energy sales and related revenues. Wholesale energy sales will be impacted by the extent to which additional generation is available to sell to the wholesale market and the ability of USFE&G to attract new wholesale customers and to retain current wholesale customers.

Energy Capacity and Resources

USFE&G owns over 50,000 megawatts of generation capacity. For additional information on USFE&G's generation facilities, see "U.S. Franchised Electric and Gas" in Item 2."Properties."

Energy and capacity are also supplied through contracts with other generators and purchased on the open market. Factors that could cause USFE&G to purchase power for its customers include generating plant outages, extreme weather conditions, generation reliability during the summer, growth, and price. USFE&G has interconnections and arrangements with its neighboring utilities to facilitate planning, emergency assistance, sale and purchase of capacity and energy, and reliability of power supply.

USFE&G's generation portfolio is a balanced mix of energy resources having different operating characteristics and fuel sources designed to provide energy at the lowest possible cost to meet its obligation to serve native-load customers. All options, including owned generation resources and purchased power opportunities, are continually evaluated on a real-time basis to select and dispatch the lowest-cost resources available to meet system load requirements.

The vast majority of Duke Energy Carolinas, Progress Energy Carolinas, and Duke Energy Indiana's customer energy needs have historically been met by large, low-energy-production-cost coal-fired and nuclear generating units that operated almost continuously (or at baseload levels). However, recent commodity pricing trends have resulted in more combined cycle gas-fired generation. The vast majority of Progress Energy Florida's customer energy needs have historically been met by large, low-energy-production-cost nuclear, fossil steam and combined cycle gas-fired generation. However, due to the extended outage of the Crystal River Nuclear Station Unit 3 (Crystal River Unit 3) nuclear plant a portion of customer needs have been served with purchased power for the past 3 years.

CT's and CC's are less expensive to build and maintain than either nuclear or coal, and can be rapidly started or stopped as needed to meet changing customer loads or operated as base load units depending on commodity prices. Hydroelectric units produce low-cost energy, but their operations are limited by the availability of water flow.

USFE&G's pumped-storage hydroelectric facilities in the Carolinas offer the added flexibility of using low-cost off-peak energy to pump water that will be stored for later generation use during times of higher-cost on-peak periods. These facilities allow USFE&G to maximize the value spreads between different high- and low-cost generation periods.

Recently Completed Generation Projects. During 2012 and 2011, USFE&G completed construction of and placed into service a total of 3,585 megawatts (MW) of new generation capacity including Cliffside Unit 6 and the Buck, Dan River, Lee and Smith combined cycle natural gas facilities. The total capital cost of this new generation capacity was $4.8 billion.

Generation Projects Currently Under Construction. The following information relates to generation projects currently under construction by USFE&G.

Edwardsport Integrated Gasification Combined Cycle (IGCC)Plant. Duke Energy Indiana has completed the construction and is conducting testing of a 618 MW Integrated Gasification Combined Cycle (IGCC) power plant at its existing Edwardsport Generating Station in Knox County, Indiana.

On December 27, 2012, the IURC approved the settlement agreement finalized in April 2012 between Duke Energy Indiana, the Office of Utility Consumer Counselor (OUCC), the Duke Energy Indiana Industrial Group and Nucor Steel Indiana, on the cost increase for the construction of the Edwardsport IGCC plant. The settlement agreement, as approved, caps costs to be reflected in customer rates at $2.595 billion, including estimated allowance for funds used during construction (AFUDC) through June 30, 2012. Duke Energy Indiana was allowed to recover AFUDC after June 30, 2012 until customer rates are revised, with such recovery decreasing to 85% on AFUDC accrued after November 30, 2012.

Duke Energy Indiana's current cost estimate for the Edwardsport IGCC plant is approximately $3.154 billion, excluding financing costs. Through December 31, 2012, Duke Energy Indiana has recorded total pre-tax impairment and other charges of $897 million related to the Edwardsport IGCC plant. If cost estimates for the plant increase, additional charges to expense, which could be material, could occur. The Edwardsport IGCC plant is expected to be in service by mid-2013. See Note 4 to the Consolidated Financial Statements, "Regulatory Matters" for further information.

L.V. Sutton Combined Cycle Facility. Progress Energy Carolinas is in the process of constructing an approximately 625 MW natural gas-fired generating facility at its existing L.V. Sutton Steam Station (Sutton) in New Hanover County, North Carolina. The Sutton project has an expected in-service date of December 2013. Based on updated cost estimates, total costs (including AFUDC) for the Sutton project is estimated to be approximately $600 million.

Potential New Construction. The following information relates to major generation projects currently being evaluated for construction by USFE&G.

Shearon Harris Nuclear Station Expansion. In 2006, Progress Energy Carolinas selected a site at its existing Shearon Harris Nuclear Station (Harris) to evaluate for possible future nuclear expansion. On February 19, 2008, Progress Energy Carolinas filed its combined Construction and Operating License (COL) application with the Nuclear Regulatory Commission (NRC) for two Westinghouse Electric Advanced Passive (AP) 1000 reactors at Harris, which the NRC docketed on April 17, 2008. No petitions to intervene have been admitted in the Harris COL application.

Levy Nuclear Station. On July 30, 2008, Progress Energy Florida filed its COL application with the NRC for two Westinghouse AP1000 reactors at its proposed Levy Nuclear Station (Levy), which the NRC docketed on October 6, 2008. Various parties filed a joint petition to intervene in the Levy COL application. On October 31, 2012 and November 1, 2012, the Atomic Safety and Licensing Board held an evidentiary hearing on portions of the intervention petitions. A decision is expected in March 2013. In 2008, the FPSC granted Progress Energy Florida's petition for an affirmative Determination of Need and related orders requesting cost recovery under Florida's nuclear cost-recovery rule for Levy, together with the associated facilities, including transmission lines and substation facilities.

On April 30, 2012, as part of its annual nuclear cost recovery filing, Progress Energy Florida updated the Levy project schedule and cost. Due to lower-than-projected customer demand, the lingering economic slowdown, uncertainty regarding potential carbon regulation and current low natural gas prices, Progress Energy Florida has shifted the in-service date for the first Levy unit to 2024, with the second unit following

18 months later. The revised schedule is consistent with the recovery approach included in the 2012 FPSC Settlement Agreement. Although the scope and overnight cost for Levy, including land acquisition, related transmission work and other required investments, remain essentially unchanged, the shift in schedule will increase escalation and carrying costs and raise the total estimated project cost to between $19 billion and $24 billion.

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Along with the FPSC's annual prudence reviews, Progress Energy Florida will continue to evaluate the project on an ongoing basis based on certain criteria, including, but not limited to, cost; potential carbon regulation; fossil fuel prices; the benefits of fuel diversification; public, regulatory and political support; adequate financial cost-recovery mechanisms; appropriate levels of joint owner participation; customer rate impacts; project feasibility; demand side management (DSM) and energy efficiency (EE) programs; and availability and terms of capital financing. Taking into account these criteria, Levy is considered to be Progress Energy Florida's preferred baseload generation option.

Under the terms of the 2012 FSPC Settlement Agreement, Progress Energy Florida began residential cost-recovery of its proposed Levy Nuclear Station effective in the first billing cycle of January 2013 at the fixed rates contained in the settlement and continuing for a five-year period, with true-up of any actual costs not recovered during the five year period occurring in the final year. Progress Energy Florida will not file for recovery of any new Levy costs that were not addressed in the 2012 FSPC Settlement Agreement before March 1, 2017 and will not begin recovering those costs from customers before the first billing cycle of January, 2018, unless otherwise agreed to by the parties to the agreement. This amount is intended to recover the estimated retail project costs to date plus costs necessary to obtain the COL and any engineering, procurement and construction cancellation costs, if Progress Energy Florida ultimately chooses to cancel that contract. In addition, the consumer parties will not oppose Progress Energy Florida continuing to pursue a COL for Levy. The 2012 FSPC Settlement Agreement also provides that Progress Energy Florida will treat the allocated wholesale cost of Levy (approximately $68 million) as a retail regulatory asset and include this asset as a component of rate base and amortization expense for regulatory reporting. Progress Energy Florida will have the discretion to accelerate and/or suspend such amortization in full or in part provided that it amortizes all of the regulatory asset by December 31, 2016.

William States Lee III Nuclear Station. In December 2007, Duke Energy Carolinas filed an application with the NRC, which has been docketed for review, for a combined COL for two Westinghouse AP1000 reactors for the proposed William States Lee III Nuclear Station (Lee Nuclear Station) at a site in Cherokee County, South Carolina. Each reactor is capable of producing 1,117 MW. Submitting the COL application does not commit Duke Energy Carolinas to build nuclear units. Through several separate orders, the NCUC and PSCSC have concurred with the prudency of Duke Energy incurring project development and pre-construction costs.

Potential Plant Retirements. The Subsidiary Registrants periodically file Integrated Resource Plans (IRP) with their state regulatory commissions. The IRPs provide a view of forecasted energy needs over a long term (15-20 years), and options being considered to meet those needs. The IRP's filed by the Subsidiary Registrants in 2012 and 2011 included planning assumptions to potentially retire by 2015, certain coal-fired generating facilities in North Carolina, South Carolina, Indiana and Ohio that do not have the requisite emission control equipment, primarily to meet Environmental Protection Agency (EPA) regulations that are not yet effective. Additionally, management is considering the impact pending environmental regulations might have on certain coal-fired generating facilities in Florida. These facilities total approximately 3,954 MW at eight sites. Duke Energy continues to evaluate the potential need to retire these coal-fired generating facilities earlier than the current estimated useful lives, and plans to seek regulatory recovery for amounts that would not be otherwise recovered when any assets are retired. For additional information related to potential plant retirements see Note 4 to the Consolidated Financial Statements, "Regulatory Matters."

Fuel Supply

USFE&G relies principally on coal, natural gas and nuclear fuel for its generation of electric energy. The following table lists USFE&G's sources of power and fuel costs for the three years ended December 31, 2012.

	Generation by Source[a]			Cost of Delivered Fuel per Net Kilowatt-hour Generated (Cents)[a]		
	2012	**2011**	**2010**	**2012**	**2011**	**2010**
Coal[b]	**46.2** %	60.0 %	61.5 %	**3.55**	3.17	3.04
Nuclear[c]	**36.4**	37.6	36.3	**0.62**	0.55	0.52
Oil and gas[d]	**16.6**	1.4	0.9	**4.03**	5.89	6.77
All fuels (cost-based on weighted average)[b]	**99.2**	99.0	98.7	**2.55**	2.21	2.15
Hydroelectric[e]	**0.8**	1.0	1.3			
Total generation[f]	**100.0** %	100.0 %	100.0 %			

(a) Statistics begin July 2, 2012 for Progress Energy Carolinas and Progress Energy Florida.
(b) Statistics related to coal generation and all fuels reflect USFE&G's ownership interest in jointly owned generation facilities.
(c) Statistics related to nuclear generation and all fuels reflect USFE&G's ownership interest in jointly owned generation facilities. (Crystal River Unit 3 has been in an outage since September 2009)
(d) Statistics related to oil and gas generation and all fuels reflect USFE&G's ownership interest in jointly owned generation facilities. Cost statistics include amounts for light-off fuel at USFE&G's coal-fired stations and combined cycle (gas only).
(e) Generating figures are net of output required to replenish pumped storage facilities during off-peak periods.
(f) In addition, USFE&G produced approximately 10,500 megawatt-hours (MWh) in solar generation for 2012, and 5,800 MWh in 2011 and 2010; no fuel costs are attributed to this generation.

Coal. USFE&G meets its coal demand through a portfolio of long-term purchase contracts and short-term spot market purchase agreements. Large amounts of coal are purchased under long-term contracts with mining operators who mine both underground and at the surface. USFE&G uses spot-market purchases to meet coal requirements not met by long-term contracts. Expiration dates for its long-term contracts, which have various price adjustment provisions and market re-openers, range from 2013 to 2018 for the Carolinas, 2013 to 2016 for Florida, and 2013 to 2018 for Indiana. USFE&G expects to renew these contracts or enter into similar contracts with other suppliers for the quantities and quality of coal required as existing contracts expire, though prices will fluctuate over time as coal markets change. The coal purchased for the Carolinas is primarily produced from mines in Central Appalachia, Northern Appalachia and the Illinois Basin. The coal purchased for Florida is primarily produced from mines in Central Appalachia and the Illinois Basin. The coal purchased for Indiana is primarily produced in Indiana and Illinois. USFE&G has an adequate supply of coal under contract to fuel its projected 2013 operations and a significant portion of supply to fuel its projected 2014 operations. Coal inventory levels have increased during the past year due to the impact of mild winter weather and the economy on retail load and low natural gas prices which are resulting in higher combined cycle gas-fired generation. If these factors

continue for an extended period of time, USFE&G could have excess levels of coal inventory.

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The current average sulfur content of coal purchased by USFE&G is between 1% and 2% for the Carolinas; between 1% and 2% for Florida, and between 2% and 3% for Indiana. USFE&G's scrubbers, in combination with the use of sulfur dioxide (SO_2) emission allowances, enable USFE&G to satisfy current SO_2 emission limitations for its existing facilities.

Nuclear. The industrial processes for producing nuclear generating fuel generally involve the mining and milling of uranium ore to produce uranium concentrates, the services to convert uranium concentrates to uranium hexafluoride, the services to enrich the uranium hexafluoride, and the services to fabricate the enriched uranium hexafluoride into usable fuel assemblies.

USFE&G has contracted for uranium materials and services to fuel its nuclear reactors in the Carolinas and Florida. Uranium concentrates, conversion services and enrichment services are primarily met through a diversified portfolio of long-term supply contracts. The contracts are diversified by supplier, country of origin and pricing. USFE&G staggers its contracting so that its portfolio of long-term contracts covers the majority of its fuel requirements in the near-term and decreasing portions of its fuel requirements over time thereafter. Near-term requirements not met by long-term supply contracts have been and are expected to be fulfilled with spot market purchases. Due to the technical complexities of changing suppliers of fuel fabrication services, USFE&G generally sources these services to a single domestic supplier on a plant-by-plant basis using multi-year contracts.

USFE&G has entered into fuel contracts that, based on its current need projections, cover 100% of its uranium concentrates, conversion services, and enrichment services requirements through at least 2013 and cover fabrication services requirements for these plants through at least 2018. The cost of termination of nuclear fuel procurement contracts that Progress Energy Florida has related to Crystal River Unit 3 are not expected to be material. For subsequent years, a portion of its fuel requirements are covered by long-term contracts. For future requirements not already covered under long-term contracts, USFE&G believes it will be able to renew contracts as they expire, or enter into similar contractual arrangements with other suppliers of nuclear fuel materials and services.

Gas. Oil and natural gas supply for USFE&G's generation fleet is purchased under term and spot contracts from various suppliers. Duke Energy Carolinas and Progress Energy Carolina's use derivative instruments to limit their exposure to price fluctuations for natural gas. Progress Energy Florida uses derivative instruments to limit its exposure to price fluctuations for natural gas, fuel oil and surcharges embedded in coal transportation agreements. USFE&G has dual-fuel generating facilities that can operate with both fuel oil and natural gas. The cost of USFE&G's oil and natural gas is either at a fixed price or determined by market prices as reported in certain industry publications. USFE&G believes that it has access to an adequate supply of oil and gas for the reasonably foreseeable future. USFE&G's natural gas transportation for its gas generation is purchased under term firm transportation contracts with interstate and intrastate pipelines. USFE&G may also purchase additional shorter-term transportation for its load requirements during peak periods. Many of the natural gas plants can be served by several supply zones and multiple pipelines.

Purchased Power. USFE&G purchased approximately 19.8 million MWh, 19.0 million MWh and 18.3 million MWh of its system energy requirements during 2012, 2011, and 2010, respectively, under purchase obligations and leases and had 4,500 MW of firm purchased capacity under contract during 2012. These amounts include MWh for Progress Energy Carolinas and Progress Energy Florida for all periods presented. These agreements include approximately 682 MW of firm capacity under contract by Progress Energy Florida with certain QFs. USFE&G may need to acquire additional purchased power capacity in the

future to accommodate a portion of its system load needs. USFE&G believes that it can obtain adequate purchased power to meet these needs. However, during periods of high demand, the price and availability of purchased power may be significantly affected.

Gas for Retail Distribution. USFE&G is responsible for the purchase and the subsequent delivery of natural gas to native load customers in its Ohio and Kentucky service territories. USFE&G's natural gas procurement strategy is to buy firm natural gas supplies (natural gas intended to be available at all times) and firm interstate pipeline transportation capacity during the winter season (November through March) and during the non-heating season (April through October) through a combination of firm supply and transportation capacity along with spot supply and interruptible transportation capacity. This strategy allows USFE&G to assure reliable natural gas supply for its high priority (non-curtailable) firm customers during peak winter conditions and provides USFE&G the flexibility to reduce its contract commitments if firm customers choose alternate gas suppliers under USFE&G customer choice/gas transportation programs. In 2012, firm supply purchase commitment agreements provided approximately 100% of the natural gas supply. These firm supply agreements feature two levels of gas supply, specifically (i) base load, which is a continuous supply to meet normal demand requirements, and (ii) swing load, which is gas available on a daily basis to accommodate changes in demand due primarily to changing weather conditions.

USFE&G also owns two underground caverns with a total storage capacity of 16 million gallons of liquid propane. In addition, USFE&G has access to 5.5 million gallons of liquid propane storage and product loan through a commercial services agreement with a third party. This liquid propane is used in the three propane/air peak shaving plants located in Ohio and Kentucky. Propane/air peak shaving plants vaporize the propane and mix it with natural gas to supplement the natural gas supply during peak demand periods.

Duke Energy Ohio maintains natural gas procurement-price volatility mitigation programs. These programs pre-arrange percentages of Duke Energy Ohio's seasonal gas requirements. Duke Energy Ohio uses primarily fixed-price forward contracts and contracts with a ceiling and floor on the price. As of December 31, 2012, Duke Energy Ohio had locked in pricing for 22% of its remaining estimated winter 2012/2013 system load requirements.

Inventory

Generation of electricity is capital-intensive. USFE&G must maintain an adequate stock of fuel, materials and supplies in order to ensure continuous operation of generating facilities and reliable delivery to customers. As of December 31, 2012, the inventory balance for USFE&G was $2,987 million. See Note 1 to the Consolidated Financial Statements, "Summary of Significant Accounting Policies," for additional information.

Nuclear Insurance and Decommissioning

USFE&G owns (wholly or partially) 12 nuclear reactors located at seven stations. Nuclear insurance includes: nuclear liability coverage; property, decontamination and premature decommissioning coverage; and replacement power expense coverage. The other joint owners of the jointly owned nuclear reactors reimburse USFE&G for certain expenses associated with nuclear insurance per the joint owner agreements. The Price-Anderson Act requires nuclear plant owners to provide for public nuclear liability claims resulting from nuclear incidents to the maximum total financial protection liability, which currently is $12.6 billion. See Note 5 to the Consolidated Financial Statements, "Commitments and Contingencies — Nuclear Insurance," for more information.

USFE&G has a significant future financial commitment to dispose of spent nuclear fuel and decommission and decontaminate each plant safely. The NCUC, FPSC and the PSCSC require USFE&G regulated

utilities to update their cost estimates for decommissioning their nuclear plants every five years.

Duke Energy Carolinas' most recent site-specific nuclear decommissioning cost studies were completed in 2009 and showed total estimated nuclear decommissioning costs, including the cost to decommission plant components not subject to radioactive contamination, of $3 billion in 2008

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dollars. This estimate includes Duke Energy Carolinas' ownership interest in the jointly owned nuclear reactors. The other joint owners of the jointly owned nuclear reactors are responsible for decommissioning costs related to their ownership interests in the station. The balance of Duke Energy Carolinas' external Nuclear Decommissioning Trust Funds (NDTF) was $2,354 million as of December 31, 2012 and $2,060 million as of December 31, 2011.

Progress Energy Carolinas' most recent site-specific nuclear decommissioning cost studies were completed in 2009 and showed total estimated nuclear decommissioning costs, including the cost to decommission plant components not subject to radioactive contamination of $3.0 billion in 2009 dollars. This estimate includes Progress Energy Carolinas' ownership interest in the jointly owned nuclear reactors. The other joint owners of the jointly owned nuclear reactors are responsible for decommissioning costs related to their ownership interests in the station. The balance of Progress Energy Carolinas' external NDTF was $1,259 million as of December 31, 2012 and $1,088 million as of December 31, 2011.

Progress Energy Florida's most recent site-specific nuclear decommissioning cost studies were completed in 2008. In the Progress Energy Florida 2009 rate case, the FPSC deferred review of the 2008 nuclear decommissioning study until 2010. While Progress Energy Florida was not required to prepare a new site-specific nuclear decommissioning cost study, it was required to update its 2008 study by incorporating the most currently-available escalation rates. This update was filed with the FPSC in December 2010. The FPSC approved this study on April 30, 2012 and showed total estimated nuclear decommissioning costs based on prompt dismantlement at the end of Crystal River Unit 3's useful life , including the cost to decommission plant components not subject to radioactive contamination of $751 million in 2008 dollars. This estimate includes Progress Energy Florida's ownership interest in the jointly owned nuclear reactor. The other joint owners of the jointly owned nuclear reactor are responsible for decommissioning costs related to their ownership interests in the station. With the decision in early 2013 to retire Crystal River Unit 3, as discussed below, it is anticipated that a delayed dismantlement approach to decommissioning, referred to as SAFSTOR, will be submitted to the NRC for approval. This decommissioning approach is currently utilized at a number of retired domestic nuclear power plants and is one of three generally accepted approaches to decommissioning required by the NRC. Once an updated site specific decommissioning study is completed it will be filed with the FPSC. As part of the evaluation of repairing Crystal River Unit 3, initial estimates of the cost to decommission the plant under the SAFSTOR option were developed, including components not subject to radioactive contamination, of $989 million in 2011 dollars. The balance of the external NDTF was $629 million as of December 31, 2012 and $559 million as of December 31, 2011.

The NCUC, FPSC and the PSCSC have allowed USFE&G's regulated utilities to recover estimated decommissioning costs through retail rates over the expected remaining service periods of their nuclear stations. USFE&G believes that the decommissioning costs being recovered through rates, when coupled with the existing fund balance and expected fund earnings, will be sufficient to provide for the cost of future decommissioning. See Note 9 to the Consolidated Financial Statements, "Asset Retirement Obligations," for more information.

The Nuclear Waste Policy Act of 1982 (as amended) provides the framework for development by the federal government of interim storage and permanent disposal facilities for high-level radioactive waste materials. The Nuclear Waste Policy Act of 1982 promotes increased usage of interim storage of spent nuclear fuel at existing nuclear plants. USFE&G will continue to maximize the use of spent fuel storage capability within its own facilities for as long as feasible.

Under federal law, the U.S. Department of Energy (DOE) is responsible for the selection and construction of a facility for the permanent disposal of spent nuclear fuel and high-level radioactive waste. Progress Energy Carolinas and Progress Energy Florida have contracts with the DOE for the future storage and disposal of our spent nuclear fuel. Delays have occurred in the DOE's proposed permanent repository to be located at Yucca Mountain, Nevada. See Note 5 to the Consolidated Financial Statements, "Commitments and Contingencies," for information about complaints filed by Progress Energy Carolinas and Progress Energy Florida in the United States Court of Federal Claims against the DOE for its failure to fulfill its contractual obligation to receive spent fuel from nuclear plants. Failure to open Yucca Mountain or another facility would leave the DOE open to further claims by utilities.

Until the DOE begins to accept the spent nuclear fuel, Progress Energy Carolinas and Progress Energy Florida will continue to safely manage their spent nuclear fuel. With certain modifications and additional approvals by the NRC, including the installation and/or expansion of on-site dry cask storage facilities at Robinson Nuclear Station (Robinson), Brunswick Nuclear Station (Brunswick) and Crystal River Unit 3, the Progress Energy Carolinas and Progress Energy Florida's spent nuclear fuel storage facilities will be sufficient to provide storage space for spent fuel generated by their respective systems through the expiration of the operating licenses, including any license renewals, for their nuclear generating units. Harris has sufficient storage capacity in its spent fuel pools through the expiration of its renewed operating license.

Regulation

State

The NCUC, the PSCSC, the FPSC, the PUCO, the IURC and the KPSC (collectively, the state utility commissions) approve rates for retail electric service within their respective states. In addition, the PUCO and the KPSC approve rates for retail gas distribution service within their respective states. The state utility commissions, except for the PUCO, also have authority over the construction and operation of USFE&G's generating facilities. Certificates of Public Convenience and Necessity (CPCN) issued by the state utility commissions, as applicable, authorize USFE&G to construct and operate its electric facilities, and to sell electricity to retail and wholesale customers. Prior approval from the relevant state utility commission is required for USFE&G's regulated operating companies to issue securities. The underlying concept of utility ratemaking is to set rates at a level that allows the utility to collect revenues equal to its cost of providing service plus earn a reasonable rate of return on its invested capital, including equity.

Each of the state utility commissions allows recovery of certain costs through various cost-recovery clauses, to the extent the respective commission determines in periodic hearings that such costs, including any past over or under-recovered costs, are prudent. The clauses are in addition to approved base rates. USFE&G's regulated utilities generally do not earn a return on the recovery of eligible operating expenses under such clauses; however, in certain jurisdictions, they may earn a return on under-recovered costs. Additionally, the commissions may authorize a return for specified investments for energy efficiency and conservation, capacity costs, environmental compliance and utility plant.

Fuel, fuel-related costs and certain purchased power costs are eligible for recovery by USFE&G's regulated utilities. USFE&G uses coal, oil, hydroelectric, natural gas and nuclear power to generate electricity, thereby maintaining a diverse fuel mix that helps mitigate the impact of cost increases in any one fuel. Due to the associated regulatory treatment and the method allowed for recovery, changes in fuel costs from year to year have no material impact on operating results of USFE&G, unless a commission finds a portion of such costs to have been imprudent. However, delays between the expenditure for fuel costs and recovery from ratepayers can adversely impact the timing of cash flow of USFE&G. Progress Energy Florida is obligated to notify the FPSC and permitted to file for a midcourse change to the fuel factor

between annual fuel hearings in the event its estimated over- or under-recovery of fuel costs meets or exceeds a threshold of ten percent of estimated total retail fuel revenues and, accordingly, has the ability to mitigate the cash flow impacts due to the timing of recovery of fuel and purchased power costs.

The following is a summary of pending retail base rate case proceedings for each of USFE&G's regulated utilities.

PART I

Duke Energy Carolinas 2013 North Carolina Rate Case. On February 4, 2013, Duke Energy Carolinas filed an application with the NCUC for an increase in base rates of approximately $446 million, or an average 9.7% increase in revenues. The request for increase is based upon an 11.25% return on equity and a capital structure of 53% equity and 47% long-term debt. The rate increase is designed primarily to recover the cost of plant modernization, environmental compliance and the capital additions.

Duke Energy Carolinas expects revised rates, if approved, to go into effect late third quarter of 2013.

Progress Energy Carolinas 2012 North Carolina Rate Case. On October 12, 2012, Progress Energy Carolinas filed an application with the NCUC for an increase in base rates of approximately $387 million, or an average 12% increase in revenues. The request for increase is based upon an 11.25% return on equity and a capital structure of 55% equity and 45% long-term debt. The rate increase is designed primarily to recover the cost of plant modernization and other capital investments in generation, transmission and distribution systems, as well as increased expenditures for nuclear plants and personnel, vegetation management and other operating costs. The rate case includes a corresponding decrease in Progress Energy Carolinas' energy efficiency and demand side management rider, resulting in a net requested increase of $359 million, or 11% increase in retail revenues.

On February 25, 2013, the North Carolina Public Staff filed with the NCUC a Notice of Settlement in Principle (Settlement Notice). Pursuant to the Settlement Notice between Progress Energy Carolinas and the Public Staff, the parties have agreed to a two year step-in to a total agreed upon net rate increase, with the first year providing for a $151 million, or 4.7% average increase in rates, and the second year providing for rates to be increased by an additional $31 million, or 1.0% average increase in rates. This second year increase is a result of Progress Energy Carolinas agreeing to delay collection of financing costs on the construction work in progress for the Sutton combined cycle natural gas plant for one year. The Settlement Notice is based upon a return on equity of 10.2% and a 53% equity component of the capital structure.

Once filed, the actual settlement agreement will be subject to approval by the NCUC. Progress Energy Carolinas expects revised rates, if approved, to go into effect June 1, 2013.

Duke Energy Ohio 2012 Electric Rate Case. On July 9, 2012, Duke Energy Ohio filed an application with the PUCO for an increase in electric distribution rates of approximately $87 million. On average, total electric rates would increase approximately 5.1% under the filing. The rate increase is designed to recover the cost of investments in projects to improve reliability for customers and upgrades to the distribution system. Pursuant to a stipulation in another case, Duke Energy Ohio will continue recovering its costs associated with grid modernization in a separate rider.

Duke Energy Ohio expects revised rates, if approved, to go into effect in the first half of 2013.

Duke Energy Ohio 2012 Natural Gas Rate Case. On July 9, 2012, Duke Energy Ohio filed an application with the PUCO for an increase in natural gas distribution rates of approximately $45 million. On average, total natural gas rates would increase approximately 6.6% under the filing. The rate increase is designed to recover the cost of upgrades to the distribution system, as well as environmental cleanup of manufactured gas plant sites. In addition to the recovery of costs associated with the manufactured gas plants, the rate request includes a proposal for an accelerated service line replacement program and a new rider to recover the associated incremental cost. The filing also requests that the PUCO renew the rider recovery of Duke Energy Ohio's accelerated main replacement program and grid modernization program.

On January 4, 2013, the PUCO Staff filed a staff report recommending that Duke Energy Ohio only be allowed to recover costs related to manufactured gas plant (MGP) sites which are currently used and useful in the provision of natural gas distribution service. Duke Energy Ohio filed its objection to the staff report on February 4, 2013.

Duke Energy Ohio expects revised rates, if approved, to go into effect in the first half of 2013.

The following is a summary of recently resolved or settled retail base rate case proceedings for each of USFE&G's regulated utilities.

Progress Energy Florida 2012 FPSC Settlement. On February 22, 2012, the FPSC approved a comprehensive settlement agreement among Progress Energy Florida, the Florida Office of Public Counsel and other consumer advocates. The 2012 FPSC Settlement Agreement will continue through the last billing cycle of December 2016. The agreement addresses three principal matters: (i) Progress Energy Florida's proposed Levy Nuclear Project cost recovery, (ii) the Crystal River Unit 3 delamination prudence review then pending before the FPSC, and (iii) certain customer rate matters. See Note 4 to the Consolidated Financial Statements, "Regulatory Matters – Rate Related Information," for additional provisions of the 2012 settlement agreement.

Duke Energy Carolinas 2011 North Carolina Rate Case. On January 27, 2012, the NCUC approved a settlement agreement between Duke Energy Carolinas and the North Carolina Utilities Public Staff (Public Staff). The terms of the agreement include an average 7.2% increase in retail revenues, or approximately $309 million annually beginning in February 2012. The agreement includes a 10.5% return on equity and a capital structure of 53% equity and 47% long-term debt.

On March 28, 2012, the North Carolina Attorney General filed a notice of appeal with the NCUC challenging the rate of return approved in the agreement. On April 17, 2012, the NCUC denied Duke Energy Carolinas' request to dismiss the notice of appeal. Briefs were filed on August 22, 2012 by the North Carolina Attorney General and the American Association of Retired Persons (AARP) with the North Carolina Supreme Court, which is hearing the appeal. Duke Energy Carolinas filed a motion to dismiss the appeal on August 31, 2012 and the North Carolina Attorney General filed a response to that motion on September 13, 2012. Briefs by the appellees, Duke Energy Carolinas and the Public Staff, were filed on September 21, 2012. The North Carolina Supreme Court denied Duke Energy Carolinas' motion to dismiss on procedural grounds and set the matter for oral arguments on November 13, 2012. Duke Energy Carolinas is awaiting an order.

Duke Energy Carolinas 2011 South Carolina Rate Case. On January 25, 2012, the PSCSC approved a settlement agreement between Duke Energy Carolinas and the ORS, Wal-Mart Stores East, LP, and Sam's East, Inc. The Commission of Public Works for the city of Spartanburg, South Carolina and the Spartanburg Sanitary Sewer District were not parties to the agreement; however, they did not object to the agreement. The terms of the agreement include an average 5.98% increase in retail and commercial revenues, or approximately $93 million annually beginning February 6, 2012. The agreement includes a 10.5% return on equity, a capital structure of 53% equity and 47% long-term debt.

Duke Energy Ohio Standard Service Offer (SSO). The PUCO approved Duke Energy Ohio's current Electric Security Plan (ESP) on November 22, 2011. The ESP effectively separates the generation of electricity from Duke Energy Ohio's retail load obligation and requires Duke Energy Ohio to transfer its generation assets to a nonregulated affiliate on or before December 31, 2014. The ESP includes competitive auctions for electricity supply whereby the energy price is recovered from retail customers. As a result, Duke Energy Ohio now earns retail margin on the transmission and distribution of electricity only and not on the cost of the underlying energy. New rates for Duke Energy Ohio went into effect for SSO

customers on January 1, 2012. The ESP also includes a provision for a non-bypassable stability charge of $110 million per year to be collected from January 1, 2012 through December 31, 2014.

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On January 18, 2012, the PUCO denied a request for rehearing of its decision on Duke Energy Ohio's ESP filed by Columbus Southern Power and Ohio Power Company.

For more information on rate matters, see Note 4 to the Consolidated Financial Statements, "Regulatory Matters — Rate Related Information."

Federal

The FERC approves USFE&G's cost-based rates for electric sales to certain wholesale customers, as well as sales of transmission service. Regulations of FERC and the state utility commissions govern access to regulated electric and gas customers and other data by nonregulated entities and services provided between regulated and nonregulated energy affiliates. These regulations affect the activities of nonregulated affiliates with USFE&G.

Regional Transmission Organizations (RTO). PJM Interconnection, LLC (PJM) and Midwest Independent Transmission System Operator, Inc. (MISO) are the Independent System Operators (ISO) and the FERC-approved RTOs for the regions in which Duke Energy Ohio and Duke Energy Indiana operate. PJM is the transmission provider under, and the administrator of, the PJM Open Access Transmission Tariff (PJM Tariff), operates the PJM energy, capacity and other markets, and, through central dispatch, controls the day-to-day operations of the bulk power system for the PJM region. MISO is the transmission provider under, and the administrator of, the MISO Open Access Transmission Tariff (MISO Tariff), operates the MISO energy, capacity and other markets, and, through central dispatch, controls the day-to-day operations of the bulk power system for the MISO region. Duke Energy Ohio is a member of PJM and provides regional transmission service pursuant to the PJM Tariff. Duke Energy Ohio and the other transmission owners in PJM have turned over control of their transmission facilities to PJM, and their transmission systems are currently under the dispatch control of PJM. Under the PJM Tariff, transmission service is provided on a region-wide, open-access basis using the transmission facilities of the PJM members at rates based on the costs of transmission service. Duke Energy Indiana is a member of MISO and provides regional transmission service pursuant to the MISO Tariff. Duke Energy Indiana and the other transmission owners in MISO have turned over control of their transmission facilities to MISO, and their transmission systems are currently under the dispatch control of MISO. Under the MISO Tariff, transmission service is provided on a region-wide, open-access basis using the transmission facilities of the MISO members at rates based on the costs of transmission service.

Prior to January 1, 2012, Duke Energy Ohio was a member of MISO. See Note 4 to the Consolidated Financial Statements, Regulatory Matters, for additional information related to Duke Energy Ohio's RTO realignment from MISO to PJM.

Other

Nuclear Matters. The nuclear power industry faces uncertainties with respect to the cost and long-term availability of disposal sites for spent nuclear fuel and other radioactive waste, compliance with changing regulatory requirements, capital outlays for modifications and new plant construction, the technological and financial aspects of decommissioning plants at the end of their licensed lives, and requirements relating to nuclear insurance. Nuclear units are periodically removed from service to accommodate normal refueling and maintenance outages, repairs, uprates and certain other modifications.

USFE&G is subject to the jurisdiction of the NRC for the design, construction and operation of its nuclear generating facilities. In 2000, the NRC renewed the operating license for Duke Energy Carolinas' three Oconee nuclear units through 2033 for Units 1 and 2 and through 2034 for Unit 3. In 2003, the NRC renewed the operating licenses for all units at Duke Energy Carolinas' McGuire Nuclear Station (McGuire) and Catawba Nuclear Station (Catawba). The two McGuire units are licensed through 2041 and 2043, respectively, while the two Catawba units are licensed through 2043. The NRC has renewed the operating licenses for all of Progress Energy Carolinas' nuclear plants. The renewed operating licenses for Brunswick Unit 1 and Unit 2, Harris and Robinson expire in 2036, 2034, 2046 and 2030, respectively.

The NRC issues orders with regard to security at nuclear plants in response to new or emerging threats. The most recent orders include additional restrictions on nuclear plant access, increased security measures at nuclear facilities and closer coordination with our partners in intelligence, military, law enforcement and emergency response at the federal, state and local levels. USFE&G is in compliance with the requirements outlined in the orders through the use of additional security measures until permanent construction projects are completed in 2013. As the NRC, other governmental entities and the industry continue to consider security issues, it is possible that more extensive security plans could be required.

Crystal River Unit 3. In September 2009, Crystal River Unit 3 began an outage for normal refueling and maintenance as well as an uprate project to increase its generating capability and to replace two steam generators. During preparations to replace the steam generators, workers discovered a delamination (or separation) within the concrete at the periphery of the containment building, which resulted in an extension of the outage. After analysis, it was determined that the concrete delamination at Crystal River Unit 3 was caused by redistribution of stresses in the containment wall that occurred when an opening was created to accommodate the replacement of the unit's steam generators. In March 2011, the work to return the plant to service was suspended after monitoring equipment identified a new delamination that occurred in a different section of the outer wall after the repair work was completed and during the late stages of retensioning the containment building. Crystal River Unit 3 has remained out of service while Progress Energy Florida conducted an engineering analysis and review of the new delamination and evaluated possible repair options.

Subsequent to March 2011, monitoring equipment has detected additional changes and further damage in the partially tensioned containment building and additional cracking or delaminations could occur.

Progress Energy Florida developed a repair plan, which would entail systematically removing and replacing concrete in substantial portions of the containment structure walls, which had a preliminary cost estimate of $900 million to $1.3 billion.

In March 2012, Duke Energy commissioned an independent review team led by Zapata Incorporated (Zapata) to review and assess the Progress Energy Florida Crystal River Unit 3 repair plan, including the repair scope, risks, costs and schedule. In its final report in late September, Zapata found that the proposed repair scope appears to be technically feasible, but there were significant risks that need to be addressed regarding the approach, construction methodology, scheduling and licensing. Zapata performed four separate analyses of the estimated project cost and schedule to repair Crystal River Unit 3, including; (i) an independent review of the proposed repair scope (without existing assumptions or data), of which Zapata estimated costs of $1.49 billion with a project duration of 35 months; (ii) a review of Progress Energy Florida's previous bid information, which included cost estimate data from Progress Energy Florida, of which Zapata estimated costs of $1.55 billion with a project duration of 31 months; (iii) an expanded scope of work scenario, that included the Progress Energy Florida scope plus the replacement of the containment building dome and the removal and replacement of concrete in the lower building elevations, of which Zapata estimated costs of approximately $2.44 billion with a project duration of 60 months, and; (iv) a "worst case" scenario, assuming Progress Energy Florida performed the more limited scope of work, and at the

conclusion of that work, additional damage occurred in the dome and in the lower elevations, which forced replacement of each, of which Zapata estimated costs of $3.43 billion with a project duration of 96 months. The principal difference between Zapata's estimate and Progress Energy Florida's previous estimate appears to be due to the respective levels of contingencies included by each party, including higher project risk and longer project duration. Progress Energy Florida has filed a copy of the Zapata report with the FPSC and with the NRC. The FPSC held a status conference on October 30, 2012 to discuss Duke Energy's analysis of the Zapata report.

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On February 5, 2013, following the completion of a comprehensive analysis, Duke Energy announced its intention to retire Crystal River Unit 3. Duke Energy concluded that it did not have a high degree of confidence that repair could be successfully completed and licensed within estimated costs and schedule, and that it was in the best interests of Progress Energy Florida's customers and joint owners and Duke Energy's investors to retire the unit. Progress Energy Florida developed initial estimates of the cost to decommission the plant during its analysis of whether to repair or retire Crystal River Unit 3. With the final decision to retire, Progress Energy Florida is working to develop a comprehensive decommissioning plan, which will evaluate various decommissioning options and costs associated with each option. The plan will determine resource needs as well as the scope, schedule and other elements of decommissioning. Progress Energy Florida intends to use a safe storage (SAFSTOR) option for decommissioning. Generally, SAFSTOR involves placing the facility into a safe storage configuration, requiring limited staffing to monitor plant conditions, until the eventual dismantling and decontamination activities occur, usually in 40 to 60 years. This decommissioning approach is currently utilized at a number of retired domestic nuclear power plants and is one of three generally accepted approaches to decommissioning required by the NRC. Once an updated site specific decommissioning study is completed it will be filed with the FPSC. As part of the evaluation of repairing Crystal River Unit 3, initial estimates of the cost to decommission the plant under the SAFSTOR option were developed which resulted in an estimate in 2011 dollars of $989 million. See Note 9 for additional information. Additional specifics about the decommissioning plan are being developed.

Progress Energy Florida maintains insurance coverage against incremental costs of replacement power resulting from prolonged accidental outages at Crystal River Unit 3 through NEIL. NEIL provides insurance coverage for repair costs for covered events, as well as the cost of replacement power of up to $490 million per event when the unit is out of service as a result of these events. Actual replacement power costs have exceeded the insurance coverage. Progress Energy Florida also maintains insurance coverage through NEIL's accidental property damage program, which provides insurance coverage up to $2.25 billion with a $10 million deductible per claim.

Throughout the duration of the Crystal River Unit 3 outage, Progress Energy Florida worked with NEIL for recovery of applicable repair costs and associated replacement power costs. NEIL has made payments on the first delamination; however, NEIL has withheld payment of approximately $70 million of replacement power cost claims and repair cost claims related to the first delamination event. NEIL had not provided a written coverage decision for either delamination and no payments were made on the second delamination and no replacement power reimbursements were made by NEIL since May 2011. These considerations led Progress Energy Florida to conclude, in the second quarter of 2012, that it was not probable that NEIL would voluntarily pay the full coverage amounts that Progress Energy Florida believes them to owe under the applicable insurance policies. Consistent with the terms and procedures under the insurance coverage with NEIL, Progress Energy Florida agreed to non-binding mediation prior to commencing any formal dispute resolution. On February 5, 2013, Progress Energy Florida announced it and NEIL had accepted the mediator's proposal whereby NEIL will pay Progress Energy Florida an additional $530 million. Along with the $305 million which NEIL previously paid, Progress Energy Florida will receive a total of $835 million in insurance proceeds.

As a result of the 2012 FPSC Settlement Agreement, Progress Energy Florida will be permitted to recover prudently incurred fuel and purchased power costs through its fuel clause without regard for the absence of Crystal River Unit 3 for the period from the beginning of the Crystal River Unit 3 outage through December 31, 2016.

In accordance with the terms of the 2012 FPSC Settlement Agreement, with consumer representatives and approved by the FPSC, Progress Energy Florida retained the sole discretion to retire Crystal River Unit 3. Progress Energy Florida expects that the FPSC will review the prudence of the retirement decision in Phase 2 of the Crystal River Unit 3 delamination regulatory docket. Progress Energy Florida has also asked the FPSC to review the mediated resolution of insurance claims with NEIL as part of Phase 3 of this regulatory docket. Phase 2 and Phase 3 hearings have been tentatively scheduled to begin on June 19, 2013.

Progress Energy Florida did not begin the repair of Crystal River Unit 3 prior to December 31, 2012. Consistent with the 2012 FPSC Settlement Agreement regarding the timing of commencement of repairs, Progress Energy Florida recorded a Regulatory liability of $100 million in the third quarter of 2012 related to replacement power obligations. This amount is included within fuel used in electric generation and purchased power in Progress Energy Florida's and Progress Energy's Statements of Operations and Comprehensive Income for the year ended December 31, 2012. Progress Energy Florida will refund this replacement power liability on a pro rata basis based on the in-service date of up to $40 million in 2015 and $60 million in 2016. This amount is reflected as part of the purchase price allocation of the merger with Progress Energy in Duke Energy's Consolidated Financial Statements.

Progress Energy Florida also retained sole discretion to retire the unit without challenge from the parties to the agreement. As a result, Progress Energy Florida will be allowed to recover all remaining Crystal River Unit 3 investments and to earn a return on the Crystal River Unit 3 investments set at its current authorized overall cost of capital, adjusted to reflect a return on equity set at 70 percent of the current FPSC authorized return on equity, no earlier than the first billing cycle of January 2017.

In conjunction with the decision to retire Crystal River Unit 3, Progress Energy Florida reclassified all Crystal River Unit 3 investments, including property, plant and equipment; nuclear fuel; inventory; and deferred assets to a regulatory asset account. At December 31, 2012, Progress Energy Florida had $1,637 million of net investment in Crystal River Unit 3 recorded in Regulatory assets on its Consolidated Balance Sheets. Progress Energy Florida recorded $192 million of impairment and other charges related to the wholesale portion of Crystal River Unit 3 investments, which are not covered by the 2012 FSPC Settlement Agreement, and other provisions. The significant majority of this amount is recorded in Impairment charges on Progress Energy Florida's and Progress Energy's Consolidated Statements of Operations and Comprehensive Income for the year ended December 31, 2012. This amount is reflected as part of the purchase price allocation of the merger with Progress Energy in Duke Energy's Consolidated Financial Statements.

In accordance with the 2012 FPSC Settlement Agreement, NEIL proceeds received allocable to retail customers will be applied first to replacement power costs incurred after December 31, 2012 through December 31, 2016, with the remainder used to write down the remaining Crystal River Unit 3 investments.

Progress Energy Florida believes the decision to retire Crystal River Unit 3, the actions taken and costs incurred in response to the Crystal River Unit 3 delamination have been prudent and, accordingly, considers replacement power and capital costs not recoverable through insurance to be recoverable through its fuel cost-recovery clause or base rates. Additional replacement power costs and exit cost to wind down the operations at the plant and decommission Crystal River Unit 3 could be material. Retirement of the plant could impact funding obligations associated with Progress Energy Florida's nuclear decommissioning trust fund.

Progress Energy Florida is a party to a master participation agreement and other related agreements with the joint owners of Crystal River Unit 3 which convey certain rights and obligations on Progress Energy Florida and the joint owners. In December 2012, Progress Energy Florida reached an agreement with one

group of joint owners related to all Crystal River Unit 3 matters.

Progress Energy Florida cannot predict the outcome of matters described above.

PART I

Hydroelectric Generating Facilities. All but one of USFE&G's hydroelectric generating facilities are licensed by the FERC under Part I of the Federal Power Act. The FERC has jurisdiction to issue new hydroelectric operating licenses when the existing license expires. The 13 hydroelectric stations of the Catawba-Wateree Project are in the late stages of the FERC relicensing process. These stations continue to operate under annual extensions of the current FERC license, which expired in 2008, until the FERC issues a new license, which is currently projected to be issued by mid-2013. Relicensing is now under way for two hydroelectric stations comprising the Keowee-Toxaway Project. The current Keowee-Toxaway Project license does not expire until 2016 and the project will continue to operate under the current license until the new license is issued. The Bad Creek Project license will expire in 2028, the Gaston Shoals Project and Ninety Nine Islands Project licenses will expire in 2036 and the Queens Creek Project which will expire in 2023. All other hydroelectric stations are operating under current operating licenses, including ten hydroelectric stations in the East Fork, West Fork, Nantahala, Bryson, Mission, Franklin projects, and the Markland Project (in Indiana) for which new licenses were issued in 2010 through 2012. Duke Energy requested and the FERC approved a license surrender for the Dillsboro project. Duke Energy Carolinas has removed the Dillsboro Project dam and powerhouse as part of multi-project and multi-stakeholder agreements and Duke Energy Carolinas is continuing with stream restoration and post-removal monitoring as requested by FERC's license surrender order.

Progress Energy Carolinas has three hydroelectric generating plants licensed by the FERC: Walters, Tillery and Blewett. Progress Energy Carolinas also owns the Marshall Plant, which has a license exemption. The total summer generating capacity for all four units is 225 MW. Progress Energy Carolinas submitted an application to relicense its Tillery and Blewett plants for 50 years and anticipates a decision by the FERC in 2013. The Walters Plant license will expire in 2034.

Other Matters. USFE&G is subject to the jurisdiction of the U.S. Environmental Protection Agency (EPA) and state and local environmental agencies. For a discussion of environmental regulation, see "Environmental Matters" in this section.

See "Other Issues" section of Management's Discussion and Analysis of Financial Condition and Results of Operations for a discussion about potential Global Climate Change legislation and other EPA regulations under development and the potential impacts such legislation and regulation could have on Duke Energy's operations.

COMMERCIAL POWER

Commercial Power owns, operates and manages power plants and engages in the wholesale marketing and procurement of electric power, fuel and emission allowances related to these plants as well as other contractual positions. Commercial Power's generation operations, excluding renewable energy generation assets, consist primarily of coal-fired and gas-fired nonregulated generation assets which are dispatched into wholesale markets. These assets are comprised of 6,825 net MW of power generation primarily located in the Midwestern U.S. The asset portfolio has a diversified fuel mix with baseload and mid-merit coal-fired units as well as combined cycle and peaking natural gas-fired units. The coal-fired generation assets were dedicated under the Duke Energy Ohio Electric Security Plan (ESP) through December 31, 2011. As discussed in the USFE&G section above, the new ESP effectively separates the generation of electricity from Duke Energy Ohio's retail load obligation as of January 1, 2012. As a result, As a result, the energy from Duke Energy Ohio's coal-fired generation assets no longer serve retail load customers or receive negotiated pricing under the ESP. Effective January 1, 2012, Duke Energy Ohio completed its Regional Transmission Organization (RTO) realignment to PJM and operates as a Fixed Resource

Requirement (FRR) entity through May 31, 2015. As an FRR entity, Duke Energy Ohio is obligated to self supply capacity for the Duke Energy Ohio load zone. The generation assets began selling all of their electricity into wholesale markets in January 2012 and currently receive wholesale energy margins and capacity revenues from PJM at market rates. Commercial Power has economically hedged its forecasted coal-fired generation and a significant portion of its forecasted gas-fired generation for 2013. Capacity revenues are 100% contracted in PJM through May 2016.

For information on Commercial Power's generation facilities, see "Commercial Power" in Item 2, "Properties"

Commercial Power also has a retail sales subsidiary, Duke Energy Retail Sales, LLC (Duke Energy Retail), which is certified by the PUCO as a Competitive Retail Electric Supplier (CRES) provider in Ohio. Duke Energy Retail serves retail electric and gas customers in southwest, west central and northern Ohio with energy and other energy services at competitive rates.

Through Duke Energy Generation Services, Inc. (DEGS), Commercial Power engages in the development, construction and operation of renewable energy projects. In addition, DEGS develops commercial transmission projects. Currently, DEGS has approximately 1,269 net MW of renewable generating capacity in operation as of December 31, 2012.

Rates and Regulation

Duke Energy Ohio Capacity Rider Filing. On August 29, 2012, Duke Energy Ohio filed an application with the PUCO for the establishment of a charge, pursuant to Ohio's state compensation mechanism, for capacity provided consistent with its obligations as an FRR entity. The application included a request for deferral authority and for a new tariff to implement the charge. The deferral being sought is the difference between its costs and market-based prices for capacity. The requested tariff would implement a charge to be collected via a rider through which such deferred balances will subsequently be recovered. 24 parties moved to intervene. Hearings have been set for April 2, 2013. Duke Energy Ohio expects an order in 2013.

Other Matters. As discussed in the USFE&G section above, the PUCO approved Duke Energy Ohio's new ESP in November 2011. In November 2011, as a result of changes resulting from the PUCO's approval of the new ESP, Commercial Power ceased applying regulatory accounting treatment to its Ohio operations. Currently, no portion of Commercial Power applies regulatory accounting.

Commercial Power's Ohio retail load operations' rates were subject to approval by the PUCO through December 2011, and thus these operations, through December 31, 2011, are referred to herein as Commercial Power's regulated operations.

For more information on rate matters, see Note 4 to the Consolidated Financial Statements, "Regulatory Matters — Rate Related Information."

Commercial Power is subject to regulation at the federal level, primarily from the FERC. Regulations of the FERC govern access to regulated electric customer and other data by nonregulated entities, and services provided between regulated and non-regulated energy affiliates. These regulations affect the activities of Commercial Power.

Commercial Power is subject to the jurisdiction of the EPA and state and local environmental agencies. (For a discussion of environmental regulation, see "Environmental Matters" in this section.)

See "Other Issues" section of Management's Discussion and Analysis of Financial Condition and Results of Operations for a discussion about potential Global Climate Change legislation and the potential impacts

such legislation could have on Duke Energy's operations.

Market Environment and Competition

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Commercial Power competes for wholesale contracts for the purchase and sale of electricity, coal, natural gas and emission allowances. The market price of commodities and services, along with the quality and reliability of services provided, drive competition in the energy marketing business. Commercial Power's main competitors include other nonregulated generators in the Midwestern U.S., wholesale power providers, coal and natural gas suppliers, and renewable energy.

Fuel Supply

Commercial Power relies on coal and natural gas for its generation of electric energy.

Coal. Commercial Power meets its coal demand through a portfolio of purchase supply contracts and spot agreements. Large amounts of coal are purchased under supply contracts with mining operators who mine both underground and at the surface. Commercial Power uses spot-market purchases to meet coal requirements not met by supply contracts. Expiration dates for its supply contracts, which have various price adjustment provisions and market re-openers, range through 2018. Commercial Power expects to renew these contracts or enter into similar contracts with other suppliers for the quantities and quality of coal required as existing contracts expire, though prices will fluctuate over time as coal markets change. The majority of Commercial Power's coal is sourced from mines in the Northern Appalachian and Illinois basins. Commercial Power has an adequate supply of coal to fuel its projected 2013 operations. The majority of Commercial Power's coal-fired generation is equipped with flue gas desulfurization equipment. As a result, Commercial Power is able to satisfy the current emission limitations for SO_2 for existing facilities.

Gas. Commercial Power is responsible for the purchase and the subsequent delivery of natural gas to its gas turbine generators. In general Commercial Power hedges its natural gas requirements using financial contracts. Physical gas is purchased in the spot market to meet generation needs.

INTERNATIONAL ENERGY

International Energy principally operates and manages power generation facilities and engages in sales and marketing of electric power, natural gas, and natural gas liquids outside the U.S. It conducts operations through DEI and its affiliates and its activities principally target power generation in Latin America. Additionally, International Energy owns a 25% interest in National Methanol Company (NMC), a large regional producer of methanol and methyl tertiary butyl ether (MTBE) located in Saudi Arabia. The investment in NMC is accounted for under the equity method of accounting. In the first quarter of 2012, Duke Energy completed the sale of International Energy's indirect 25% ownership interest in Attiki Gas Supply, S.A (Attiki), a Greek corporation, to an existing equity owner in a series of transactions that resulted in the full discharge of the related debt obligation. See Note 13 to the Consolidated Financial Statements, "Investments in Unconsolidated Affiliates" for additional information. In 2012, International Energy acquired a 240 MW thermal plant in southern Chile. In addition, International acquired Iberoamericana de Energía Ibener S.A., which owns and operates a 140 MW hydro complex. See Note 2 to the Consolidated Financial Statements, "Acquisitions and Dispositions of Businesses and Sales of Other Assets," for additional information.

International Energy's customers include retail distributors, electric utilities, independent power producers, marketers and industrial/commercial companies. International Energy's current strategy is focused on optimizing the value of its current Latin American portfolio and expanding the portfolio through investment in generation opportunities in Latin America.

International Energy owns, operates or has substantial interests in approximately 4,900 gross MW of generation facilities. For information on International Energy's generation facilities, see "International Energy" in Item 2, "Properties."

Competition and Regulation

International Energy's sales and marketing of electric power and natural gas competes directly with other generators and marketers serving its market areas. Competitors are country and region-specific but include government-owned electric generating companies, local distribution companies with self-generation capability and other privately owned electric generating and marketing companies. The principal elements of competition are price and availability, terms of service, flexibility and reliability of service.

A high percentage of International Energy's portfolio consists of baseload hydroelectric generation facilities which compete with other forms of electric generation available to International Energy's customers and end-users, including natural gas and fuel oils. Economic activity, conservation, legislation, governmental regulations, weather, additional generation capacities and other factors affect the supply and demand for electricity in the regions served by International Energy.

Recent legislation in Brazil allowed the renewal of certain concessions that were granted prior to 1995 and due to expire in 2015 to 2017, if, among other things, the concession holders dedicated their generation capacity to the regulated market. International Energy's concessions, which were granted after 1995, were not affected by this legislation. The change in market prices, if any, from this legislation is not expected to have a significant impact on International Energy's earnings and cash flows because its generation capacity is highly contracted through 2016.

International Energy's operations are subject to both country-specific and international laws and regulations. (See "Environmental Matters" in this section.)

OTHER

The remainder of Duke Energy's operations is presented as Other. While it is not an operating segment, Other primarily includes unallocated corporate interest expense, certain unallocated corporate costs, Bison Insurance Company Limited (Bison), Duke Energy's wholly owned, captive insurance subsidiary, contributions to the Duke Energy Foundation, Duke Energy's effective 50% interest in DukeNet Communications, LLC (DukeNet) and related telecom businesses, and Duke Energy's effective 60% interest in Duke Energy Trading and Marketing, LLC (DETM), which management is currently in the process of winding down.

Bison's principal activities as a captive insurance entity include the indemnification of various business risks and losses, such as property, business interruption, workers' compensation and general liability of subsidiaries and affiliates of Duke Energy. DukeNet develops, owns and operates a fiber optic communications network, primarily in the southeast U.S., serving wireless, local and long-distance communications companies, Internet service providers and other businesses and organizations.

Regulation

Certain entities within Other are subject to the jurisdiction of state and local agencies.

GEOGRAPHIC REGIONS

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For a discussion of Duke Energy's foreign operations see "Management's Discussion and Analysis of Results of Operations" and Note 3 to the Consolidated Financial Statements, "Business Segments."

EMPLOYEES

On December 31, 2012, Duke Energy had 27,885 employees. A total of 5,784 operating and maintenance employees were represented by unions.

EXECUTIVE OFFICERS OF DUKE ENERGY

Lynn J. Good	53	**Executive Vice President and Chief Financial Officer.** Ms. Good assumed her current position in July 2009. In November 2007, Ms. Good began serving as President, Commercial Businesses. Prior to that, she served as Senior Vice President and Treasurer since December 2006; prior to that she served as Treasurer and Vice President, Financial Planning since October 2006; and prior to that she served as Vice President and Treasurer since April 2006, upon the merger of Duke Energy and Cinergy. Until the merger of Duke Energy and Cinergy, Ms. Good served as Executive Vice President and Chief Financial Officer of Cinergy from August 2005 and Vice President, Finance and Controller of Cinergy from November 2003 to August 2005.
Dhiaa M. Jamil	56	**Executive Vice President and Chief Nuclear Officer.** Mr. Jamil assumed his position as Chief Nuclear Officer in February 2008. He also served as Chief Generation Officer for Duke Energy from July 2009 to June 2012. Prior to that he served as Senior Vice President, Nuclear Support, Duke Energy Carolinas, LLC since January 2007; and prior to that he served as Vice President, Catawba Nuclear Station, since July 2003.
Julia S. Janson	48	**Executive Vice President, Chief Legal Officer and Corporate Secretary.** Ms. Janson assumed her position as Executive Vice President, Chief Legal Officer and Corporate Secretary in December 2012. Prior to that she had held the position of President of Duke Energy Ohio and Duke Energy Kentucky since 2008. She also held the position of Senior Vice President of Ethics and Compliance and Corporate Secretary for Duke Energy after its merger with Cinergy. Ms. Janson served as Chief Compliance Officer and Corporate Secretary for Cinergy since 2000.
Marc E. Manly	60	**Executive Vice President and President, Commercial Businesses.** Mr. Manly assumed the position of Executive Vice President and President, Commercial Businesses in December 2012. Prior to that he had held the positions of Chief Legal Officer since April 2006, upon the merger of Duke Energy and Cinergy. He also held the position of Corporate Secretary from December 2008 until June 2012. Until the merger of Duke Energy and Cinergy, Mr. Manly served as Executive Vice President and Chief Legal Officer of Cinergy since November 2002.
James E. Rogers	65	**Chairman, President and Chief Executive Officer.** Mr. Rogers assumed the role of Chief Executive Officer and President in April 2006, upon the merger of Duke Energy and Cinergy and assumed the role of Chairman on January 2, 2007. Until the merger of Duke Energy and Cinergy, Mr. Rogers served as Chairman of the Board of Cinergy since 2000 and as Chief Executive Officer of Cinergy since 1995.

B. Keith Trent	53	**Executive Vice President and Chief Operating Officer, Regulated Utilities.** Mr. Trent assumed his current position in December 2012. He previously held the position of Executive Vice President, Regulated Utilities upon the merger with Progress Energy in July 2012 and prior to that, President, Commercial Businesses from July 2009 until July 2012. Prior to that he served as Group Executive and Chief Strategy, Policy and Regulatory Officer since May 2007. Prior to that he served as Group Executive and Chief Strategy and Policy Officer since October 2006 and prior to that he served as Group Executive and Chief Development Officer since April 2006, upon the merger of Duke Energy and Cinergy. Until the merger of Duke Energy and Cinergy, Mr. Trent served as Executive Vice President, General Counsel and Secretary of Duke Energy since March 2005. Prior to that he served as General Counsel, Litigation of Duke Energy from May 2002 to March 2005.
Jennifer L. Weber	46	**Executive Vice President and Chief Human Resources Officer.** Ms. Weber assumed her current position in January 2011. Prior to that she served as Senior Vice President and Chief Human Resources Officer since November 2008. Prior to that she served as Senior Vice President of Human Resources at Scripps Networks Interactive from 2005 to 2008.
Lloyd M. Yates	52	**Executive Vice President, Regulated Utilities.** Mr. Yates assumed his position as Executive Vice President, Regulated Utilities in November 2012. Prior to that, he was named Executive Vice President, Customer Operations in July 2012, upon the merger of Duke Energy and Progress Energy. Mr. Yates served as Chief Executive Officer, Progress Energy Carolinas, Inc. from July 2007 until June 2012.
Steven K. Young	54	**Vice President, Chief Accounting Officer and Controller.** Mr. Young assumed the role of Chief Accounting Officer in July 2012. He assumed the role of Controller in December 2006. Prior to that he served as Vice President and Controller since April 2006, upon the merger of Duke Energy and Cinergy. Until the merger of Duke Energy and Cinergy, Mr. Young served as Vice President and Controller of Duke Energy since June 2005. Prior to that Mr. Young served as Senior Vice President and Chief Financial Officer of Duke Energy Carolinas from March 2003 to June 2005.

Executive officers serve until their successors are duly elected or appointed.

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There are no family relationships between any of the executive officers, nor any arrangement or understanding between any executive officer and any other person involved in officer selection.

ENVIRONMENTAL MATTERS

The Duke Energy Registrants are subject to federal, state and local laws and regulations with regard to air and water quality, hazardous and solid waste disposal and other environmental matters. Duke Energy is also subject to international laws and regulations with regard to air and water quality, hazardous and solid waste disposal and other environmental matters. Environmental laws and regulations affecting the Duke Energy Registrants include, but are not limited to:

- The Clean Air Act (CAA), as well as state laws and regulations impacting air emissions, including State Implementation Plans related to existing and new national ambient air quality standards for ozone and particulate matter. Owners and/or operators of air emission sources are responsible for obtaining permits and for annual compliance and reporting.

- The Clean Water Act which requires permits for facilities that discharge wastewaters into the environment.

- The Comprehensive Environmental Response, Compensation and Liability Act, which can require any individual or entity that currently owns or in the past may have owned or operated a disposal site, as well as transporters or generators of hazardous substances sent to a disposal site, to share in remediation costs.

- The Solid Waste Disposal Act, as amended by the Resource Conservation and Recovery Act, which requires certain solid wastes, including hazardous wastes, to be managed pursuant to a comprehensive regulatory regime.

- The National Environmental Policy Act, which requires federal agencies to consider potential environmental impacts in their decisions, including siting approvals.

See “Other Issues” section of Management’s Discussion and Analysis of Financial Condition and Results of Operations for a discussion about potential Global Climate Change legislation and the potential impacts such legislation could have on the Duke Energy Registrants’ operations. Additionally, other recently passed and potential future environmental laws and regulations could have a significant impact on the Duke Energy Registrants’ results of operations, cash flows or financial position. However, if and when such laws and regulations become effective, the Duke Energy Registrants will seek appropriate regulatory recovery of costs to comply within its regulated operations.

For more information on environmental matters involving the Duke Energy Registrants, including possible liability and capital costs, see Notes 4 and 5 to the Consolidated Financial Statements, “Regulatory Matters,” and “Commitments and Contingencies—Environmental,” respectively. Except to the extent discussed in Note 4 to the Consolidated Financial Statements, “Regulatory Matters,” and Note 5 to the Consolidated Financial Statements, “Commitments and Contingencies,” compliance with current international, federal, state and local provisions regulating the discharge of materials into the environment, or otherwise protecting the environment, is incorporated into the routine cost structure of our various business segments and is not expected to have a material adverse effect on the competitive position, consolidated results of operations, cash flows or financial position of the Duke Energy Registrants.

Duke Energy Subsidiary Registrants

Duke Energy Carolinas

Duke Energy Carolinas generates, transmits, distributes and sells electricity in central and western North Carolina and western South Carolina. Duke Energy Carolinas is subject to the regulatory provisions of the NCUC, the PSCSC, the NRC and FERC. Duke Energy Carolinas operates one reportable business segment, Franchised Electric, which generates, transmits, distributes and sells electricity. Substantially all of Franchised Electric operations are regulated and qualify for regulatory accounting treatment. For additional information regarding this business segment, including financial information, see Note 3 to the Consolidated Financial Statements, “Business Segments.”

Duke Energy Carolinas’ service area covers approximately 24,000 square miles and supplies electric service to 2.4 million residential, commercial and industrial customers. See Item 2. “Properties” for further discussion of Duke Energy Carolinas’ generating facilities, transmission and distribution.

The remainder of Duke Energy Carolinas’ operations is presented as Other. Although it is not considered a business segment, Other primarily includes certain governance costs allocated by its parent, Duke Energy.

Progress Energy

Progress Energy, Inc. is a public utility holding company primarily engaged in the regulated electric utility business. Headquartered in Raleigh, North Carolina, it owns, directly or indirectly, all of the outstanding common stock of its utility subsidiaries, Progress Energy Carolinas and Progress Energy Florida. When discussing Progress Energy’s financial information, it necessarily includes the results of Progress Energy Carolinas and Progress Energy Florida.

Progress Energy is subject to the regulatory provisions of the NCUC, the PSCSC, the FPSC, the NRC and the FERC. Progress Energy operates in one reportable segment, Franchised Electric, which generates, transmits, distributes and sells electricity in portions of North Carolina, South Carolina and Florida. Substantially all of Franchised Electric operations are regulated and qualify for regulatory accounting treatment. For additional information regarding this business segment, including financial information, see Note 3 to the Consolidated Financial Statements, “Business Segments.”

The remainder of Progress Energy’s operations is presented as Other. Although it is not considered a business segment, Other primarily includes certain governance costs allocated by its parent, Duke Energy.

Progress Energy Carolinas

Progress Energy Carolinas is a regulated public utility founded in North Carolina in 1908 and is primarily engaged in the generation, transmission, distribution and sale of electricity in portions of North and South Carolina. For information about Progress Energy Carolinas’ generating plants, see Item 2, “Properties.” Progress Energy Carolinas is subject to the regulatory provisions of the NCUC, the PSCSC, the NRC and FERC. Progress Energy Carolinas operates one reportable business segment, Franchised Electric, which generates, transmits, distributes and sells electricity. Substantially all of Franchised Electric operations are regulated and qualify for regulatory accounting treatment. For additional information regarding this business segment, including financial information, see Note 3 to the Consolidated Financial Statements, “Business Segments.”

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Progress Energy Carolinas' service area covers approximately 34,000 square miles, including a substantial portion of the coastal plain of North Carolina extending from the Piedmont to the Atlantic coast between the Pamlico River and the South Carolina border, the lower Piedmont section of North Carolina, an area in western North Carolina in and around the city of Asheville and an area in the northeastern portion of South Carolina. At December 31, 2012, Progress Energy Carolinas was providing electric services to approximately 1.5 million residential, commercial and industrial customers.

The remainder of Progress Energy Carolinas' operations is presented as Other. Although it is not considered a business segment, Other primarily includes certain governance costs allocated by its ultimate parent, Duke Energy.

Progress Energy Florida

Progress Energy Florida is a regulated public utility founded in Florida in 1899 and is primarily engaged in the generation, transmission, distribution and sale of electricity in portions of Florida. For information about Progress Energy Florida's generating plants, see Item 2, "Properties." Progress Energy Florida is subject to the regulatory provisions of the FPSC, the NRC and FERC. Progress Energy Florida operates one reportable business segment, Franchised Electric, which generates, transmits, distributes and sells electricity. Substantially all of Franchised Electric operations are regulated and qualify for regulatory accounting treatment. For additional information regarding this business segment, including financial information, see Note 3 to the Consolidated Financial Statements, "Business Segments."

Progress Energy Florida's service area covers approximately 20,000 square miles in west-central Florida, and includes the densely populated areas around Orlando, as well as the cities of St. Petersburg and Clearwater. Progress Energy Florida is interconnected with 22 municipal and 9 rural electric cooperative systems. At December 31, 2012, Progress Energy Florida was providing electric services to approximately 1.7 million residential, commercial and industrial customers.

The remainder of Progress Energy Florida's operations is presented as Other. Although it is not considered a business segment, Other primarily includes certain governance costs allocated by its ultimate parent, Duke Energy.

Duke Energy Ohio

Duke Energy Ohio is a wholly owned subsidiary of Cinergy, which is a wholly owned subsidiary of Duke Energy. Duke Energy Ohio is a combination electric and gas public utility that provides service in southwestern Ohio and northern Kentucky through its wholly owned subsidiary Duke Energy Kentucky, as well as electric generation in parts of Ohio, Illinois, and Pennsylvania. Duke Energy Ohio's principal lines of business include generation, transmission and distribution of electricity, the sale of and/or transportation of natural gas, and energy marketing. Duke Energy Kentucky's principal lines of business include generation, transmission and distribution of electricity, as well as the sale of and/or transportation of natural gas. References herein to Duke Energy Ohio include Duke Energy Ohio and its subsidiaries. Duke Energy Ohio is subject to the regulatory provisions of the PUCO, the KPSC and FERC.

Duke Energy Ohio Business Segments. At December 31, 2012, Duke Energy Ohio operated two business segments, both of which are considered reportable segments under the applicable accounting rules: Franchised Electric and Gas and Commercial Power. For additional information on each of these business segments, including financial information, see Note 3 to the Consolidated Financial Statements,

“Business Segments.”

The following is a brief description of the nature of operations of each of Duke Energy Ohio’s reportable business segments, as well as Other.

Franchised Electric and Gas

Franchised Electric and Gas consists of Duke Energy Ohio’s regulated electric and gas transmission and distribution systems located in Ohio and Kentucky, including its regulated electric generation in Kentucky. Franchised Electric and Gas plans, constructs, operates and maintains Duke Energy Ohio’s transmission and distribution systems, which transmit and distribute electric energy to consumers in southwestern Ohio. In addition, Franchised Electric and Gas plans, constructs, operates and maintains Duke Energy Kentucky’s generation assets and transmission and distribution systems, which generate, transmit and distribute electric energy to consumers in and northern Kentucky. Franchised Electric and Gas also transports and sells natural gas in southwestern Ohio and northern Kentucky. Substantially all of Franchised Electric and Gas’ operations are regulated and, accordingly, these operations qualify for regulatory accounting treatment.

Duke Energy Ohio’s Franchised Electric and Gas service area covers 3,000 square miles and supplies electric service to 830,000 residential, commercial and industrial customers and provides regulated transmission and distribution services for natural gas to 500,000 customers. See Item 2. “Properties” for further discussion of Duke Energy Ohio’s Franchised Electric and Gas generating facilities.

Commercial Power

Commercial Power owns, operates and manages power plants and engages in the wholesale marketing and procurement of electric power, fuel and emission allowances related to these plants, as well as other contractual positions. Commercial Power’s generation operations consists primarily of coal-fired generation assets located in Ohio and gas-fired nonregulated generation assets which are dispatched into wholesale markets and receive capacity revenues at market rates. These assets are comprised of 6,825 net MW of power generation primarily located in the Midwestern U.S. The asset portfolio has a diversified fuel mix with baseload and mid-merit coal-fired units as well as combined cycle and peaking natural gas-fired units. The coal-fired generation assets were dedicated under the Duke Energy Ohio ESP through December 31, 2011. Duke Energy Ohio’s Commercial Power reportable operating segment does not include the operations of DEGS or Duke Energy Retail, which is included in the Commercial Power reportable operating segment at Duke Energy. See Item 2. “Properties”, for further discussion of Duke Energy Ohio’s Commercial Power generating facilities.

The PUCO approved Duke Energy Ohio’s new ESP in November 2011. The ESP includes competitive auctions for electricity supply for a term of January 1, 2012 through May 31, 2015. The ESP also includes a provision for a non-bypassable stability charge of $110 million per year to be collected from 2012-2014 and requires Duke Energy Ohio to transfer its generation assets to a nonregulated affiliate on or before December 31, 2014. As a result of the new ESP, the energy from Duke Energy Ohio’s coal-fired generation assets no longer serve retail load customers or receive negotiated pricing under the ESP.

Effective January 1, 2012, Duke Energy Ohio completed its RTO realignment to PJM, and operates as an FRR entity through May 31, 2015. As an FRR entity, Duke Energy Ohio is required to self supply capacity for the Duke Energy Ohio load zone.

See Note 4 to the Consolidated Financial Statements, “Regulatory Matters,” for further discussion related to regulatory filings.

In 2012, 2011, and 2010 Duke Energy Ohio earned approximately 36%, 24%, and 13%, respectively, of its consolidated operating revenues from PJM. These revenues relate to the sale of capacity and electricity from all of Duke Energy Ohio's nonregulated generation assets in 2012 and its gas-fired nonregulated generation assets in 2011 and 2010.

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Other

The remainder of Duke Energy Ohio's operations is presented as Other. Although it is not considered a business segment, Other primarily consists of certain governance costs allocated by its ultimate parent, Duke Energy.

Duke Energy Indiana

Duke Energy Indiana, an Indiana corporation organized in 1942, is an indirect wholly owned subsidiary of Duke Energy. Duke Energy Indiana generates, transmits and distributes electricity in central, north central, and southern Indiana. Duke Energy Indiana is subject to the regulatory provisions of the IURC and FERC. Duke Energy Indiana operates one reportable business segment, Franchised Electric, which generates, transmits, distributes and sells electricity. The substantial majority of Duke Energy Indiana's operations are regulated and qualify for regulatory accounting treatment. For additional information regarding this business segment, including financial information, see Note 3 to the Consolidated Financial Statements, "Business Segments."

Duke Energy Indiana's service area covers 23,000 square miles. Duke Energy Indiana supplies electric service to 790,000 residential, commercial and industrial customers. See Item 2. "Properties" for further discussion of Duke Energy Indiana's generating facilities, transmission and distribution.

The remainder of Duke Energy Indiana's operations is presented as Other. Although it is not considered a business segment, Other primarily includes certain governance costs allocated by its ultimate parent, Duke Energy.

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ITEM 1A. RISK FACTORS

Unless otherwise indicated, the risk factors discussed below generally relate to risks associated with all of the Duke Energy Registrants. Risks identified at the Subsidiary Registrant level are generally applicable to Duke Energy.

The Duke Energy Registrants' franchised electric revenues, earnings and results are dependent on state legislation and regulation that affect electric generation, transmission, distribution and related activities, which may limit their ability to recover costs.

The Duke Energy Registrants' franchised electric businesses are regulated on a cost-of-service/rate-of-return basis subject to the statutes and regulatory commission rules and procedures of North Carolina, South Carolina, Florida, Ohio, Indiana and Kentucky. If the Duke Energy Registrants' franchised electric earnings exceed the returns established by the state regulatory commissions, retail electric rates may be subject to review and possible reduction by the commissions, which may decrease the Duke Energy Registrants' future earnings. Additionally, if regulatory bodies do not allow recovery of costs incurred in providing service on a timely basis, the Duke Energy Registrants' future earnings could be negatively impacted.

If legislative and regulatory structures were to evolve in such a way that the Duke Energy Registrants' exclusive rights to serve their franchised customers were eroded, their future earnings could be negatively impacted.

The Duke Energy Registrants' plans for future expansion and modernization of their generation fleet subject them to risk of failure to adequately execute and manage their significant construction plans, as well as the risk of not recovering all costs or of recovering costs in an untimely manner, which could materially impact their results of operations, cash flows or financial position.

The completion of the Duke Energy Registrants' anticipated capital investment projects in existing and new generation facilities is subject to many construction and development risks, including, but not limited to, risks related to financing, obtaining and complying with terms of permits, meeting construction budgets and schedules, and satisfying operating and environmental performance standards. Moreover, the Duke Energy Registrants' ability to recover all these costs and recovering costs in a timely manner could materially impact the Duke Energy Registrants' consolidated financial position, results of operations or cash flows.

Deregulation or restructuring in the electric industry may result in increased competition and unrecovered costs that could adversely affect the Duke Energy Registrants' financial position, results of operations or cash flows and their utility businesses.

Increased competition resulting from deregulation or restructuring efforts, including from the Energy Policy Act of 2005, could have a significant adverse financial impact on the Duke Energy Registrants and consequently on their results of operations, financial position, or cash flows. Increased competition could also result in increased pressure to lower costs, including the cost of electricity. Retail competition and the unbundling of regulated energy and gas service could have a significant adverse financial impact on the Duke Energy Registrants due to an impairment of assets, a loss of retail customers, lower profit margins or increased costs of capital. The Duke Energy Registrants cannot predict the extent and timing of entry by additional competitors into the electric markets. The Duke Energy Registrants cannot predict when they will be subject to changes in legislation or regulation, nor can they predict the impact of these changes on their

financial position, results of operations or cash flows.

The ability of the Duke Energy Registrants to recover significant costs resulting from severe weather events is subject to regulatory oversight, and the timing and amount of any such recovery is uncertain and may impact their financial condition, results of operations and cash flows.

The Duke Energy Registrants are subject to incurring significant costs resulting from damage sustained during severe weather events. If the Duke Energy Registrants cannot recover costs associated with future severe weather events in a timely manner, or in an amount sufficient to cover our actual costs, their financial condition, results of operations and cash flows could be materially and adversely impacted.

Energy conservation could negatively impact the Duke Energy Registrants' financial results.

Certain regulatory and legislative bodies have introduced or are considering requirements and/or incentives to reduce energy consumption by certain dates. Additionally, technological advances driven by federal laws mandating new levels of energy efficiency in end-use electric devices or other improvements in or applications of technology could lead to declines in per capita energy consumption. To the extent conservation results in reduced energy demand or significantly slows the growth in demand, the Duke Energy Registrants' unregulated business activities could be adversely impacted. In the Duke Energy Registrants' regulated operations, conservation could have a negative impact depending on the regulatory treatment of the associated impacts. The Duke Energy Registrants currently have energy-efficiency riders in place to recover the cost of energy-efficiency programs in North Carolina, South Carolina, Florida, Ohio and Kentucky. Should the Duke Energy Registrants be required to invest in conservation measures that result in reduced sales from effective conservation, regulatory lag in adjusting rates for the impact of these measures could have a negative financial impact.

The Duke Energy Registrants' businesses are subject to extensive federal regulation that will affect their operations and costs.

The Duke Energy Registrants are subject to regulation by FERC, the NRC and various other federal agencies. Regulation affects almost every aspect of the Duke Energy Registrants' businesses, including, among other things, their ability to: take fundamental business management actions; determine the terms and rates of transmission and distribution services; make acquisitions; issue equity or debt securities; engage in transactions with other subsidiaries and affiliates; and the ability of the operating subsidiaries to pay dividends to the Duke Energy Registrants. Changes to these regulations are ongoing, and the Duke Energy Registrants cannot predict the future course of changes in this regulatory environment or the ultimate effect that this changing regulatory environment will have on their businesses. However, changes in regulation (including re-regulating previously deregulated markets) can cause delays in or affect business planning and transactions and can substantially increase the Duke Energy Registrants' costs.

The Duke Energy Registrants are subject to numerous environmental laws and regulations that require significant capital expenditures that can increase cost of operations, and which may impact or limit business plans, or cause exposure to environmental liabilities.

The Duke Energy Registrants are subject to numerous environmental laws and regulations affecting many aspects of their present and future operations, including air emissions, water quality, wastewater discharges, solid waste and hazardous waste. These laws and regulations can result in increased capital, operating, and other costs. These laws and regulations generally require the Duke Energy Registrants to obtain and comply with a wide variety of environmental licenses, permits, inspections and other approvals. Compliance with environmental laws and regulations can require significant expenditures, including expenditures for cleanup costs and damages arising from contaminated properties, and failure to comply

with environmental regulations may result in the imposition of fines, penalties and injunctive measures affecting operating assets. The steps the Duke Energy Registrants could be required to take to ensure that their facilities are in compliance could be prohibitively expensive. As a result, the Duke Energy Registrants may be required to shut down or alter the operation of their facilities, which may cause the Duke Energy Registrants to incur losses. Further, the Duke Energy Registrants' regulatory rate structure and their contracts with customers may not necessarily allow for the recovery of capital costs incurred to comply with new environmental regulations. Also, the Duke Energy Registrants may not be able to obtain or maintain from time to time all

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required environmental regulatory approvals for their operating assets or development projects. Delays in obtaining any required environmental regulatory approvals, failure to obtain and comply with them or changes in environmental laws or regulations to more stringent compliance levels could result in additional costs of operation for existing facilities or development of new facilities being prevented, delayed or subject to additional costs. Although it is not expected that the costs of complying with current environmental regulations will have a material adverse effect on the Duke Energy Registrants' financial position, results of operations or cash flows, no assurance can be made that the costs of complying with environmental regulations in the future will not have such an effect.

The EPA has proposed new federal regulations governing the management of coal combustion by-products, including fly ash. These regulations may require the Duke Energy Registrants to make additional capital expenditures and increase operating and maintenance costs.

Other potential new environmental regulations, limiting the use of coal acquired from mountaintop removal and imposing additional requirements on water discharges associated with mountaintop removal, could increase costs of fuel and require the Duke Energy Registrants to make additional related capital expenditures. In addition, the Duke Energy Registrants are generally responsible for on-site liabilities, and in some cases off-site liabilities, associated with the environmental condition of their power generation facilities and natural gas assets acquired or developed, regardless of when the liabilities arose and whether they are known or unknown. In connection with some acquisitions and sales of assets, the Duke Energy Registrants may obtain, or be required to provide, indemnification against some environmental liabilities. If the Duke Energy Registrants incur a material liability, or the other party to a transaction fails to meet its indemnification obligations, the Duke Energy Registrants could suffer material losses.

The Duke Energy Registrants' sales may decrease if they are unable to gain adequate, reliable and affordable access to transmission assets.

The Duke Energy Registrants depend on transmission and distribution facilities owned and operated by utilities and other energy companies to deliver electricity sold to the wholesale market. FERC's power transmission regulations, as well as those of Duke Energy's international markets, require wholesale electric transmission services to be offered on an open-access, non-discriminatory basis. If transmission is disrupted, or if transmission capacity is inadequate, the Duke Energy Registrants' ability to sell and deliver products may be hindered.

The different regional power markets have changing regulatory structures, which could affect the Duke Energy Registrants' growth and performance in these regions. In addition, the independent system operators who oversee the transmission systems in regional power markets have imposed in the past, and may impose in the future, price limitations and other mechanisms to address volatility in the power markets. These types of price limitations and other mechanisms may adversely impact the profitability of the Duke Energy Registrants' wholesale power marketing business.

The Duke Energy Registrants must meet credit quality standards and there is no assurance that they and their rated subsidiaries will maintain investment grade credit ratings. If the Duke Energy Registrants or their rated subsidiaries are unable to maintain investment grade credit ratings, they would be required under credit agreements to provide collateral in the form of letters of credit or cash, which may materially adversely affect their liquidity.

Each of the Duke Energy Registrants and their rated subsidiaries' senior unsecured long-term debt is currently rated investment grade by various rating agencies. The Duke Energy Registrants cannot be sure that their senior unsecured long-term debt or that of their rated subsidiaries will be rated investment grade in the future.

If the rating agencies were to rate the Duke Energy Registrants or their rated subsidiaries below investment grade, the entities' borrowing costs would increase, perhaps significantly. In addition, their potential pool of investors and funding sources would likely decrease. Further, if the Duke Energy Registrants' short-term debt rating were to fall, access to the commercial paper market could be significantly limited. Any downgrade or other event negatively affecting the credit ratings of the Duke Energy Registrants' subsidiaries could make their costs of borrowing higher or access to funding sources more limited, which in turn could increase their need to provide liquidity in the form of capital contributions or loans to such subsidiaries, thus reducing the liquidity and borrowing availability of the consolidated group. A reduction in liquidity and borrowing availability could ultimately impact the ability to indefinitely reinvest the earnings of its international operations, which could result in significant income taxes that would have a material adverse effect on Duke Energy's results of operations.

A downgrade below investment grade could also require the Duke Energy Registrants to post additional collateral in the form of letters of credit or cash under various credit agreements and trigger termination clauses in some interest rate derivative agreements, which would require cash payments. All of these events would likely reduce the Duke Energy Registrants' liquidity and profitability and could have a material adverse effect on their financial position, results of operations or cash flows.

The Duke Energy Registrants are exposed to credit risk of the customers and counterparties with whom they do business.

Adverse economic conditions affecting, or financial difficulties of, customers and counterparties with whom the Duke Energy Registrants do business could impair the ability of these customers and counterparties to pay for services or fulfill their contractual obligations, including loss recovery payments under insurance contracts, or cause them to delay such payments or obligations. The Duke Energy Registrants depend on these customers and counterparties to remit payments on a timely basis. Any delay or default in payment could adversely affect the Duke Energy Registrants' cash flows, financial position or results of operations.

The Duke Energy Registrants' operating results may fluctuate on a seasonal and quarterly basis and can be negatively affected by changes in weather conditions and severe weather.

Electric power generation is generally a seasonal business. In most parts of the U.S., and other markets in which Duke Energy operates, demand for power peaks during the warmer summer months, with market prices typically peaking at that time. In other areas, demand for power peaks during the winter. Further, extreme weather conditions such as heat waves or winter storms could cause these seasonal fluctuations to be more pronounced. As a result, in the future, the overall operating results of the Duke Energy Registrants' businesses may fluctuate substantially on a seasonal and quarterly basis and thus make period-to-period comparison less relevant.

Sustained severe drought conditions could impact generation by the Duke Energy Registrants' hydroelectric plants, as well as their fossil and nuclear plant operations, as these facilities use water for cooling purposes and for the operation of environmental compliance equipment. Furthermore, destruction caused by severe weather events, such as hurricanes, tornadoes, severe thunderstorms, snow and ice storms, can result in lost operating revenues due to outages; property damage, including downed transmission and distribution lines; and additional and unexpected expenses to mitigate storm damage.

The Duke Energy Registrants are involved in numerous legal proceedings, the outcomes of which are uncertain. Adverse resolution of these matters could negatively affect the Duke Energy Registrants' financial position, results of operations or cash flows.

The Duke Energy Registrants are subject to numerous legal proceedings, including claims for damages for bodily injuries alleged to have arisen prior to 1985 from the exposure to or use of asbestos at electric generation plants of Duke Energy Carolinas. Litigation is subject to many uncertainties and the Duke Energy Registrants cannot predict the outcome of individual matters with assurance. It is reasonably possible that the final resolution of

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some of the matters could require additional expenditures, in excess of established reserves, over an extended period of time and in a range of amounts that could have a material effect on the Duke Energy Registrants' cash flows and results of operations. Similarly, it is reasonably possible that the terms of resolution could require the Duke Energy Registrants to change business practices and procedures, which could also have a material effect on their financial position, results of operations or cash flows.

The Duke Energy Registrants' results of operations may be negatively affected by overall market, economic and other conditions that are beyond their control.

Sustained downturns or sluggishness in the economy generally affect the markets in which the Duke Energy Registrants operate and negatively influence energy operations. Declines in demand for energy as a result of economic downturns in the Duke Energy Registrants' franchised electric service territories will reduce overall sales and lessen cash flows, especially as industrial customers reduce production and, therefore, consumption of electricity and gas. Although the Duke Energy Registrants' franchised electric and gas business is subject to regulated allowable rates of return and recovery of certain costs, such as fuel under periodic adjustment clauses, overall declines in electricity sold as a result of economic downturn or recession could reduce revenues and cash flows, thus diminishing results of operations. Additionally, prolonged economic downturns that negatively impact the Duke Energy Registrants' results of operations and cash flows could result in future material impairment charges being recorded to write-down the carrying value of certain assets, including goodwill, to their respective fair values.

The Duke Energy Registrants also sell electricity into the spot market or other competitive power markets on a contractual basis. With respect to such transactions, the Duke Energy Registrants are not guaranteed any rate of return on their capital investments through mandated rates, and revenues and results of operations are likely to depend, in large part, upon prevailing market prices. These market prices may fluctuate substantially over relatively short periods of time and could reduce the Duke Energy Registrants' revenues and margins and thereby diminish their results of operations.

Factors that could impact sales volumes, generation of electricity and market prices at which the Duke Energy Registrants' able to sell electricity are as follows:

- weather conditions, including abnormally mild winter or summer weather that cause lower energy usage for heating or cooling purposes, respectively, and periods of low rainfall that decrease the Duke Energy Registrants' ability to operate its facilities in an economical manner;

- supply of and demand for energy commodities;

- transmission or transportation constraints or inefficiencies which impact the Duke Energy Registrants' non-regulated energy operations;

- availability of competitively priced alternative energy sources, which are preferred by some customers over electricity produced from coal, nuclear or gas plants, and of energy-efficient equipment which reduces energy demand;

- natural gas, crude oil and refined products production levels and prices;

- ability to procure satisfactory levels of inventory, such as coal, gas and uranium;

- electric generation capacity surpluses which cause the Duke Energy Registrants' non-regulated energy plants to generate and sell less electricity at lower prices and may cause some plants to become non-economical to operate; and

- capacity and transmission service into, or out of, the Duke Energy Registrants' markets.

Coal inventory levels have increased due to mild weather, low natural gas and power prices resulting in higher combined cycle gas-fired generation, and the economy's overall effect on load. Continuation of these factors for an extended period of time could result in additional costs of managing the coal inventory or other costs. If these costs are not recoverable the Duke Energy Registrants' results of operations could be negatively impacted.

Fluctuations in commodity prices or availability may adversely affect various aspects of the Duke Energy Registrants' operations as well as their financial condition, results of operations and cash flows.

The Duke Energy Registrants are exposed to the effects of market fluctuations in the price of natural gas, coal, fuel oil, nuclear fuel, electricity and other energy-related commodities, including emission allowances, as a result of their ownership of energy-related assets. Fuel costs are recovered primarily through cost-recovery clauses, subject to the approval of state utility commissions. Additionally, the Duke Energy Registrants have hedging strategies in place to mitigate fluctuations in commodity supply prices, but to the extent that these do not cover the entire exposure to commodity price fluctuations, or their hedging procedures do not work as planned, there can be no assurances that the Duke Energy Registrants' financial performance will not be negatively impacted by price fluctuations. Additionally, the Duke Energy Registrants are exposed to risk that counterparties will not be able to perform their obligations. Should counterparties fail to perform, the Duke Energy Registrants might be forced to replace the underlying commitment at prevailing market prices possibly resulting in losses in addition to the amounts, if any, already paid to the counterparties.

Certain of the Duke Energy Registrants hedge agreements may result in the receipt of, or posting of, derivative collateral with counterparties, depending on the daily derivative position. Fluctuations in commodity prices that lead to the return of collateral received and/or the posting of collateral with counterparties negatively impact our liquidity. Downgrades in the Duke Energy Registrants' credit ratings could lead to additional collateral posting requirements. The Duke Energy Registrants continually monitor derivative positions in relation to market price activity.

Poor investment performance of the Duke Energy pension plan holdings and other factors impacting pension plan costs could unfavorably impact the Duke Energy Registrants' liquidity and results of operations.

The costs of providing non-contributory defined benefit pension plans are dependent upon a number of factors, such as the rates of return on plan assets, discount rates, the level of interest rates used to measure the required minimum funding levels of the plans, future government regulation and required or voluntary contributions made to the plans. The Subsidiary Registrants participate in employee benefit plans sponsored by Duke Energy or Progress Energy. The Subsidiary Registrants are allocated their proportionate share of the cost and obligations related to these plans. Without sustained growth in the pension investments over time to increase the value of plan assets and depending upon the other factors impacting costs as listed above, Duke Energy could be required to fund its plans with significant amounts of cash. Such cash funding obligations, and the Subsidiary Registrants' proportionate share of such cash funding obligations, could have a material impact on the Duke Energy Registrants' financial position, results of operations or cash flows.

Potential terrorist activities or military or other actions, including cyber system attacks, could adversely affect the Duke Energy Registrants' businesses.

The continued threat of terrorism and the impact of retaliatory military and other action by the U.S. and its allies may lead to increased political, economic and financial market instability and volatility in prices for natural gas and oil which may have material adverse affects in ways the Duke Energy

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Registrants cannot predict at this time. In addition, future acts of terrorism and any possible reprisals as a consequence of action by the U.S. and its allies could be directed against companies operating in the U.S. or their international affiliates. Cyber systems, infrastructure and generation facilities such as the Duke Energy Registrants' nuclear plants could be potential targets of terrorist activities or harmful activities by individuals or groups. The potential for terrorism has subjected the Duke Energy Registrants' operations to increased risks and could have a material adverse effect on their businesses. In particular, the Duke Energy Registrants may experience increased capital and operating costs to implement increased security for their cyber systems and plants, including nuclear power plants under the NRC's design basis threat requirements, such as additional physical plant security, additional security personnel or additional capability following a terrorist incident.

The insurance industry has also been disrupted by these potential events. As a result, the availability of insurance covering risks the Duke Energy Registrants and their competitors typically insure against may decrease. In addition, the insurance the Duke Energy Registrants are able to obtain may have higher deductibles, higher premiums, lower coverage limits and more restrictive policy terms.

Information security risks have generally increased in recent years as a result of the proliferation of new technologies and the increased sophistication and activities of cyber attacks. Through our smart grid and other initiatives, the Duke Energy Registrants have increasingly connected equipment and systems related to the generation, transmission and distribution of electricity to the Internet. Because of the critical nature of the infrastructure and the increased accessibility enabled through connection to the Internet, the Duke Energy Registrants may face a heightened risk of cyber attack. In the event of such an attack, the Duke Energy Registrants could have business operations disrupted, property damaged and customer information stolen; experience substantial loss of revenues, response costs and other financial loss; and be subject to increased regulation, litigation and damage to our reputation.

Additional risks and uncertainties not currently known to the Duke Energy Registrants or which they currently deem to be immaterial also may materially adversely affect the Duke Energy Registrants' financial condition, results of operations or cash flows.

Failure to attract and retain an appropriately qualified workforce could unfavorably impact the Duke Energy Registrants' results of operations.

Certain events, such as an aging workforce, mismatch of skill set or complement to future needs, or unavailability of contract resources may lead to operating challenges and increased costs. The challenges include lack of resources, loss of knowledge base and the lengthy time required for skill development. In this case, costs, including costs for contractors to replace employees, productivity costs and safety costs, may rise. Failure to hire and adequately train replacement employees, including the transfer of significant internal historical knowledge and expertise to the new employees, or the future availability and cost of contract labor may adversely affect the ability to manage and operate the business. If the Duke Energy Registrants are unable to successfully attract and retain an appropriately qualified workforce, their financial position or results of operations could be negatively affected.

The Duke Energy Registrants rely on access to short-term borrowings and longer-term capital markets to finance their capital requirements and support their liquidity needs. Access to those markets can be adversely affected by a number of conditions, many of which are beyond the Duke Energy Registrants' control.

The Duke Energy Registrants' businesses are financed to a large degree through debt and the maturity and repayment profile of debt used to finance investments often does not correlate to cash flows from their assets. Accordingly, as a source of liquidity for capital requirements not satisfied by the cash flow from their operations and to fund investments originally financed through debt instruments with disparate maturities, Duke Energy and the Subsidiary Registrants rely on access to short-term money markets as well as longer-term capital markets and the Subsidiary Registrants also rely on access to short-term intercompany borrowings. If the Duke Energy Registrants are not able to access capital at competitive rates or at all, the ability to finance their operations and implement their strategy and business plan as scheduled could be adversely affected. An inability to access capital may limit the Duke Energy Registrants' ability to pursue improvements or acquisitions that they may otherwise rely on for future growth.

Market disruptions may increase the Duke Energy Registrants' cost of borrowing or adversely affect their ability to access one or more financial markets. Such disruptions could include: economic downturns; the bankruptcy of an unrelated energy company; capital market conditions generally; market prices for electricity and gas; terrorist attacks or threatened attacks on their facilities or unrelated energy companies; or the overall health of the energy industry. The availability of credit under Duke Energy's revolving credit facilities depends upon the ability of the banks providing commitments under such facilities to provide funds when their obligations to do so arise. Systematic risk of the banking system and the financial markets could prevent a bank from meeting its obligations under the facility agreement.

Duke Energy maintains revolving credit facilities to provide back-up for a commercial paper program for variable rate demand tax-exempt bonds that may be put to the Duke Energy Registrant issuer at the option of the holder and certain letters of credit at various entities. These facilities typically include borrowing sublimits for the Subsidiary Registrants and financial covenants that limit the amount of debt that can be outstanding as a percentage of the total capital for the specific entity. Failure to maintain these covenants at a particular entity could preclude Duke Energy from issuing commercial paper or the Duke Energy Registrants from issuing letters of credit or borrowing under the revolving credit facility. Additionally, failure to comply with these financial covenants could result in Duke Energy being required to immediately pay down any outstanding amounts under other revolving credit agreements.

Duke Energy's investments and projects located outside of the United States expose it to risks related to laws of other countries, taxes, economic conditions, political conditions and policies of foreign governments. These risks may delay or reduce Duke Energy's realization of value from its international projects.

Duke Energy currently owns and may acquire and/or dispose of material energy-related investments and projects outside the U.S. The economic, regulatory, market and political conditions in some of the countries where Duke Energy has interests or in which it may explore development, acquisition or investment opportunities could present risks related to, among others, Duke Energy's ability to obtain financing on suitable terms, its customers' ability to honor their obligations with respect to projects and investments, delays in construction, limitations on its ability to enforce legal rights, and interruption of business, as well as risks of war, expropriation, nationalization, renegotiation, trade sanctions or nullification of existing contracts and changes in law, regulations, market rules or tax policy.

Duke Energy's investments and projects located outside of the United States expose it to risks related to fluctuations in currency rates. These risks, and Duke Energy's activities to mitigate such risks, may adversely affect its cash flows and results of operations.

Duke Energy's operations and investments outside the U.S. expose it to risks related to fluctuations in currency rates. As each local currency's value changes relative to the U.S. dollar — Duke Energy's principal reporting currency — the value in U.S. dollars of Duke Energy's assets and liabilities in such locality and the

cash flows generated in such locality, expressed in U.S. dollars, also change. Duke Energy's primary foreign currency rate exposure is to the Brazilian Real.

Duke Energy selectively mitigates some risks associated with foreign currency fluctuations by, among other things, indexing contracts to the U.S. dollar and/or local inflation rates, hedging through debt denominated or issued in the foreign currency and hedging through foreign currency derivatives. These efforts, however, may not be effective and, in some cases, may expose Duke Energy to other risks that could negatively affect its cash flows and results of operations.

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Duke Energy’s merger with Progress Energy may not achieve its intended results.

The merger is expected to result in various benefits, including, among other things, cost savings and operating efficiencies relating to the joint dispatch of generation and combining of fuel purchasing power. Achievin