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THE STATE OF SOUTH CAROLINA
In The Court of Appeals

APPEAL FROM THE ADMINISTRATIVE LAW COURT

Ralph K. Anderson, III, Chief Administrative Law Judge

Case No. 19-ALJ-17-0153-CC

2020-001542

Duke Energy Corporation..... Appellant,

v.

South Carolina Department of Revenue..... Respondent.

RECORD ON APPEAL

VOLUME V [Pages 986-1230]

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New Accounting Standards

The new accounting standards that were adopted for 2014, 2013 and 2012 had no significant impact on the presentation or results of operations, cash flows or financial position of the Duke Energy Registrants. Disclosures have been enhanced to provide a discussion and tables on derivative contracts subject to enforceable master netting agreements and a table of quantitative disclosures about unobservable inputs. See Notes 14 and 16 for further information.

The following new Accounting Standards Updates (ASUs) have been issued, but have not yet been adopted by the Duke Energy Registrants, as of December 31, 2014.

ASC 205 — Reporting Discontinued Operations. In April 2014, the Financial Accounting Standards Board (FASB) issued revised accounting guidance for reporting discontinued operations. A discontinued operation would be either (i) a component of an entity or a group of components of an entity that represents a separate major line of business or major geographical area of operations that either has been disposed of or is part of a single coordinated plan to be classified as held for sale or (ii) a business that, on acquisition, meets the criteria to be classified as held for sale.

For the Duke Energy Registrants, this guidance is effective on a prospective basis for interim and annual periods beginning January 1, 2015. This guidance will also result in increased disclosures for discontinued operations or disposals of individually significant components that are not classified as discontinued operations. In general, this guidance is likely to result in fewer disposals of assets qualifying as discontinued operations.

ASC 606 — Revenue from Contracts with Customers. In May 2014, the FASB issued revised accounting guidance for revenue recognition from contracts with customers. The core principle of this guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments in this update also require disclosure of sufficient information to allow users to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

For the Duke Energy Registrants, this guidance is effective for interim and annual periods beginning January 1, 2017. Duke Energy is currently evaluating the requirements. The ultimate impact of the new standard has not yet been determined.

2. ACQUISITIONS, DISPOSITIONS AND SALES OF OTHER ASSETS**ACQUISITIONS**

The Duke Energy Registrants consolidate assets and liabilities from acquisitions as of the purchase date, and include earnings from acquisitions in consolidated earnings after the purchase date.

Purchase of NCEMPA's Generation

On September 5, 2014, Duke Energy Progress executed an agreement to purchase North Carolina Eastern Municipal Power Agency's (NCEMPA) ownership interests in certain generating assets jointly owned with and operated by Duke Energy Progress. The agreement provides for the acquisition of a total of approximately 700 megawatts (MW) at Brunswick Nuclear Station (Brunswick), Shearon Harris Nuclear Station (Harris), Mayo Steam Station and Roxboro Steam Station. The purchase price for the ownership interest and fuel and spare parts inventory is approximately \$1.2 billion. Under the agreement, Duke Energy Progress and NCEMPA will enter into a 30-year wholesale power supply agreement to continue meeting the needs of NCEMPA's customers. Closing of the transaction is subject to certain conditions, including state and federal regulatory approvals and legislative action required prior to completing the transaction. On December 9, 2014, the FERC approved Duke Energy Progress' request to purchase NCEMPA's interests in the generation assets, approved Duke Energy Progress' 30-year wholesale power supply agreement with NCEMPA, and approved Duke Energy Progress' inclusion of the acquisition adjustment resulting from the asset purchase in wholesale power formula rates. The transaction is expected to close by the end of 2015 or early 2016.

Merger with Progress Energy

On July 2, 2012, Duke Energy completed its merger with 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, 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.

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Purchase Price

Total consideration transferred was based on the closing price of Duke Energy common shares on July 2, 2012, and was calculated as shown in the following table.

(dollars in millions, except per share amounts; shares in thousands)		
Progress Energy common shares outstanding at July 2, 2012		296,116
Exchange ratio		0.87083
Duke Energy common shares issued for Progress Energy common shares outstanding		257,867
Closing price of Duke Energy common shares on July 2, 2012	\$	69.84
Purchase price for common stock	\$	18,009
Fair value of outstanding earned stock compensation awards		62
Total purchase price	\$	18,071

Progress Energy's stock-based compensation awards, including performance shares and restricted stock, were replaced with Duke Energy awards upon consummation of the merger. In accordance with accounting guidance for business combinations, a portion of the fair value of these awards is included in the purchase price as it represents consideration transferred in the merger.

Purchase Price Allocation

Fair value of assets acquired and liabilities assumed was determined based on significant estimates and assumptions, including Level 3 inputs, which are judgmental in nature. Estimates and assumptions include the projected timing and amount of future cash flows, discount rates reflecting risk inherent in future cash flows, and future market prices.

Additionally, the February 5, 2013 announcement of the decision to retire Crystal River Unit 3 reflected additional information related to facts and circumstances existing as of the acquisition date. See Note 4 for additional information related to Crystal River Unit 3. As such, Duke Energy presents assets acquired and liabilities assumed as if the retirement of Crystal River Unit 3 occurred on the acquisition date.

The majority of Progress Energy's operations are subject to the rate-setting authority of the FERC, NCUC, PSCSC, and FPSC and are accounted for pursuant to U.S. GAAP, including the accounting guidance for regulated operations. Rate-setting and cost recovery provisions currently in place for Progress Energy's regulated operations provide revenues derived from costs, including a return on investment of assets and liabilities included in rate base. Except for long-term debt, asset retirement obligations, capital leases, pension and other post-retirement benefit obligations (OPEB), and the wholesale portion of Crystal River Unit 3, fair values of tangible and intangible assets and liabilities subject to these rate-setting provisions approximate their carrying values. Accordingly, assets acquired and liabilities assumed and pro forma financial information do not reflect any net adjustments related to these amounts. The difference between fair value and pre-merger carrying amounts for long-term debt, asset retirement obligations, capital leases and pension and OPEB plans for regulated operations were recorded as Regulatory assets.

The excess of purchase price over estimated fair values of assets acquired and liabilities assumed was recognized as goodwill at the acquisition date. The goodwill reflects the value paid primarily for long-term potential for enhanced access to capital as a result of increased scale and diversity, opportunities for synergies, and an improved risk profile. Goodwill resulting from the merger was allocated entirely to the Regulated Utilities segment. None of the goodwill recognized is deductible for income tax purposes, and as such, no deferred taxes have been recorded related to goodwill.

The completed purchase price allocation is presented in the following table.

(in millions)		
Current assets	\$	3,204
Property, plant and equipment		23,141
Goodwill		12,469
Other long-term assets		9,990
Total assets		48,804
Current liabilities, including current maturities of long-term debt		3,593
Long-term liabilities, preferred stock and noncontrolling interests		10,394
Long-term debt		16,746
Total liabilities and preferred stock		30,733
Total purchase price	\$	18,071

The purchase price allocation in the table above reflects refinements made to preliminary fair values of assets acquired and liabilities assumed as of December 31, 2012. These refinements include adjustments associated with the retirement of Crystal River Unit 3. The changes resulted in an increase to Goodwill of \$2 million, an increase to the fair value of Current liabilities, including current maturities of long-term debt of \$12 million, a decrease to Property, plant and equipment of \$138 million, a decrease to Other long-term assets of \$4 million and a decrease to Long-term liabilities, preferred stock and noncontrolling interests of \$152 million. These refinements had no impact on the amortization of purchase accounting adjustments recorded to earnings during the year ended December 31, 2013, or for the six months ended December 31, 2012.

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Pro Forma Financial Information

The following unaudited pro forma financial information reflects the consolidated results of operations of Duke Energy and the amortization of purchase price adjustments assuming the merger had taken place on January 1, 2012. The unaudited pro forma financial information has been presented for illustrative purposes only and is not necessarily indicative of the consolidated results of operations that would have been achieved or future consolidated results of operations of Duke Energy.

Non-recurring merger consummation, integration and other costs incurred by Duke Energy and Progress Energy during the period have been excluded from pro forma earnings presented below. After-tax non-recurring merger consummation, integration and other costs incurred by both Duke Energy and Progress Energy were \$413 million for the year ended 2012. The pro forma financial information also excludes potential future cost savings or non-recurring charges related to the merger.

(in millions, except per share amounts)	Year Ended December 31, 2012
Revenues	\$ 23,976
Net Income Attributable to Duke Energy Corporation	2,417
Basic and Diluted Earnings Per Share	3.43

Accounting Charges Related to the Merger Consummation

The following pretax consummation charges were recognized upon closing of the merger and are included in the Duke Energy Registrants' Consolidated Statements of Operations and Comprehensive Income for the year ended December 31, 2012.

(in millions)	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana
FERC Mitigation	\$ 117	\$ 46	\$ 71	\$ 71	\$ —	\$ —	\$ —
Severance costs	196	63	82	55	27	21	18
Community support, charitable contributions and other	169	79	74	63	11	7	6
Total	\$ 482	\$ 188	\$ 227	\$ 189	\$ 38	\$ 28	\$ 24

FERC Mitigation charges reflect the portion of transmission project costs probable of disallowance, impairment of the carrying value of the generation assets serving Interim FERC Mitigation, and mark-to-market losses recognized on power sale agreements upon closing of the merger. Charges related to transmission projects and impairment of the carrying value of generation assets were recorded within Impairment charges in the Consolidated Statements of Operations. Mark-to-market losses on interim power sale agreements was recorded in Regulated electric operating revenues in the Consolidated Statements of Operations. Subsequent changes in fair value of interim power sale agreements over the life of the contracts and realized gains or losses on interim contract sales are also recorded within Regulated electric operating revenues. The ability to successfully defend future recovery of a portion of transmission projects in rates and any future changes to estimated transmission project costs could impact the amount not expected to be recovered.

In conjunction with the merger, in November 2011, Duke Energy and Progress Energy each offered a voluntary severance plan (VSP) to certain eligible employees. VSP and other severance costs incurred were recorded primarily within Operation, maintenance and other in the Consolidated Statements of Operations. See Note 19 for further information related to employee severance expenses.

Community support, charitable contributions and other reflect (i) the unconditional obligation to provide funding at a level comparable to historic practices over the next four years, and (ii) financial and legal advisory costs incurred upon the closing of the merger, retention and relocation costs paid to certain employees. These charges were recorded within Operation, maintenance and other in the Consolidated Statements of Operations.

Impact of Merger

The impact of Progress Energy on Duke Energy's revenues and net income attributable to Duke Energy in the Consolidated Statements of Operations for the year ended December 31, 2012 was an increase of \$4,943 million and \$368 million, respectively.

Chilean Operations

In December 2012, Duke Energy acquired Iberoamericana de Energía Ibener, S.A. (Ibener) of Santiago, Chile, for cash consideration of \$415 million. This acquisition included the 140 MW Duqueco hydroelectric generation complex consisting of two run-of-the-river plants located in southern Chile. Purchase price allocation consisted primarily of \$383 million of property, plant and equipment, \$30 million of intangible assets, \$57 million of deferred income tax liabilities, \$54 million of goodwill and \$8 million of working capital.

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DISPOSITIONS**Midwest Generation Exit**

On August 21, 2014, Duke Energy Commercial Enterprises, Inc., an indirect wholly owned subsidiary of Duke Energy Corporation, and Duke Energy SAM, LLC, a wholly owned subsidiary of Duke Energy Ohio, entered into a PSA with a subsidiary of Dynegy whereby Dynegy will acquire Duke Energy's Disposal Group for approximately \$2.8 billion in cash subject to adjustments at closing for changes in working capital and capital expenditures. The completion of the transaction is conditioned on approval by FERC. On January 16, 2015, FERC issued a letter requesting additional information in connection with the transaction application. The request was for further economic analysis relating to the combined market power impacts of the proposed transaction and Dynegy's simultaneous acquisition of other assets in the PJM Interconnection, LLC (PJM) market, and information relating to rate protections for Dynegy's customers. On February 6, 2015, Duke Energy and Dynegy made two filings with FERC. The first filing provided additional information requested by FERC. The second filing provided information related to Dynegy's settlement agreement with the Independent Market Monitor for PJM, which no longer opposes the proposed transaction. The transaction is expected to close by the end of the second quarter of 2015.

The Disposal Group is included in the Commercial Power segment. The following table presents information related to the Duke Energy Ohio generation plants included in the Disposal Group.

Facility	Plant Type	Primary Fuel	Location	Total MW Capacity ^(c)	Owned MW Capacity ^(c)	Ownership Interest
Stuart ^{(a)(b)}	Fossil Steam	Coal	OH	2,308	900	39%
Zimmer ^(a)	Fossil Steam	Coal	OH	1,300	605	46.5%
Hanging Rock	Combined Cycle	Gas	OH	1,226	1,226	100%
Miami Fort (Units 7 and 8) ^(a)	Fossil Steam	Coal	OH	1,020	652	64%
Conesville ^{(a)(b)}	Fossil Steam	Coal	OH	780	312	40%
Washington	Combined Cycle	Gas	OH	617	617	100%
Fayette	Combined Cycle	Gas	PA	614	614	100%
Killen ^{(a)(b)}	Fossil Steam	Coal	OH	600	198	33%
Lee	Combustion Turbine	Gas	IL	568	568	100%
Dick's Creek	Combustion Turbine	Gas	OH	136	136	100%
Miami Fort	Combustion Turbine	Oil	OH	56	56	100%
Total Midwest Generation				9,225	5,884	

(a) Jointly owned with American Electric Power Generation Resources and/or The Dayton Power & Light Company.

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

(c) Total MW capacity is based on summer capacity.

The Disposal Group also includes a retail sales business owned by Duke Energy. In the second quarter of 2014, Duke Energy Ohio removed Ohio Valley Electric Corporation's (OVEC) purchase power agreement from the Disposal Group as it no longer intended to sell it with the Disposal Group. Duke Energy Ohio has requested cost-based recovery of its contractual entitlement in OVEC in its 2014 Electric Security Plan (ESP) application filed on May 29, 2014. See Note 4 for information related to the 2014 ESP.

The assets and associated liabilities of the Disposal Group are classified as held for sale in Duke Energy's and Duke Energy Ohio's Consolidated Balance Sheets at December 31, 2014.

The results of operations of the Disposal Group are classified as discontinued operations for current and prior periods in the accompanying Consolidated Statements of Operations and Comprehensive Income. Certain immaterial costs that may be eliminated as a result of the sale have remained in continuing operations. The following table presents the results of discontinued operations.

Duke Energy

(in millions)	Years Ended December 31,		
	2014	2013	2012
Operating Revenues	\$ 1,748	\$ 1,885	\$ 1,771
Estimated loss on disposition	(929)	—	—
(Loss) Income before income taxes	\$ (818)	\$ 141	\$ 227
Income tax (benefit) expense	(294)	56	82
(Loss) Income from discontinued operations of the Disposal Group	(524)	85	145
Other, net of tax ^(a)	(52)	1	26
(Loss) Income from Discontinued Operations, net of tax	\$ (576)	\$ 86	\$ 171

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- (a) Other discontinued operations relate to prior sales of businesses and includes indemnifications provided for certain legal, tax and environmental matters, and foreign currency translation adjustments.

Duke Energy Ohio

(in millions)	Years Ended December 31,		
	2014	2013	2012
Operating Revenues	\$ 1,299	\$ 1,503	\$ 1,435
Estimated loss on disposition	(959)	—	—
(Loss) Income before income taxes	\$ (863)	\$ 67	\$ 195
Income tax (benefit) expense	(300)	32	65
(Loss) Income from Discontinued Operations, net of tax	\$ (563)	\$ 35	\$ 130

The Duke Energy and Duke Energy Ohio held for sale assets include net pretax impairments of approximately \$929 million and \$959 million, respectively, for the year ended December 31, 2014. The impairment was recorded to write-down the carrying amount of the assets to the estimated fair value of the business, based on the expected selling price to Dynegy less cost to sell. These losses were included in (Loss) Income from Discontinued Operations, net of tax in the Consolidated Statements of Operations and Comprehensive Income. The impairment will be updated, if necessary, based on the final sales price, after any adjustments at closing for working capital and capital expenditures.

Commercial Power has a revolving credit agreement (RCA) to support the operations of the nonregulated Midwest generation business. Interest expense associated with the RCA has been allocated to discontinued operations. No other interest expense related to corporate level debt has been allocated to discontinued operations.

The following table presents the Disposal Group's carrying values in the Consolidated Balance Sheets' major classes of Assets held for sale.

(in millions)	December 31, 2014	
	Duke Energy	Duke Energy Ohio
Current assets	\$ 364	\$ 316
Investments and other assets	52	46
Property, plant and equipment	2,590	2,559
Total assets held for sale	\$ 3,006	\$ 2,921
Current liabilities	\$ 262	\$ 246
Deferred credits and other liabilities	35	34
Total liabilities associated with assets held for sale	\$ 297	\$ 280

Duke Energy Ohio may continue to have transactions with the Disposal Group after the divestiture is complete depending on when the transaction closes. Duke Energy Ohio has a power purchase agreement with the Disposal Group, which extends through May 2015, for a portion of its standard service offer (SSO) supply requirement. In addition, for a period of up to 12 months, Duke Energy may provide transition services to Dynegy. Duke Energy will be reimbursed for transition services provided. The continuing cash flows are not expected to be material and are not considered direct cash flows. These arrangements do not allow Duke Energy or Duke Energy Ohio to significantly influence the operations of the Disposal Group once the sale is complete.

See Notes 4 and 5 for a discussion of contingencies related to the Disposal Group that will be retained by Duke Energy Ohio subsequent to the sale.

Vermillion Generating Station

On January 12, 2012, after receiving approvals from the FERC and IURC on August 12, 2011 and December 28, 2011, respectively, Duke Energy Vermillion II, LLC (Duke Energy Vermillion), an indirect wholly owned subsidiary of Duke Energy Ohio, completed the sale of its ownership interest in Vermillion Generating Station (Vermillion) to Duke Energy Indiana and Wabash Valley Power Association, Inc. (WVPA). Upon closing of the sale, Duke Energy Indiana held a 62.5 percent interest in Vermillion. Duke Energy Ohio received net proceeds of \$82 million, of which \$68 million was paid by Duke Energy Indiana. Following the transaction, Duke Energy Indiana retired Gallagher Units 1 and 3 effective February 1, 2012.

As Duke Energy Indiana is an affiliate of Duke Energy Vermillion, the transaction was accounted for as a transfer between entities under common control with no gain or loss recorded and did not have a significant impact to Duke Energy Ohio's or Duke Energy Indiana's results of operations. Proceeds received from Duke Energy Indiana are included in Net proceeds from the sales of other assets on Duke Energy Ohio's Consolidated Statements of Cash Flows. Cash paid to Duke Energy Ohio is included in Capital expenditures on Duke Energy Indiana's Consolidated Statements of Cash Flows. Duke Energy Ohio and Duke Energy Indiana recognized non-cash equity transfers of \$28 million and \$26 million, respectively, in their Consolidated Statements of Common Stockholder's Equity on the transaction representing the difference between cash exchanged and the net book value of Vermillion. These amounts are not reflected in Duke Energy's Consolidated Statements of Cash Flows or Consolidated Statements of Equity as the transaction is eliminated in consolidation.

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Proceeds from WVPA are included in Net proceeds from the sales of other assets on Duke Energy Ohio's Consolidated Statements of Cash Flows and Net proceeds from the sales of equity investments and other assets, and sales of and collections on notes receivable on Duke Energy's Consolidated Statements of Cash Flows. The sale of the proportionate share of Vermillion to WVPA did not result in a significant gain or loss upon close of the transaction.

Sales Of Other Assets

During 2012, Duke Energy received proceeds of \$187 million from the sale of non-core business assets within the Commercial Power segment for which no material gain or loss was recognized.

3. BUSINESS SEGMENTS

Duke Energy evaluates segment performance based on segment income. Segment income is defined as income from continuing operations net of income attributable to noncontrolling interests. Segment income, as discussed below, includes intercompany revenues and expenses that are eliminated in the Consolidated Financial Statements. Certain governance costs are allocated to each segment. In addition, direct interest expense and income taxes are included in segment income.

Operating segments are determined based on information used by the chief operating decision maker in deciding how to allocate resources and evaluate the performance.

Products and services are sold between affiliate companies and reportable segments of Duke Energy at cost. Segment assets as presented in the tables that follow exclude all intercompany assets.

Duke Energy

Duke Energy has the following reportable operating segments: Regulated Utilities, International Energy and Commercial Power.

Regulated Utilities conducts operations primarily through Duke Energy Carolinas, Duke Energy Progress, Duke Energy Florida, Duke Energy Indiana, and the regulated transmission and distribution operations of Duke Energy Ohio. These electric and natural gas operations are subject to the rules and regulations of the FERC, NCUC, PSCSC, FPSC, PUCO, IURC and KPSC. Substantially all of Regulated Utilities' operations are regulated and, accordingly, these operations qualify for regulatory accounting treatment.

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. Its activities principally target power generation in Latin America. Additionally, International Energy owns a 25 percent interest in National Methanol Company (NMC), a large regional producer of methyl tertiary butyl ether (MTBE) located in Saudi Arabia. The investment in NMC is accounted for under the equity method of accounting.

Commercial Power builds, develops and operates renewable generation and energy transmission projects throughout the continental U.S. As discussed in Note 2, Duke Energy entered into an agreement to sell Commercial Power's nonregulated Midwest generation business to Dynegy in a transaction that is expected to close during the second quarter of 2015. As a result of this divestiture, the results of operations of the nonregulated Midwest generation business have been reclassified to Discontinued Operations on the Consolidated Statements of Operations. Certain costs such as interest and general and administrative expenses previously allocated to the Disposal Group were not reclassified to discontinued operations.

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DUKE ENERGY CORPORATION - DUKE ENERGY CAROLINAS, LLC - PROGRESS ENERGY, INC. -
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Combined Notes To Consolidated Financial Statements – (Continued)

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, and contributions to the Duke Energy Foundation. On December 31, 2013, Duke Energy sold its interest in DukeNet Communications Holdings, LLC (DukeNet) to Time Warner Cable, Inc.

Year Ended December 31, 2014									
(in millions)	Regulated Utilities	International Energy	Commercial Power	Total Reportable Segments	Other	Eliminations	Total		
Unaffiliated Revenues	\$ 22,228	\$ 1,417	\$ 255	\$ 23,900	\$ 25	\$ —	\$	\$	23,925
Intersegment Revenues	43	—	—	43	80	(123)			—
Total Revenues	\$ 22,271	\$ 1,417	\$ 255	\$ 23,943	\$ 105	\$ (123)	\$	\$	23,925
Interest Expense	\$ 1,093	\$ 93	\$ 58	\$ 1,244	\$ 400	\$ (22)	\$	\$	1,622
Depreciation and amortization	2,759	97	92	2,948	118	—			3,066
Equity in earnings of unconsolidated affiliates	(3)	120	10	127	3	—			130
Income tax expense (benefit) ^(a)	1,628	449	(171)	1,906	(237)	—			1,669
Segment income ^{(b)(c)(d)}	2,795	55	(55)	2,795	(334)	(10)			2,451
Add back noncontrolling interest component									14
Loss from discontinued operations, net of tax									(576)
Net income								\$	1,889
Capital investments expenditures and acquisitions	\$ 4,744	\$ 67	\$ 555	\$ 5,366	\$ 162	\$ —	\$	\$	5,528
Segment Assets	106,657	5,132	6,278	118,067	2,453	189			120,709

- (a) International Energy includes a tax adjustment of \$373 million related to deferred tax impact resulting from the decision to repatriate all cumulative historical undistributed foreign earnings. See Note 22 for additional information.
- (b) Commercial Power recorded a pretax impairment charge of \$94 million related to OVEC. See Note 11 for additional information.
- (c) Other includes costs to achieve the Progress Energy merger. See Notes 2 and 25 for additional information about the merger and related costs.
- (d) Regulated Utilities includes an increase in the litigation reserve related to the criminal investigation of the Dan River coal ash spill. See Note 5 for additional information.

Year Ended December 31, 2013									
(in millions)	Regulated Utilities	International Energy	Commercial Power	Total Reportable Segments	Other	Eliminations	Total		
Unaffiliated Revenues ^{(a)(b)(c)}	\$ 20,871	\$ 1,546	\$ 254	\$ 22,671	\$ 85	\$ —	\$	\$	22,756
Intersegment Revenues	39	—	6	45	90	(135)			—
Total Revenues	\$ 20,910	\$ 1,546	\$ 260	\$ 22,716	\$ 175	\$ (135)	\$	\$	22,756
Interest Expense	\$ 986	\$ 86	\$ 61	\$ 1,133	\$ 416	\$ (6)	\$	\$	1,543
Depreciation and amortization	2,323	100	110	2,533	135	—			2,668
Equity in earnings of unconsolidated affiliates	(1)	110	7	116	6	—			122
Income tax expense (benefit)	1,522	166	(148)	1,540	(335)	—			1,205
Segment income ^{(a)(b)(c)(d)(e)(f)(g)}	2,504	408	(88)	2,824	(238)	(12)			2,574
Add back noncontrolling interest component									16
Income from discontinued operations, net of tax									86
Net income								\$	2,676
Capital investments expenditures and acquisitions	\$ 5,049	\$ 67	\$ 268	\$ 5,384	\$ 223	\$ —	\$	\$	5,607

7/30/2020			DUK-2014.12.31-10K				
Segment Assets	99,884	4,998	6,955	111,837	2,754	188	114,779
			128				

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Combined Notes To Consolidated Financial Statements – (Continued)

- (a) In May 2013, the PUCO approved a Duke Energy Ohio settlement agreement that provides for a net annual increase in electric distribution revenues beginning in May 2013. This rate increase impacts Regulated Utilities. See Note 4 for additional information.
- (b) In June 2013, NCUC approved a Duke Energy Progress settlement agreement that included an increase in rates in the first year beginning in June 2013. This rate increase impacts Regulated Utilities. See Note 4 for additional information.
- (c) In September 2013, Duke Energy Carolinas implemented revised customer rates approved by the NCUC and the PSCSC. These rate increases impact Regulated Utilities. See Note 4 for additional information.
- (d) Regulated Utilities recorded an impairment charge related to Duke Energy Florida's Crystal River Unit 3. See Note 4 for additional information.
- (e) Regulated Utilities recorded an impairment charge related to the letter Duke Energy Progress filed with the NRC requesting the NRC to suspend its review activities associated with the combined construction and operating license (COL) at the Harris site. Regulated Utilities also recorded an impairment charge related to the write-off of the wholesale portion of the Levy investments at Duke Energy Florida in accordance with the 2013 Settlement. See Note 4 for additional information.
- (f) Other includes costs to achieve the Progress Energy merger. See Notes 2 and 25 for additional information about the merger and related costs.
- (g) Other includes gain from the sale of Duke Energy's ownership interest in DukeNet. See Note 12 for additional information on the sale of DukeNet.

Year Ended December 31, 2012									
(in millions)	Regulated Utilities	International Energy	Commercial Power	Reportable Segments	Other	Eliminations	Total		
Unaffiliated Revenues	\$ 16,042	\$ 1,549	\$ 299	\$ 17,890	\$ 22	\$ —	\$	\$	17,912
Intersegment Revenues	38	—	8	46	62	(108)			—
Total Revenues	\$ 16,080	\$ 1,549	\$ 307	\$ 17,936	\$ 84	\$ (108)	\$	\$	17,912
Interest Expense	\$ 806	\$ 77	\$ 63	\$ 946	\$ 298	\$ —	\$	\$	1,244
Depreciation and amortization	1,827	99	85	2,011	134	—			2,145
Equity in earnings of unconsolidated affiliates	(5)	134	14	143	5	—			148
Income tax expense (benefit)	942	149	(82)	1,009	(386)	—			623
Segment income ^{(a)(b)}	1,744	439	(59)	2,124	(523)	(8)			1,593
Add back noncontrolling interest component									18
Income from discontinued operations, net of tax									171
Net income								\$	1,782
Capital investments expenditures and acquisitions	\$ 4,220	\$ 551	\$ 1,038	\$ 5,809	\$ 149	\$ —	\$	\$	5,958
Segment Assets	98,162	5,406	6,992	110,560	3,126	170			113,856

- (a) Regulated Utilities recorded charges related to Duke Energy Indiana's Integrated Gasification Combined Cycle (IGCC) project. See Note 4 for additional information about these charges. Regulated Utilities also recorded the reversal of expenses of \$60 million, net of tax, related to a prior year Voluntary Opportunity Plan in accordance with Duke Energy Carolinas' 2011 rate case. See Note 19 for additional information about these expenses.
- (b) Other includes costs to achieve the Progress Energy merger. See Notes 2 and 25 for additional information about the merger and related costs.

Geographical Information

(in millions)	U.S.	Latin America ^(a)	Consolidated
2014			
Consolidated revenues	\$ 22,508	\$ 1,417	\$ 23,925
Consolidated long-lived assets	80,709	2,458	83,167
2013			
Consolidated revenues	\$ 21,211	\$ 1,545	\$ 22,756
Consolidated long-lived assets	78,581	2,781	81,362
2012			
Consolidated revenues	\$ 16,366	\$ 1,546	\$ 17,912
Consolidated long-lived assets	79,144	2,467	81,611

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Combined Notes To Consolidated Financial Statements - (Continued)

- (a) Change in amounts of long-lived assets in Latin America includes foreign currency translation adjustments on property, plant and equipment and other long-lived asset balances.

Products and Services

(in millions)	Retail Electric		Wholesale Electric	Retail Natural Gas		Wholesale Natural Gas	Other		Total Revenues
2014									
Regulated Utilities	\$	19,007	\$	1,879	\$	571	\$	814	\$ 22,271
International Energy		—		1,326		—		91	1,417
Commercial Power		—		255		—		—	255
Total Reportable Segments	\$	19,007	\$	3,460	\$	571	\$	91	\$ 23,943
2013									
Regulated Utilities	\$	17,837	\$	1,720	\$	506	\$	847	\$ 20,910
International Energy		—		1,447		—		99	1,546
Commercial Power		—		260		—		—	260
Total Reportable Segments	\$	17,837	\$	3,427	\$	506	\$	99	\$ 22,716
2012									
Regulated Utilities	\$	13,773	\$	1,120	\$	470	\$	717	\$ 16,080
International Energy		—		1,444		—		105	1,549
Commercial Power		—		307		—		—	307
Total Reportable Segments	\$	13,773	\$	2,871	\$	470	\$	105	\$ 17,936

Duke Energy Ohio

Duke Energy Ohio has two reportable operating segments, Regulated Utilities and Commercial Power.

Regulated Utilities transmits and distributes electricity in portions of Ohio and generates, distributes and sells electricity in portions of Kentucky. Regulated Utilities also transports and sells natural gas in portions of Ohio and northern Kentucky. It conducts operations primarily through Duke Energy Ohio and its wholly owned subsidiary, Duke Energy Kentucky.

As discussed in Note 2, Duke Energy entered into an agreement to sell Commercial Power's nonregulated Midwest generation business to Dynegy in a transaction that is expected to close in the second quarter of 2015. As a result of this divestiture, the results of operations of the nonregulated Midwest generation business have been reclassified to Discontinued Operations on the Consolidated Statements of Operations and Comprehensive Income. Amounts remaining in Commercial Power relate to assets not included in the Disposal Group. Certain costs such as interest and general and administrative expenses previously allocated to the Disposal Group were not reclassified to discontinued operations.

The remainder of Duke Energy Ohio's operations is presented as Other. While it is not considered an operating segment, Other primarily includes certain governance costs allocated by its parent, Duke Energy. See Note 13 for additional information. All of Duke Energy Ohio's revenues are generated domestically and its long-lived assets are all in the U.S.

Year Ended December 31, 2014									
(in millions)	Regulated Utilities		Commercial Power	Total Reportable Segments		Other	Eliminations		Total
Unaffiliated revenues	\$	1,894	\$	19	\$	1,913	\$	—	\$ 1,913
Intersegment revenues		1		—		1		—	—
Total revenues	\$	1,895	\$	19	\$	1,914	\$	—	\$ 1,913
Interest expense	\$	81	\$	5	\$	86	\$	—	\$ 86
Depreciation and amortization		211		2		213		1	214
Income tax expense (benefit)		117		(67)		50		(7)	43
Segment income (loss) ^(a)		202		(121)		81		(13)	68
Income from discontinued operations, net of tax									(563)
Net loss									\$ (495)
Capital expenditures	\$	300	\$	22	\$	322	\$	—	\$ 322

Segment assets	6,908	3,187	10,095	134	(230)	9,999
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(a) Commercial Power recorded a pretax impairment charge of \$94 million related to OVEC. See Note 11 for additional information.

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Combined Notes To Consolidated Financial Statements – (Continued)

Year Ended December 31, 2013									
(in millions)	Regulated Utilities		Commercial Power		Total Reportable Segments		Other	Eliminations	Total
Unaffiliated revenues	\$	1,765	\$	40	\$	1,805	\$	—	\$ 1,805
Total revenues	\$	1,765	\$	40	\$	1,805	\$	—	\$ 1,805
Interest expense	\$	74	\$	—	\$	74	\$	—	\$ 74
Depreciation and amortization		200		13		213		—	213
Income tax expense (benefit)		91		(36)		55		(12)	43
Segment income (loss)		151		(65)		86		(19)	67
Income from discontinued operations, net of tax									35
Net income									\$ 102
Capital expenditures	\$	375	\$	58	\$	433	\$	—	\$ 433
Segment assets		6,649		4,170		10,819		99	(155) 10,763

Year Ended December 31, 2012									
(in millions)	Regulated Utilities		Commercial Power		Total Reportable Segments		Other	Eliminations	Total
Unaffiliated revenues	\$	1,745	\$	75	\$	1,820	\$	—	\$ 1,820
Intersegment revenues		1		1		2		(2)	—
Total revenues	\$	1,746	\$	76	\$	1,822	\$	(2)	\$ 1,820
Interest expense	\$	61	\$	28	\$	89	\$	—	\$ 89
Depreciation and amortization		179		16		195		—	195
Income tax expense (benefit)		91		(40)		51		(18)	33
Segment income (loss)		159		(80)		79		(34)	45
Income from discontinued operations, net of tax									130
Net income									\$ 175
Capital expenditures	\$	427	\$	87	\$	514	\$	—	\$ 514
Segment assets		6,434		4,175		10,609		117	(166) 10,560

DUKE ENERGY CAROLINAS, PROGRESS ENERGY, DUKE ENERGY PROGRESS, DUKE ENERGY FLORIDA AND DUKE ENERGY INDIANA

Duke Energy Carolinas, Progress Energy, Duke Energy Progress, Duke Energy Florida and Duke Energy Indiana each have one reportable operating segment, Regulated Utility, which generates, transmits, distributes and sells electricity. The remainder of each company's operations is classified as Other. While not considered a reportable segment for any of these companies, Other consists of certain unallocated corporate costs. Other for Progress Energy also includes interest expense on corporate debt instruments of \$241 million, \$300 million and \$304 million for the years ended December 31, 2014, 2013 and 2012. The following table summarizes the net loss for Other for each of these entities.

Years Ended December 31,			
(in millions)	2014	2013	2012
Duke Energy Carolinas	\$ (79)	\$ (97)	\$ (169)
Progress Energy	(190)	(241)	(379)
Duke Energy Progress	(31)	(46)	(139)
Duke Energy Florida	(19)	(24)	(58)
Duke Energy Indiana	(11)	(16)	(27)

Duke Energy Progress earned approximately 11 percent of its consolidated operating revenues from North Carolina Electric Membership Corporation (NCEMC) in 2014. These revenues relate to wholesale contracts and transmission revenues. The respective Regulated Utility and Regulated Utilities

operating segments own substantially all of Duke Energy Carolinas', Progress Energy's, Duke Energy Progress', Duke Energy Florida's and Duke Energy Indiana's assets at December 31, 2014, 2013 and 2012.

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Combined Notes To Consolidated Financial Statements – (Continued)

4. REGULATORY MATTERS**Regulatory Assets and Liabilities**

The Duke Energy Registrants record regulatory assets and liabilities that result from the ratemaking process. See Note 1 for further information.

The following tables present the regulatory assets and liabilities recorded on the Consolidated Balance Sheets.

(in millions)	December 31, 2014						
	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana
Regulatory Assets							
Asset retirement obligations	\$ 3,017	\$ 907	\$ 1,882	\$ 1,584	\$ 298	\$ —	\$ —
Accrued pension and OPEB	2,015	412	812	354	458	132	217
Retired generation facilities	1,659	58	1,545	152	1,393	—	56
Debt fair value adjustment	1,305	—	—	—	—	—	—
Net regulatory asset related to income taxes	1,144	614	354	141	213	64	111
Hedge costs and other deferrals	628	103	490	217	273	7	28
Demand side management (DSM)/Energy efficiency (EE)	330	106	203	193	10	21	—
Grid Modernization	76	—	—	—	—	76	—
Vacation accrual	213	86	46	46	—	6	12
Deferred fuel	246	50	182	138	44	9	5
Nuclear deferral	296	141	155	43	112	—	—
Post-in-service carrying costs and deferred operating expenses	494	124	121	28	93	21	228
Gasification services agreement buyout	55	—	—	—	—	—	55
Transmission expansion obligation	70	—	—	—	—	74	—
Manufactured gas plant (MGP)	115	—	—	—	—	115	—
Other	494	263	109	66	42	36	66
Total regulatory assets	12,157	2,864	5,899	2,962	2,936	561	778
Less: current portion	1,115	399	491	287	203	49	93
Total non-current regulatory assets	\$ 11,042	\$ 2,465	\$ 5,408	\$ 2,675	\$ 2,733	\$ 512	\$ 685

(in millions)	December 31, 2014						
	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana
Regulatory Liabilities							
Costs of removal	\$ 5,221	\$ 2,420	\$ 1,975	\$ 1,692	\$ 283	\$ 222	\$ 613
Amounts to be refunded to customers	166	—	70	—	70	—	96
Storm reserve	150	25	125	—	125	—	—
Accrued pension and OPEB	379	76	121	61	60	19	91
Deferred fuel	37	6	23	23	—	—	8
Other	444	217	171	127	44	10	42
Total regulatory liabilities	6,397	2,744	2,485	1,903	582	251	850
Less: current portion	204	34	106	71	35	10	54
Total non-current regulatory liabilities	\$ 6,193	\$ 2,710	\$ 2,379	\$ 1,832	\$ 547	\$ 241	\$ 796

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Combined Notes To Consolidated Financial Statements – (Continued)

(in millions)	December 31, 2013						
	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana
Regulatory Assets							
Asset retirement obligations	\$ 1,608	\$ 123	786	\$ 389	\$ 397	\$ —	\$ —
Accrued pension and OPEB	1,723	347	750	269	438	120	219
Retired generation facilities	1,748	68	1,619	241	1,378	—	61
Debt fair value adjustment	1,338	—	—	—	—	—	—
Net regulatory asset related to income taxes	1,115	555	331	113	218	72	157
Hedge costs and other deferrals	450	98	318	165	153	5	29
DSM/EE	306	140	152	140	12	14	—
Grid Modernization	65	—	—	—	—	65	—
Vacation accrual	210	82	55	50	—	7	13
Deferred fuel	94	—	37	6	31	14	43
Nuclear deferral	262	40	222	77	145	—	—
Post-in-service carrying costs and deferred operating expenses	459	150	137	19	118	21	151
Gasification services agreement buyout	75	—	—	—	—	—	75
Transmission expansion obligation	70	—	—	—	—	74	—
MGP	90	—	—	—	—	90	—
Other	473	219	101	42	60	46	87
Total regulatory assets	10,086	1,822	4,508	1,511	2,950	528	835
Less: current portion	895	295	353	127	221	57	118
Total non-current regulatory assets	\$ 9,191	\$ 1,527	\$ 4,155	\$ 1,384	\$ 2,729	\$ 471	\$ 717

(in millions)	December 31, 2013						
	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana
Regulatory Liabilities							
Costs of removal	\$ 5,308	\$ 2,423	\$ 2,008	\$ 1,637	\$ 371	\$ 241	\$ 645
Amounts to be refunded to customers	151	—	120	—	120	—	31
Storm reserve	145	20	125	—	125	—	—
Accrued pension and OPEB	138	—	—	—	—	21	77
Deferred fuel	177	45	132	—	132	—	—
Other	346	153	114	99	14	27	45
Total regulatory liabilities	6,265	2,641	2,499	1,736	762	289	798
Less: current portion	316	65	207	63	144	27	16
Total non-current regulatory liabilities	\$ 5,949	\$ 2,576	\$ 2,292	\$ 1,673	\$ 618	\$ 262	\$ 782

Descriptions of regulatory assets and liabilities, summarized in the tables above, as well as their recovery and amortization periods follow. Items are excluded from rate base unless otherwise noted.

Asset retirement obligations. Represents legal obligations associated with the future retirement of property, plant and equipment. Asset retirement obligations relate primarily to decommissioning nuclear power facilities and closure of ash basins in North Carolina and South Carolina. No return is currently earned on these balances. The recovery period for costs related to nuclear facilities runs through the decommissioning period of each nuclear unit, the latest of which is currently estimated to be 2097. The recovery period for costs related to ash basin closures has not yet been determined. See Notes 1 and 9 for additional information.

Accrued pension and OPEB. Accrued pension and OPEB represent regulatory assets and liabilities related to each of the Duke Energy Registrants' respective shares of unrecognized actuarial gains and losses, unrecognized prior service cost, and unrecognized transition obligation attributable to Duke

Energy's pension plans and OPEB plans. The regulatory asset or liability is amortized with the recognition of actuarial gains and losses, prior service cost, and transition obligations to net periodic benefit costs for pension and OPEB plans. See Note 21 for additional detail.

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Combined Notes To Consolidated Financial Statements – (Continued)

Retired generation facilities. Duke Energy Florida earns a reduced return on a substantial portion of the amount of regulatory asset associated with the retirement of Crystal River Unit 3 not included in rate base and a full return on a portion of the retired plant currently recovered in the nuclear cost recovery clause (NCRC). Once included in base rates the amount will be amortized over 20 years. Duke Energy Carolinas earns a return on the outstanding retail balance with recovery periods ranging from 5 to 10 years. Duke Energy Progress earns a return on the outstanding balance with recovery over a period of 10 years for retail purposes and over the longer of 10 years or the previously estimated planned retirement date for wholesale purposes. Duke Energy Indiana earns a return on the outstanding balances and the costs are included in rate base.

Debt fair value adjustment. Purchase accounting adjustment to restate the carrying value of Progress Energy debt to fair value. Amount is amortized over the life of the related debt.

Net regulatory asset related to income taxes. Regulatory assets principally associated with the depreciation and recovery of AFUDC equity. Amounts have no impact on rate base as regulatory assets are offset by deferred tax liabilities. The recovery period is over the life of the associated assets.

Hedge costs and other deferrals. Amounts relate to unrealized gains and losses on derivatives recorded as a regulatory asset or liability, respectively, until the contracts are settled. The recovery period varies for these costs, and currently extends to 2027.

DSM/EE. The recovery period varies for these costs, with some currently unknown. Duke Energy Carolinas, Duke Energy Progress, and Duke Energy Florida are required to pay interest on the outstanding liability balance. Duke Energy Carolinas, Duke Energy Progress and Duke Energy Florida collect a return on DSM/EE investments.

Grid Modernization. Represents deferred depreciation and operating expenses as well as carrying costs on the portion of capital expenditures placed in service but not yet reflected in retail rates as plant in service. Recovery period is generally one year for depreciation and operating expenses. Recovery for post-in-service carrying costs are over the life of the assets.

Vacation accrual. Generally recovered within one year.

Deferred fuel. Deferred fuel costs represent certain energy costs that are recoverable or refundable as approved by the applicable regulatory body. Duke Energy Florida amount includes capacity costs. Duke Energy Florida and Duke Energy Ohio earn a return on under-recovered costs. Duke Energy Florida and Duke Energy Ohio pay interest on over-recovered costs. Duke Energy Carolinas and Duke Energy Progress pay interest on over-recovered costs in North Carolina. Recovery period is generally over one year. Duke Energy Indiana recovery period is quarterly.

Nuclear deferral. Includes (i) amounts related to levelizing nuclear plant outage costs at Duke Energy Carolinas in North Carolina and South Carolina, and Duke Energy Progress in North Carolina, which allows for the recognition of nuclear outage expenses over the refueling cycle rather than when the outage occurs, resulting in the deferral of operations and maintenance costs associated with refueling and (ii) certain deferred preconstruction and carrying costs at Duke Energy Florida as approved by the FPSC primarily associated with Levy, currently expected to be recovered in revenues by the end of 2017.

Post-in-service carrying costs and deferred operating expenses. Represents deferred depreciation and operating expenses as well as carrying costs on the portion of capital expenditures placed in service but not yet reflected in retail rates as plant in service. Duke Energy Carolinas, Duke Energy Progress, Duke Energy Ohio and Duke Energy Indiana earn a return on the outstanding balance. Duke Energy Florida earns a return at a reduced rate. For Duke Energy Ohio and Duke Energy Indiana, some amounts are included in rate base. Recovery is over various lives, and the latest recovery period is 2081.

Gasification services agreement buyout. The IURC authorized Duke Energy Indiana to recover costs incurred to buyout a gasification services agreement, including carrying costs through 2018.

Transmission expansion obligation. Represents transmission expansion obligations related to Duke Energy Ohio's withdrawal from Midcontinent Independent System Operator, Inc. (MISO).

MGP. Represents remediation costs for former MGP sites. In November 2013, the PUCO approved recovery of these costs through 2018. Duke Energy Ohio does not earn a return on these costs. See Note 5 for additional information.

Costs of removal. Represents funds received from customers to cover the future removal of property, plant and equipment from retired or abandoned sites as property is retired. Also includes certain deferred gains on NDTF investments.

Amounts to be refunded to customers. Represents required rate reductions to retail customers by the applicable regulatory body. The refund period is through 2016 for Duke Energy Florida and through 2017 for Duke Energy Indiana.

Storm reserve. Duke Energy Carolinas and Duke Energy Florida are allowed to petition the PSCSC and FPSC, respectively, to seek recovery of named storms. Funds are used to offset future incurred costs.

Restrictions on the Ability of Certain Subsidiaries to Make Dividends, Advances and Loans to Duke Energy

As a condition to the approval of merger transactions, the NCUC, PSCSC, PUCO, KPSC and IURC imposed conditions on the ability of Duke Energy Carolinas, Duke Energy Progress, Duke Energy Ohio, Duke Energy Kentucky and Duke Energy Indiana to transfer funds to Duke Energy through loans or advances, as well as restricted amounts available to pay dividends to Duke Energy. Certain subsidiaries may transfer funds to Duke Energy Corporation Holding Company (the parent) by obtaining approval of the respective state regulatory commissions. These conditions imposed restrictions on the ability of the public utility subsidiaries to pay cash dividends as discussed below.

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Duke Energy Progress and Duke Energy Florida also have restrictions imposed by their first mortgage bond indentures and Articles of Incorporation which, in certain circumstances, limit their ability to make cash dividends or distributions on common stock. Amounts restricted as a result of these provisions were not material at December 31, 2014.

Additionally, certain other subsidiaries of Duke Energy have restrictions on their ability to dividend, loan or advance funds to Duke Energy due to specific legal or regulatory restrictions, including, but not limited to, minimum working capital and tangible net worth requirements.

Duke Energy Carolinas

Duke Energy Carolinas must limit cumulative distributions subsequent to mergers to (i) the amount of retained earnings on the day prior to the closing of the mergers, plus (ii) any future earnings recorded.

Duke Energy Progress

Duke Energy Progress must limit cumulative distributions subsequent to the merger between Duke Energy and Progress Energy to (i) the amount of retained earnings on the day prior to the closing of the merger, plus (ii) any future earnings recorded.

Duke Energy Ohio

Duke Energy Ohio will not declare and pay dividends out of capital or unearned surplus without the prior authorization of the PUCO. Duke Energy Ohio received FERC and PUCO approval to pay dividends from its equity accounts that are reflective of the amount that it would have in its retained earnings account had push-down accounting for the Cinergy Corp. (Cinergy) merger not been applied to Duke Energy Ohio's balance sheet. The conditions include a commitment from Duke Energy Ohio that equity, adjusted to remove the impacts of push-down accounting, will not fall below 30 percent of total capital.

Duke Energy Kentucky is required to pay dividends solely out of retained earnings and to maintain a minimum of 35 percent equity in its capital structure.

Duke Energy Indiana

Duke Energy Indiana must limit cumulative distributions subsequent to the merger between Duke Energy and Cinergy to (i) the amount of retained earnings on the day prior to the closing of the merger, plus (ii) any future earnings recorded. In addition, Duke Energy Indiana will not declare and pay dividends out of capital or unearned surplus without prior authorization of the IURC.

The restrictions discussed above were less than 25 percent of Duke Energy's net assets at December 31, 2014.

Rate Related Information

The NCUC, PSCSC, FPSC, IURC, PUCO and KPSC approve rates for retail electric and natural gas services within their states. The FERC approves rates for electric sales to wholesale customers served under cost-based rates (excluding Ohio and Indiana), as well as sales of transmission service.

Duke Energy Carolinas

2013 North Carolina Rate Case

On September 24, 2013, the NCUC approved a settlement agreement related to Duke Energy Carolinas' request for a rate increase with minor modifications. The NCUC Public Staff (Public Staff) was a party to the settlement. The settling parties agreed to a three-year step-in rate increase, with the first two years providing for \$204 million, or a 4.5 percent average increase in rates, and the third year providing for rates to be increased by an additional \$30 million, or 0.6 percent. The agreement is based upon a return on equity of 10.2 percent and an equity component of the capital structure of 53 percent. The settlement agreement (i) allows for the recognition of nuclear outage expenses over the refueling cycle rather than when the outage occurs, (ii) a \$10 million shareholder contribution to agencies that provide energy assistance to low-income customers, and (iii) an annual reduction in the regulatory liability for costs of removal of \$30 million for each of the first two years. Duke Energy Carolinas has agreed not to request additional base rate increases to be effective before September 2015. New rates went into effect on September 25, 2013.

On October 23, 2013, the North Carolina Attorney General (NCAG) appealed the rate of return and capital structure approved in the agreement. The NC Waste Awareness and Reduction Network (NC WARN) appealed various matters in the settlement on October 24, 2013. The North Carolina Supreme Court (NCSC) denied a motion to consolidate these appeals with other North Carolina rate case appeals involving Duke Energy Carolinas and Duke Energy Progress on March 13, 2014. Briefing concluded in this matter and oral argument occurred on September 8, 2014. On January 23, 2015, the NCSC affirmed the NCUC's September 24, 2013 order.

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2013 South Carolina Rate Case

On September 11, 2013, the PSCSC approved a settlement agreement related to Duke Energy Carolinas' request for a rate increase. Parties to the settlement agreement were the Office of Regulatory Staff, Wal-Mart Stores East, LP and Sam's East, Incorporated, the South Carolina Energy Users Committee, Public Works of the City of Spartanburg, South Carolina and the South Carolina Small Business Chamber of Commerce. The parties agreed to a two-year step-in rate increase, with the first year providing for approximately \$80 million, or a 5.5 percent average increase in rates, and the second year providing for rates to be increased by an additional \$38 million, or 2.6 percent. The settlement agreement is based upon a return on equity of 10.2 percent and a 53 percent equity component of the capital structure. The settlement agreement (i) allows for the recognition of nuclear outage expenses over the refueling cycle rather than when the outage occurs, (ii) approximately \$4 million of contributions to agencies that provide energy assistance to low-income customers and for economic development, and (iii) a reduction in the regulatory liability for costs of removal of \$45 million for the first year. Duke Energy Carolinas has agreed not to request additional base rate increases to be effective before September 2015. New rates went into effect on September 18, 2013.

2011 North Carolina Rate Case

On January 27, 2012, the NCUC approved a settlement agreement related to Duke Energy Carolinas' request for a rate increase. On October 23, 2013, the NCUC issued a second order in the case reaffirming the rate of return approved in the settlement agreement, in response to an appeal by the NCAG. On November 21, 2013, the NCAG appealed the NCUC's October 2013 order. On December 19, 2014, the NCSC affirmed the NCUC's October 2013 order concluding the appeal.

William States Lee Combined Cycle Facility

On April 9, 2014, the PSCSC granted Duke Energy Carolinas and NCEMC a Certificate of Environmental Compatibility and Public Convenience and Necessity (CEPCPN) for the construction and operation of a 750 MW combined cycle natural gas-fired generating plant at its existing William States Lee Generating Station in Anderson, South Carolina. On May 16, 2014, Duke Energy Carolinas announced its intention to begin construction in summer 2015 and estimated a cost to build of \$600 million for its share of the facility, including AFUDC. The project is expected to be commercially available in late 2017. NCEMC will own approximately 13 percent of the project. On July 3, 2014, the South Carolina Coastal Conservation League and Southern Alliance for Clean Energy jointly filed a Notice of Appeal with the Court of Appeals of South Carolina seeking the court's review of the PSCSC's decision. Duke Energy Carolinas' initial brief in support of the PSCSC's order granting the CEPCPN was filed on January 12, 2015. Duke Energy Carolinas cannot predict the outcome of this matter.

William States Lee III Nuclear Station

In December 2007, Duke Energy Carolinas applied to the NRC for a COL for two Westinghouse AP1000 (advanced passive) reactors for the proposed William States Lee III Nuclear Station (Lee Nuclear Station) at a site in Cherokee County, South Carolina. Submitting the COL application did not commit Duke Energy Carolinas to build nuclear units. Through several separate orders, the NCUC and PSCSC concurred with the prudence of Duke Energy Carolinas incurring certain project development and pre-construction costs, although recovery of costs is not guaranteed. Duke Energy Carolinas has incurred approximately \$427 million, including AFUDC through December 31, 2014. This amount is included in Net property, plant and equipment on Duke Energy Carolinas' Consolidated Balance Sheets.

Design changes have been identified in the Westinghouse AP1000 certified design that must be addressed before NRC can complete its review of the Lee Nuclear Station COL application. These design changes set the schedule for completion of the NRC COL application review and issuance of the Lee COL. Receipt of the Lee Nuclear Station COL is currently expected by mid-2016.

Duke Energy Progress**2012 North Carolina Rate Case**

On May 30, 2013, the NCUC approved a settlement agreement related to Duke Energy Progress' request for a rate increase. The Public Staff was a party to the settlement agreement. The settling parties agreed to a two-year step-in rate increase, with the first year providing for a \$147 million, or a 4.5 percent average increase in rates, and the second year providing for rates to be increased by an additional \$31 million, or a 1.0 percent average increase in rates. The agreement is based upon a return on equity of 10.2 percent and an equity component of the capital structure of 53 percent. The settlement agreement (i) allows for the recognition of nuclear outage expenses over the refueling cycle rather than when the outage occurs, (ii) a \$20 million shareholder contribution to agencies that provide energy assistance to low-income customers, and (iii) a reduction in the regulatory liability for costs of removal of \$20 million for the first year. The initial rate increase went into effect on June 1, 2013 and the step-in rate increase went into effect in June 2013.

On July 1, 2013, the NCAG appealed the NCUC's approval of the rate of return and capital structure included in the agreement. NC WARN also appealed various matters in the settlement. On August 20, 2014, the NCSC affirmed the NCUC's order approving Duke Energy Progress' rate of return and capital structure concluding the appeal.

L.V. Sutton Combined Cycle Facility

Duke Energy Progress completed construction of a 625 MW combined cycle natural gas-fired generating facility at its existing L.V. Sutton Steam Station (Sutton) in New Hanover County, North Carolina. Sutton began commercial operations in the fourth quarter of 2013.

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Shearon Harris Nuclear Station Expansion

In 2006, Duke Energy Progress selected a site at Harris to evaluate for possible future nuclear expansion. On February 19, 2008, Duke Energy Progress filed its COL application with the NRC for two Westinghouse AP1000 reactors at Harris, which the NRC docketed for review. On May 2, 2013, Duke Energy Progress filed a letter with the NRC requesting the NRC to suspend its review activities associated with the COL at the Harris site. As a result of the decision to suspend the COL applications, during the second quarter of 2013, Duke Energy Progress recorded a pretax impairment charge of \$22 million which represented costs associated with the COL, which were not probable of recovery. As of December 31, 2014, approximately \$48 million is recorded in Regulatory assets on Duke Energy Progress' Consolidated Balance Sheets.

Wholesale Depreciation Rates

On April 19, 2013, Duke Energy Progress filed an application with FERC for acceptance of changes to generation depreciation rates and in August 2013 filed for acceptance of additional changes. These changes affect the rates of Duke Energy Progress' wholesale power customers that purchase or will purchase power under formula rates. Certain Duke Energy Progress wholesale customers filed interventions and protests. FERC accepted the depreciation rate changes, subject to refund, and set the matter for settlement and hearing in a consolidated proceeding. FERC further initiated an action with respect to the justness and reasonableness of the proposed rate changes. Settlement was reached in October 2014 for changes to the depreciation rates and conforming changes to the wholesale formula rates. FERC approved the settlement in December 2014. The agreement will have no material or adverse impact to the rates originally proposed by Duke Energy Progress, and Duke Energy Progress will receive cost recovery for early retired plants previously included in the depreciation rates.

Duke Energy Florida**FERC Transmission Return on Equity Complaint**

On February 12, 2012, Seminole Electric Cooperative, Inc. and Florida Municipal Power Agency filed with FERC a complaint against Duke Energy Florida alleging that the current rate of return on equity in Duke Energy Florida's transmission formula rates of 10.8 percent is unjust and unreasonable and should be reduced to 9.02 percent. The complainants further alleged that return on equity adjustments should take effect retroactive to January 1, 2010 under the governing transmission formula rate protocols. On May 13, 2013, the complainants filed a second complaint alleging that the return on equity should be reduced to 8.63 percent or 8.84 percent. On June 19, 2014, FERC issued orders consolidating the two complaints, setting them for settlement and hearing procedures, setting refund effective dates of February 29, 2012 for the first complaint and May 13, 2013 for the second complaint, and setting for settlement and hearing the issue of whether return on equity adjustments should take effect prior to the refund effective date of the first complaint. On August 12, 2014, the complainants filed a third complaint alleging that the return on equity should be 8.69 percent. On December 5, 2014, FERC issued an order consolidating the third complaint with the first two complaints for the purposes of settlement, hearing, and decision, and establishing a refund effective date of August 12, 2014 for the third complaint. The parties are engaged in settlement discussions. Duke Energy Florida cannot predict the outcome of this matter.

FPSC Settlement Agreements

On February 22, 2012, the FPSC approved a settlement agreement (the 2012 Settlement) among Duke Energy Florida, the Florida Office of Public Counsel (OPC) and other customer advocates. The 2012 Settlement was to continue through the last billing cycle of December 2016. On October 17, 2013, the FPSC approved a settlement agreement (the 2013 Settlement) between Duke Energy Florida, OPC, and other customer advocates. The 2013 Settlement replaces and supplants the 2012 Settlement and substantially resolves issues related to (i) Crystal River Unit 3, (ii) Levy, (iii) Crystal River 1 and 2 coal units, and (iv) future generation needs in Florida. Refer to the remaining sections below for further discussion of these settlement agreements.

Crystal River Unit 3

On February 5, 2013, Duke Energy Florida announced the retirement of Crystal River Unit 3. On February 20, 2013, Duke Energy Florida filed with the NRC a certification of permanent cessation of power operations and permanent removal of fuel from the reactor vessel. In December 2013, and March 2014, Duke Energy Florida filed an updated site-specific decommissioning plan with the NRC and FPSC, respectively. The plan, which was approved by the FPSC in November 2014, included a decommissioning cost estimate of \$1,180 million, including amounts applicable to joint owners, under the SAFSTOR option. Duke Energy Florida's decommissioning study assumes Crystal River Unit 3 will be in SAFSTOR configuration, requiring limited staffing to monitor plant conditions, until the eventual dismantling and decontamination activities to be completed by 2073. This decommissioning approach is currently utilized at a number of retired domestic nuclear power plants and is one of three accepted approaches to decommissioning approved by the NRC.

Duke Energy Florida has reclassified all Crystal River Unit 3 investments, including property, plant and equipment, nuclear fuel, inventory, and other assets, to a regulatory asset. Duke Energy agreed to forgo recovery of \$295 million of regulatory assets and an impairment charge was recorded in the second quarter of 2013 for this matter. Duke Energy Florida is allowed to accelerate cash recovery of approximately \$130 million of the Crystal River Unit 3 regulatory asset from retail customers from 2014 through 2016 through its fuel clause. Duke Energy Florida will begin recovery of the remaining Crystal River Unit 3 regulatory asset, up to a cap of \$1,466 million from retail customers upon the earlier of (i) full recovery of the uncollected Levy investment or (ii) the first billing period of January 2017. Recovery will continue 240 months from inception of collection of the regulatory asset in base rates. The Crystal River Unit 3 base rate component will be adjusted at least every four years.

Included in this recovery, but not subject to the cap, are costs of building an independent spent fuel storage installation (ISFSI). The return rate will be based on the currently approved AFUDC rate with a return on equity of 7.35 percent, or 70 percent of the currently approved 10.5 percent. The return rate is subject to change if the return on equity changes in the future. In December 2014, the FPSC approved Duke Energy Florida's decision to construct the ISFSI and approved Duke Energy Florida's request to defer amortization of the ISFSI pending resolution of its litigation against the federal government as a result of the Department of Energy's breach of its obligation to accept spent nuclear fuel. The regulatory asset associated with the original power uprate project to increase generating capacity will continue to be recovered through the Nuclear Cost Recovery Clause over an estimated seven-year period that began in 2013.

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Through December 31, 2014, Duke Energy Florida deferred \$1,377 million for rate recovery related to Crystal River Unit 3, which is subject to the rate recovery cap in the 2013 Settlement. In addition, Duke Energy Florida deferred \$260 million for recovery associated with building an ISFSI and the original uprate project, which is not subject to the rate recovery cap discussed above. Duke Energy Florida does not expect the Crystal River Unit 3 costs to exceed the cap.

Customer Rate Matters

Pursuant to the 2013 Settlement, Duke Energy Florida will maintain base rates at the current level through the last billing period of 2018, subject to the return on equity range of 9.5 percent to 11.5 percent, with exceptions for base rate increases for the recovery of the Crystal River Unit 3 regulatory asset beginning no later than 2017 and base rate increases for new generation through 2018, per the provisions of the 2013 Settlement. Duke Energy Florida is not required to file a depreciation study, fossil dismantlement study or nuclear decommissioning study until the earlier of the next rate case filing or March 31, 2019. The 2012 Settlement provided for a \$150 million increase in base revenue effective with the first billing cycle of January 2013. Costs associated with Crystal River Unit 3 investments were removed from retail rate base effective with the first billing cycle of January 2013. Duke Energy Florida is accruing, for future rate-setting purposes, a carrying charge on the Crystal River Unit 3 investment until the Crystal River Unit 3 regulatory asset is recovered in base rates. If Duke Energy Florida's retail base rate earnings fall below the return on equity range, as reported on a FPSC-adjusted or pro forma basis on a monthly earnings surveillance report, it may petition the FPSC to amend its base rates during the term of the 2013 Settlement.

Duke Energy Florida agreed to refund \$388 million to retail customers through its fuel clause, as required by the 2012 Settlement. At December 31, 2014, \$120 million remains to be refunded, of which \$50 million credit is recorded in Regulatory assets within Current Assets as an offset to deferred fuel and \$70 million is recorded in Regulatory liabilities in Deferred Credits and Other Liabilities on the Consolidated Balance Sheets.

Levy

On July 28, 2008, Duke Energy Florida applied to the NRC for a COL for two Westinghouse AP1000 reactors at Levy. In 2008, the FPSC granted Duke Energy Florida's petition for an affirmative Determination of Need and related orders requesting cost recovery under Florida's nuclear cost-recovery rule, together with the associated facilities, including transmission lines and substation facilities. Design changes have been identified in the Westinghouse AP1000 certified design that must be addressed before the NRC can complete its review of the Levy COL application. These design changes set the schedule for completion of the NRC COL application review and issuance of the Levy COL. Based on the current review schedule, the Levy COL is currently expected by mid-2016.

On January 28, 2014, Duke Energy Florida terminated the Levy engineering, procurement and construction agreement (EPC). Duke Energy Florida may be required to pay for work performed under the EPC and to bring existing work to an orderly conclusion, including but not limited to costs to demobilize and cancel certain equipment and material orders placed. As of December 31, 2014, Duke Energy Florida has recorded an exit obligation of \$25 million for the termination of the EPC. This liability was recorded within Other in Deferred Credits and Other Liabilities with an offset primarily to Regulatory assets on the Consolidated Balance Sheets. Duke Energy Florida is allowed to recover reasonable and prudent EPC cancellation costs from its retail customers.

The 2012 Settlement provided that Duke Energy Florida include the allocated wholesale cost of Levy as a retail regulatory asset and include this asset as a component of rate base and amortization expense for regulatory reporting. In accordance with the 2013 Settlement, Duke Energy Florida ceased amortization of the wholesale allocation of Levy investments against retail rates. In the second quarter of 2013, Duke Energy Florida recorded a pretax charge of \$65 million to write off the wholesale portion of Levy investments. This amount is included in Impairment charges on Duke Energy Florida's Statements of Operations and Comprehensive Income.

On October 27, 2014, the FPSC approved Duke Energy Florida rates for 2015 for Levy as filed and consistent with those established in the 2013 Revised and Restated Settlement Agreement. Recovery of the remaining retail portion of the project costs may occur over five years from 2013 through 2017. Duke Energy Florida has an ongoing responsibility to demonstrate prudence related to the wind down of the Levy investment and the potential for salvage of Levy assets. As of December 31, 2014, Duke Energy Florida has a net uncollected investment in Levy of approximately \$180 million, including AFUDC. Of this amount, \$91 million related to land and the COL is included in Net, property, plant and equipment and will be recovered through base rates and \$89 million is included in Regulatory assets within Current Assets on the Consolidated Balance Sheets and will be recovered through the NCRC.

Crystal River 1 and 2 Coal Units

Duke Energy Florida has evaluated Crystal River 1 and 2 coal units for retirement in order to comply with certain environmental regulations. Based on this evaluation, those units will likely be retired by 2018. Once those units are retired Duke Energy Florida will continue recovery of existing annual depreciation expense through the end of 2020. Beginning in 2021, Duke Energy Florida will be allowed to recover any remaining net book value of the assets from retail customers through the Capacity Cost Recovery Clause. In April 2014, the FPSC approved Duke Energy Florida's petition to allow for the recovery of prudently incurred costs to comply with the Mercury and Air Toxics Standard through the Environmental Cost Recovery Clause.

New Generation

The 2013 Settlement establishes a recovery mechanism for additional generation needs. This recovery mechanism, the Generation Base Rate Adjustment, allows recovery of prudent costs of these items through an increase in base rates, upon the in-service date of such assets, without a general rate case at a 10.5 percent return on equity.

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On May 27, 2014, Duke Energy Florida petitioned the FPSC for a Determination of Need to (i) construct a 1,640 MW combined cycle natural gas plant in Citrus County, Florida to be in service in 2018 with an estimated cost of \$1.5 billion, (ii) construct a 320 MW combustion turbine plant at its existing Suwannee generating facility (Suwannee project) with an estimated cost of \$197 million, and (iii) add inlet chilling to its existing Hines Energy Complex (Hines) combined cycle units which will increase the output of those units by 220 MW at an estimated cost of \$160 million. These cost estimates include AFUDC. On August 26, 2014, Duke Energy Florida requested the FPSC withdraw consideration for the Suwannee project so that Duke Energy Florida could pursue further negotiations on an alternative power plant acquisition. On October 2, 2014, the FPSC approved the requests for the Citrus County plant and the uprate project at the Hines facility. Additional environmental and governmental approvals will be sought for the Citrus County project. The Hines uprate project is expected to be completed no later than 2017.

In December 2014, Duke Energy Florida and Osprey Energy Center, LLC, a wholly owned subsidiary of Calpine Corporation (Calpine) entered into an Asset Purchase and Sale Agreement for the purchase of a 599 MW combined cycle natural gas plant in Auburndale, Florida (Osprey Plant acquisition) for approximately \$166 million. Closing is subject to the approval of FERC, FPSC and the expiration of the Hart Scott Rodino waiting period and is expected to occur by the first quarter of 2017 upon the expiration of an existing Power Purchase Agreement between Calpine and Duke Energy Florida. On January 30, 2015, Duke Energy Florida filed a petition with the FPSC requesting a determination that the Osprey Plant acquisition or, alternatively, the Suwannee project is the most cost effective generation alternative to meet Duke Energy Florida's remaining need prior to 2018.

Cost of Removal Reserve

The 2012 Settlement and the 2013 Settlement provide Duke Energy Florida the discretion to reduce cost of removal amortization expense for a certain portion of the cost of removal reserve until the earlier of its applicable cost of removal reserve reaches zero or the expiration of the 2013 Settlement. Duke Energy Florida may not reduce amortization expense if the reduction would cause it to exceed the appropriate high point of the return on equity range. Duke Energy Florida recognized a reduction in amortization expense of \$114 million, and \$178 million for the years ended December 31, 2013, and 2012 respectively. Duke Energy Florida had no cost of removal reserves eligible for amortization to income remaining at December 31, 2013.

Duke Energy Ohio

W.C. Beckjord Fuel Release

On August 18, 2014, approximately 9,000 gallons of fuel oil were inadvertently discharged into the Ohio River during a fuel oil transfer at the W.C. Beckjord generating plant. The Ohio Environmental Protection Agency (Ohio EPA) issued a Notice of Violation related to the discharge. Duke Energy Ohio is cooperating with the Ohio EPA, the EPA and the U.S. Attorney for the Southern District of Ohio, responding to a Request for Information from the EPA. No Notice of Violation has been issued by the EPA and no civil or criminal penalty amount has been established. Total repair and remediation costs related to the release are not expected to be material. Other costs related to the release, including state or federal civil enforcement proceedings, cannot be reasonably estimated at this time.

2014 Electric Security Plan (ESP)

On May 29, 2014, Duke Energy Ohio filed an application for approval of an SSO in the form of an ESP, effective June 1, 2015. The proposed ESP includes a competitive procurement process for SSO load, a distribution capital investment rider, a tracking mechanism for incremental distribution costs caused by major storms, and a cost-based recovery of Duke Energy Ohio's contractual entitlement in OVEC. The proposed plan also seeks rate design modifications and continuance, revision, or termination of existing riders. An evidentiary hearing in this case concluded in November 2014 and final briefs were submitted in December 2014. Duke Energy Ohio cannot predict the outcome of this matter.

Capacity Rider Filing

On August 29, 2012, Duke Energy Ohio applied to the PUCO for the establishment of a charge for capacity provided pursuant to its obligations as a Fixed Resource Requirement entity. The charge, which was consistent with Ohio's state compensation mechanism, was estimated to be approximately \$729 million, and reflected Duke Energy Ohio's embedded cost of capacity. On February 13, 2014, the PUCO denied Duke Energy Ohio's request.

2012 Electric Rate Case

On May 1, 2013, the PUCO approved a settlement agreement between Duke Energy Ohio and all intervening parties (the Electric Settlement) related to Duke Energy Ohio's electric distribution rate case. The Electric Settlement provides for a net increase in electric distribution revenues of \$49 million, or an average increase of 2.9 percent, based upon a return on equity of 9.84 percent. Revised rates were effective in May 2013.

2012 Natural Gas Rate Case

On November 13, 2013, the PUCO issued an order approving a settlement among Duke Energy Ohio, the PUCO Staff and intervening parties (the Gas Settlement). The Gas Settlement provided for (i) no increase in base rates for natural gas distribution service and (ii) a return on equity of 9.84 percent. The Gas Settlement provided for a subsequent hearing on Duke Energy Ohio's request for rider recovery of environmental remediation costs associated with its former MGP sites. After the conclusion of the evidentiary hearing and briefs, the PUCO authorized Duke Energy Ohio to recover \$56 million, excluding carrying costs, of environmental remediation costs. The MGP rider became effective in April 2014 for a five-year period. On March 31, 2014, Duke Energy Ohio filed an application with the PUCO to adjust the MGP rider for investigation and remediation costs incurred in 2013. As of December 31, 2014, Duke Energy Ohio has a balance of \$115 million in Regulatory assets in the Consolidated Balance Sheets related to MGP sites which includes the \$56 million authorized for recovery in the rate case.

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On May 14, 2014, the Ohio Supreme Court granted certain consumer groups' motion to stay the MGP rider pending their appeals of the PUCO approval of the Gas Settlement and Duke Energy Ohio suspended billing of the MGP rider in June 2014. Amounts collected under the rider prior to suspension were immaterial. The appellants, the PUCO and Duke Energy Ohio all filed briefs addressing the merits of this matter with the Ohio Supreme Court. On July 29, 2014, the Ohio Supreme Court denied Duke Energy Ohio's motion to lift the stay, but required appellants to post a bond. The Ohio Supreme Court also requested briefs on the appropriate amount of the bond. On November 5, 2014, the Ohio Supreme Court ordered the Appellants to post a bond of approximately \$2.5 million to continue the stay of the rider. The bond was to be posted within ten days or the stay would be lifted. The Appellants failed to post the required bond and on November 18, 2014, Duke Energy Ohio requested the PUCO to reinstate the MGP rider. The PUCO approved reinstatement of the rider on January 15, 2015 and Duke Energy Ohio began billings of the MGP rider. Duke Energy Ohio cannot predict the outcome of the appeals in this matter.

Regional Transmission Organization (RTO) Realignment

Duke Energy Ohio, including Duke Energy Kentucky, transferred control of its transmission assets from MISO to PJM, effective December 31, 2011.

On December 22, 2010, the KPSC approved Duke Energy Kentucky's request to effect the RTO realignment, subject to a commitment not to seek double-recovery in a future rate case of the transmission expansion fees that may be charged by MISO and PJM in the same period or overlapping periods.

On May 25, 2011, the PUCO approved a settlement between Duke Energy Ohio, Ohio Energy Group, the Office of the Ohio Consumers' Counsel and the PUCO Staff related to Duke Energy Ohio's recovery of certain costs of the RTO realignment via a non-bypassable rider. Duke Energy Ohio is allowed to recover all MISO Transmission Expansion Planning (MTEP) costs, including but not limited to Multi Value Project (MVP) costs, directly or indirectly charged to Ohio customers. Duke Energy Ohio also agreed to vigorously defend against any charges for MVP projects from MISO.

Upon its exit from MISO on December 31, 2011, Duke Energy Ohio recorded a liability for its exit obligation and share of MTEP costs, excluding MVP. This liability was recorded within Other in Current liabilities and Other in Deferred credits and other liabilities on Duke Energy Ohio's Consolidated Balance Sheets.

The following table provides a reconciliation of the beginning and ending balance of Duke Energy Ohio's recorded obligations related to its withdrawal from MISO. As of December 31, 2014, \$74 million is recorded as a Regulatory asset on Duke Energy Ohio's Consolidated Balance Sheets.

(in millions)	December 31, 2013	Provision / Adjustments	Cash Reductions	December 31, 2014
Duke Energy Ohio	\$ 95	\$ 3	\$ (4)	\$ 94

MVP. MISO approved 17 MVP proposals prior to Duke Energy Ohio's exit from MISO on December 31, 2011. Construction of these projects is expected to continue through 2020. Costs of these projects, including operating and maintenance costs, property and income taxes, depreciation and an allowed return, are allocated and billed to MISO transmission owners.

On December 29, 2011, MISO filed a tariff with the FERC providing for the allocation of MVP costs to a withdrawing owner based on monthly energy usage. The FERC set for hearing (i) whether MISO's proposed cost allocation methodology to transmission owners who withdrew from MISO prior to January 1, 2012, is consistent with the tariff at the time of their withdrawal from MISO, and, (ii) if not, what the amount of and methodology for calculating any MVP cost responsibility should be. On July 16, 2013, a FERC Administrative Law Judge (ALJ) issued an initial decision. Under this initial decision, Duke Energy Ohio would be liable for MVP costs. Duke Energy Ohio filed exceptions to the initial decision, requesting the FERC overturn the ALJ's decision. After reviewing the initial decision, along with all exceptions and responses filed by the parties, the FERC will issue a final decision. Duke Energy Ohio fully intends to appeal to the federal court of appeals if the FERC affirms the ALJ's decision. Duke Energy Ohio cannot predict the outcome of these proceedings.

In 2012, MISO estimated Duke Energy Ohio's MVP obligation over the period from 2012 to 2071 at \$2.7 billion, on an undiscounted basis. The estimated obligation is subject to great uncertainty including the ultimate cost of the projects, the annual costs of operations and maintenance, taxes and return over the project lives, the number of years in service for the projects and the allocation to Duke Energy Ohio.

Any liability related to the MISO MVP matter attributable to the Disposal Group will not be transferred to Dynegy upon closing of the disposal of the Midwest generation business.

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FERC Transmission Return on Equity and MTEP Cost Settlement

On October 14, 2011, Duke Energy Ohio and Duke Energy Kentucky submitted with FERC proposed modifications to the PJM Interconnection Open Access Transmission Tariff pertaining to recovery of the transmission revenue requirement as PJM transmission owners. The filing was made in connection with the Duke Energy Ohio's and Duke Energy Kentucky's move from MISO to PJM effective January 1, 2012. On April 24, 2012, FERC issued an order accepting the proposed filing effective January 1, 2012, except that the order denied a request to recover certain costs associated with the move from MISO to PJM without prejudice to the right to submit another filing seeking such recovery and including certain additional evidence, and set the rate of return on equity of 12.38 percent for settlement and hearing. A February 2013 settlement agreement filed with the FERC was rejected in September 2013. On October 30, 2014, the companies and six PJM transmission customers with load in the Duke Energy Ohio and Duke Energy Kentucky zone filed with FERC for approval of another settlement agreement. The principal terms of the settlement agreement are that, effective upon the date of FERC approval, (i) the return on equity will be reduced from 12.38 percent to 11.38 percent and (ii) Duke Energy Ohio and Duke Energy Kentucky will recover 30 percent of costs arising from their obligation to pay any portion of the costs of projects included in any MTEP that was approved prior to the date of the Duke Energy Ohio's and Duke Energy Kentucky's integration into PJM. The settlement is pending FERC approval. Duke Energy Ohio and Duke Energy Kentucky cannot predict the outcome of this matter.

Duke Energy Indiana**Edwardsport IGCC Plant**

On November 20, 2007, the IURC granted Duke Energy Indiana a Certificate of Public Convenience and Necessity for the construction of a 618 MW IGCC power plant at Duke Energy Indiana's existing Edwardsport Generating Station in Knox County, Indiana with a cost estimate of \$1.985 billion assuming timely recovery of financing costs related to the project. The Citizens Action Coalition of Indiana, Inc., Sierra Club, Inc., Save the Valley, Inc., and Valley Watch, Inc. (collectively, the Joint Intervenors) were intervenors in several matters related to the Edwardsport IGCC Plant.

On December 27, 2012, the IURC approved a settlement agreement (the 2012 Edwardsport settlement) related to the cost increase for the construction of the project, including subdockets before the IURC related to the project. The Office of Utility Consumer Counselor (OUCC), the Duke Energy Indiana Industrial Group and Nucor Steel-Indiana were parties to the settlement. The settlement agreement, as approved, capped costs to be reflected in customer rates at \$2.595 billion, including estimated AFUDC through June 30, 2012. Duke Energy Indiana is allowed to recover AFUDC after June 30, 2012, until customer rates are revised, with such recovery decreasing to 85 percent on AFUDC accrued after November 30, 2012.

Over the course of construction of the project to date, Duke Energy Indiana has recorded pretax charges of approximately \$897 million related to the project and the settlement agreement discussed above. Of this amount, pretax impairment and other charges of \$631 million were recorded during the year ended December 31, 2012. These charges were recorded in Impairment charges and Operations, maintenance and other on Duke Energy Indiana's Consolidated Statements of Operations and Comprehensive Income.

The project was placed in commercial operation in June 2013. Costs for the Edwardsport IGCC plant are recovered from retail electric customers through a tracking mechanism, the IGCC rider. Updates to the IGCC rider are filed semi-annually. An order on the eleventh semi-annual IGCC rider is currently pending. The twelfth and thirteenth semi-annual IGCC riders were combined into one proceeding. In this proceeding, the OUCC, Duke Energy Indiana Industrial Group and Joint Intervenors alleged the Edwardsport IGCC plant was not properly placed in commercial operation in June 2013 and therefore operating and maintenance costs for the time period June 2013 through March 2014 should not be recoverable. The Duke Energy Indiana Industrial Group and Joint Intervenors also argued that the plant's performance was unsatisfactory during the first ten months of operations and recommended cost recovery disallowances. Evidentiary hearings concluded in February 2015 and an order is expected in the second half of 2015.

On March 18, 2014, the Indiana Court of Appeals denied an appeal filed by the Joint Intervenors and affirmed the IURC order approving the 2012 Edwardsport settlement and other related regulatory orders. On June 5, 2014, the Indiana Court of Appeals affirmed the decision on rehearing. The Joint Intervenors requested to seek transfer to the Indiana Supreme Court. On November 7, 2014, the Indiana Supreme Court denied the Joint Intervenors' request to transfer the appeal of these proceedings. The ninth and tenth semi-annual IGCC rider orders have also been appealed. On August 21, 2014, the Indiana Court of Appeals affirmed the IURC order in the tenth IGCC rider proceeding, and on October 29, 2014, denied Joint Intervenors' request for rehearing. The Joint Intervenors have requested a transfer of the matter to the Indiana Supreme Court. On September 8, 2014, the Indiana Court of Appeals remanded the IURC order in the ninth IGCC rider proceeding back to the IURC for further findings concerning approximately \$61 million of financing charges Joint Intervenors claimed were caused by construction delay and a ratemaking issue concerning the in-service date determination for tax purposes. On February 25, 2015, the IURC issued an order on remand that upheld its prior order and added additional findings on the two issues as requested by the Indiana Court of Appeals. First, the IURC concluded the schedule delays in the construction of the IGCC plant were not the result of imprudence or unreasonable actions by Duke Energy Indiana and therefore recovery of the financing costs were appropriate. On the second issue, the IURC determined the federal tax in-service determination was to be made by the Internal Revenue Service, not the IURC, and the IURC appropriately reviewed and accepted the impact of such decision on customer rates in this and prior proceedings.

On April 2, 2014, the IURC established a subdocket to Duke Energy Indiana's current fuel adjustment clause proceeding. In this fuel adjustment subdocket, the IURC intends to review underlying causes for net negative generation amounts at the Edwardsport IGCC plant during the period September through November 2013. Duke Energy Indiana contends the net negative generation is related to the consumption of fuel and auxiliary power when the plant was in start-up or off line. In addition to the OUCC, the Duke Energy Indiana Industrial Group, Nucor Steel-Indiana, Steel Dynamics, Inc., and the Joint Intervenors are parties to the subdocket. The IURC has deferred the fuel adjustment subdocket until resolution of the twelfth and thirteenth semi-annual IGCC rider proceedings. In addition, although the IURC approved fuel adjustment clause recovery for the period December 2013 through March 2014, it determined such fuel costs reasonably related to the operational performance of the Edwardsport IGCC plant shall be subject to refund pending the outcome of the twelfth and thirteenth semi-annual IGCC riders.

Duke Energy Indiana cannot predict the outcome of the fuel adjustment clause proceedings or pending and future IGCC Rider proceedings.

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FERC Transmission Return on Equity Complaint

On November 12, 2013, customer groups filed with FERC a complaint against MISO and its transmission-owning members, including Duke Energy Indiana, alleging, among other things, that the current base rate of return on equity earned by MISO transmission owners of 12.38 percent is unjust and unreasonable and should be reduced to 9.15 percent. On October 16, 2014, FERC issued an order setting the return on equity issue for settlement and hearing and establishing a refund effective date of November 12, 2013. On November 6, 2014, the MISO transmission owners submitted revisions to the MISO tariff to implement a 0.50 percent adder to the base return on equity based on participation in a RTO. On January 5, 2015, FERC issued an order accepting the adder subject to it being applied to a base return on equity that is shown to be just and reasonable in the pending base return on equity complaint. On January 5, 2015, settlement procedures in the base return on equity proceeding were terminated and a hearing was scheduled for August 17, 2015. On February 12, 2015, certain MISO transmission customers filed with FERC a complaint alleging that the base return on equity should be 8.67 percent and requesting consolidation with the pending base return on equity complaint. Duke Energy Indiana cannot predict the outcome of this matter.

Grid Infrastructure Improvement Plan

On August 29, 2014, Duke Energy Indiana filed a seven-year grid infrastructure improvement plan with the IURC with an estimated cost of \$1.9 billion, focusing on the reliability, integrity and modernization of the transmission and distribution system. If approved, 80 percent of the costs will be recovered through a rate rider. The remaining 20 percent are subject to recovery through future rate case proceedings. Hearings were held in January 2015 and Duke Energy Indiana expects a decision in the second quarter of 2015.

Other Regulatory Matters**Atlantic Coast Pipeline**

On September 2, 2014, Duke Energy, Dominion Resources (Dominion), Piedmont Natural Gas and AGL Resources announced the formation of a joint venture, Atlantic Coast Pipeline, LLC, to build and own the proposed Atlantic Coast Pipeline (ACP), a 550-mile interstate natural gas pipeline. The ACP is designed to meet the needs identified in requests for proposals by Duke Energy Carolinas, Duke Energy Progress and Piedmont Natural Gas. Dominion will build and operate the ACP and will own 45 percent. Duke Energy will own 40 percent of the pipeline through its Commercial Power segment. The remaining share will be owned by Piedmont Natural Gas and AGL Resources. Duke Energy Carolinas and Duke Energy Progress will be customers of the pipeline and enter into 20-year transportation capacity contracts with ACP, subject to state regulatory approval. In October 2014, the NCUC and PSCSC approved the Duke Energy Carolinas and Duke Energy Progress requests to enter into certain affiliate agreements, pay compensation to ACP and to grant a waiver of certain Code of Conduct provisions relating to contractual and jurisdictional matters. The project will require FERC approval, which the joint venture will seek to secure by summer 2016. The estimated in-service date of the pipeline is late 2018.

East Bend Station

On December 30, 2014, Duke Energy Ohio acquired The Dayton Power and Light Company's 31 percent interest in East Bend Station for approximately \$12.4 million. The purchase price has been reflected in the accompanying financial statements with the net purchase amount as an increase to property, plant and equipment in accordance with FERC guidelines. Duke Energy Ohio expects FERC approval to present the property, plant and equipment and accumulated depreciation at The Dayton Power and Light Company's historical cost.

NC WARN FERC Complaint

On December 16, 2014, NC WARN filed a complaint with the FERC against Duke Energy Carolinas and Duke Energy Progress that alleged Duke Energy Carolinas and Duke Energy Progress manipulated the electricity market by constructing costly and unneeded generation facilities leading to unjust and unreasonable rates; Duke Energy Carolinas and Duke Energy Progress failed to comply with Order 1000 by not effectively connecting their transmission systems with neighboring utilities which also have excess capacity; the plans of Duke Energy Carolinas and Duke Energy Progress for unrealistic future growth leads to unnecessary and expensive generating plants; FERC should investigate the practices of Duke Energy Carolinas and Duke Energy Progress and the potential benefits of having them enter into a regional transmission organization; and FERC should force Duke Energy Carolinas and Duke Energy Progress to purchase power from other utilities rather than construct wasteful and redundant power plants. A copy of the complaint was filed with the PSCSC on January 6, 2015. Duke Energy Carolinas and Duke Energy Progress have filed a responses requesting dismissal of the complaint with the FERC and the PSCSC. Duke Energy Carolinas and Duke Energy Progress cannot predict the outcome of these proceedings.

Merger Appeals

On January 9, 2013, the City of Orangeburg and NC WARN appealed the NCUC's approval of the merger between Duke Energy and Progress Energy. On April 29, 2013, the NCUC granted Duke Energy's motion to dismiss certain exceptions contained in NC WARN's appeal.

On March 4, 2014, the Court of Appeals issued an opinion affirming the NCUC's approval of the merger. On April 8, 2014, NC WARN filed a petition for discretionary review by the North Carolina Supreme Court. On April 21, 2014, Duke Energy and the Public Staff jointly filed their response opposing NC WARN's petition. The City of Orangeburg did not file a petition for discretionary review. On December 19, 2014, the North Carolina Supreme Court denied NC WARN's petition, concluding the appeal.

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Progress Energy Merger FERC Mitigation

In June 2012, the FERC approved the merger with Progress Energy, including Duke Energy and Progress Energy's revised market power mitigation plan, the Joint Dispatch Agreement (JDA) and the joint Open Access Transmission Tariff. Several intervenors filed requests for rehearing challenging various aspects of the FERC approval. On October 29, 2014, FERC denied all of the requests for rehearing.

The revised market power mitigation plan provided for the acceleration of one transmission project and the completion of seven other transmission projects (Long-Term FERC Mitigation) and interim firm power sale agreements during the completion of the transmission projects (Interim FERC Mitigation). The Long-Term FERC Mitigation was expected to increase power imported into the Duke Energy Carolinas and Duke Energy Progress service areas and enhance competitive power supply options in the service areas. All of these projects were completed in or before 2014. On May 30, 2014, the Independent Monitor filed with FERC a final report stating that the Long-Term FERC Mitigation is complete. Therefore, Duke Energy Carolinas' and Duke Energy Progress' obligations associated with the Interim FERC Mitigation have terminated. In the second quarter of 2014, Duke Energy Progress recorded an \$18 million partial reversal of an impairment recorded in the third quarter of 2012. This reversal adjusts the initial disallowance from the Long-Term FERC mitigation and reflects updated information on the construction costs and in-service dates of the transmission projects.

Following the closing of the merger, outside counsel reviewed Duke Energy's mitigation plan and discovered a technical error in the calculations. On December 6, 2013, Duke Energy submitted a filing to the FERC disclosing the error and arguing that no additional mitigation is necessary. The City of New Bern filed a protest and requested that FERC order additional mitigation. On October 29, 2014, FERC ordered that the amount of the stub mitigation be increased from 25 MW to 129 MW. The stub mitigation is Duke Energy's commitment to set aside for third parties a certain quantity of firm transmission capacity from Duke Energy Carolinas to Duke Energy Progress during summer off-peak hours. FERC also ordered that Duke Energy operate certain phase shifters to create additional import capability and that such operation be monitored by an independent monitor. Duke Energy does not expect the costs to comply with this order to be material. FERC also referred Duke Energy's failure to expressly designate the phase shifter reactivation as a mitigation project in Duke Energy's original mitigation plan filing in March 2012 to the FERC Office of Enforcement for further inquiry. Duke Energy cannot predict the outcome of this additional inquiry.

Planned and Potential Coal Plant Retirements

The Subsidiary Registrants periodically file Integrated Resource Plans (IRP) with state regulatory commissions. The IRPs provide a view of forecasted energy needs over a long term (10 to 20 years) and options being considered to meet those needs. Recent IRPs filed by the Subsidiary Registrants included planning assumptions to potentially retire certain coal-fired generating facilities in Florida, Ohio and Indiana earlier than their current estimated useful lives. These facilities do not have the requisite emission control equipment, primarily to meet EPA regulations recently approved or proposed.

The table below contains the net carrying value of generating facilities planned for early retirement or being evaluated for potential retirement included in Net property, plant and equipment on the Consolidated Balance Sheets, excluding the Duke Energy Carolinas 170 MW Lee Unit 3 which is being converted to gas in 2015.

	December 31, 2014				
	Duke Energy	Progress Energy ^(b)	Duke Energy Florida ^(b)	Duke Energy Ohio ^(c)	Duke Energy Indiana ^(d)
Capacity (in MW)	1,704	873	873	163	668
Remaining net book value (in millions) ^(a)	\$ 239	\$ 114	\$ 114	\$ 9	\$ 116

(a) Included in Net property, plant and equipment as of December 31, 2014, on the Consolidated Balance Sheets.

(b) Includes Crystal River Units 1 and 2.

(c) Includes Miami Fort Unit 6 which is expected to be retired by June 1, 2015.

(d) Includes Wabash River Units 2 through 6. Wabash River Unit 6 is being evaluated for potential conversion to gas. Duke Energy Indiana committed to retire or convert these units by June 2018 in conjunction with a settlement agreement associated with the Edwardsport air permit.

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 of these assets are retired. However, such recovery, including recovery of carrying costs on remaining book values, could be subject to future regulatory approvals and therefore cannot be assured.

5. COMMITMENTS AND CONTINGENCIES**General Insurance**

The Duke Energy Registrants have insurance and reinsurance coverage either directly or through indemnification from Duke Energy's captive insurance company, Bison, and its affiliates, consistent with companies engaged in similar commercial operations with similar type properties. The Duke Energy Registrants' coverage includes (i) commercial general liability coverage for liabilities arising to third parties for bodily injury and property damage; (ii) workers' compensation; (iii) automobile liability coverage; and (iv) property coverage for all real and personal property damage. Real and personal property damage coverage excludes electric transmission and distribution lines, but includes damages arising from boiler and machinery breakdowns, earthquakes, flood damage and extra expense, but not outage or replacement power coverage. All coverage is subject to certain deductibles or retentions, sublimits, exclusions, terms and conditions common for companies with similar types of operations.

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The Duke Energy Registrants self-insure their electric transmission and distribution lines against loss due to storm damage and other natural disasters. As discussed further in Note 4, Duke Energy Florida maintains a storm damage reserve and has a regulatory mechanism to recover the cost of named storms on an expedited basis.

The cost of the Duke Energy Registrants' coverage can fluctuate year to year reflecting claims history and conditions of the insurance and reinsurance markets.

In the event of a loss, terms and amounts of insurance and reinsurance available might not be adequate to cover claims and other expenses incurred. Uninsured losses and other expenses, to the extent not recovered by other sources, could have a material effect on the Duke Energy Registrants' results of operations, cash flows or financial position. Each company is responsible to the extent losses may be excluded or exceed limits of the coverage available.

Nuclear Insurance

Duke Energy Carolinas owns and operates the McGuire Nuclear Station (McGuire) and the Oconee Nuclear Station (Oconee) and operates and has a partial ownership interest in the Catawba Nuclear Station (Catawba). McGuire and Catawba each have two reactors. Oconee has three reactors. The other joint owners of Catawba reimburse Duke Energy Carolinas for certain expenses associated with nuclear insurance per the Catawba joint owner agreements.

Duke Energy Progress owns and operates the Robinson Nuclear Station (Robinson) and operates and has a partial ownership interest in the Brunswick and Harris stations. Robinson and Harris each have one reactor. Brunswick has two reactors. The other joint owners of Brunswick and Harris reimburse Duke Energy Progress for certain expenses associated with nuclear insurance per the Brunswick and Harris joint owner agreements.

Duke Energy Florida manages and has a partial ownership interest in Crystal River Unit 3, which has been retired. The other joint owners of Crystal River Unit 3 reimburse Duke Energy Florida for certain expenses associated with nuclear insurance per the Crystal River Unit 3 joint owner agreement.

In the event of a loss, terms and amounts of insurance available might not be adequate to cover property damage and other expenses incurred. Uninsured losses and other expenses, to the extent not recovered by other sources, could have a material effect on Duke Energy Carolinas', Duke Energy Progress' and Duke Energy Florida's results of operations, cash flows or financial position. Each company is responsible to the extent losses may be excluded or exceed limits of the coverage available.

Nuclear Liability Coverage

The Price-Anderson Act requires owners of nuclear reactors to provide for public nuclear liability protection per nuclear incident up to a maximum total financial protection liability. The maximum total financial protection liability, which is currently \$13.6 billion, is subject to change every five years for inflation and the number of licensed reactors. Total nuclear liability coverage consists of a combination of private primary nuclear liability insurance coverage and a mandatory industry risk-sharing program to provide for excess nuclear liability coverage above the maximum reasonably available private primary coverage. The United States Congress could impose revenue-raising measures on the nuclear industry to pay claims.

Primary Liability Insurance

Duke Energy Carolinas, Duke Energy Progress and Duke Energy Florida have purchased the maximum reasonably available private primary nuclear liability insurance as required by law, which currently is \$375 million per station.

Excess Liability Program

This program provides \$13.2 billion of coverage per incident through the Price-Anderson Act's mandatory industry-wide excess secondary financial protection program of risk pooling. This amount is the product of potential cumulative retrospective premium assessments of \$127 million times the current 104 licensed commercial nuclear reactors in U.S. Under this program, licensees could be assessed retrospective premiums to compensate for public nuclear liability damages in the event of a nuclear incident at any licensed facility in the U.S. Retrospective premiums may be assessed at a rate not to exceed \$19 million per year per licensed reactor for each incident. The assessment may be subject to state premium taxes.

Nuclear Property and Accidental Outage Coverage

Duke Energy Carolinas, Duke Energy Progress and Duke Energy Florida are members of Nuclear Electric Insurance Limited (NEIL), an industry mutual insurance company, which provides "all risk" property damage, decontamination, and premature decommissioning insurance for each station for losses resulting from damage to its nuclear plants, either due to accidents or acts of terrorism. Additionally, NEIL provides some replacement power cost insurance for each station for losses in the event of a major accidental outage at an insured nuclear station. NEIL requires its members to maintain an investment grade credit rating or to ensure collectability of their annual retrospective premium obligation by providing a financial guarantee, letter of credit, deposit premium or other means of assurance. The companies are required each year to report to the NRC the current levels and sources of insurance that demonstrate it possesses sufficient financial resources to stabilize and decontaminate its reactors and reactor station sites in the event of an accident.

Pursuant to regulations of the NRC, each company's property damage insurance policies provide that all proceeds from such insurance be applied, first, to place the plant in a safe and stable condition after a qualifying accident, and second, to decontaminate the plant before any proceeds can be used for decommissioning, plant repair or restoration.

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Losses resulting from acts of terrorism are covered as common occurrences, such that if terrorist acts occur against one or more commercial nuclear power plants insured by NEIL within a 12-month period, they would be treated as one event and the owners of the plants where the act occurred would share one full limit of liability. The full limit of liability is currently \$3.2 billion. NEIL sublimits the total aggregate for all of their policies for non-nuclear terrorist events to approximately \$1.83 billion.

Each nuclear facility has accident property damage, decontamination and premature decommissioning liability insurance from NEIL with limits of \$1.5 billion, except for Crystal River Unit 3. Crystal River Unit 3's limit is \$1.1 billion and is on an actual cash value basis. NEIL coverage for Crystal River 3 does not include property damage to or resulting from the containment structure except coverage does apply to decontamination and debris removal, if required following an accident, to ensure public health and safety or if property damage results from a terrorism event. All nuclear facilities except for Catawba and Crystal River Unit 3 also share an additional \$1.25 billion nuclear accident insurance limit above their dedicated underlying limit. This shared additional excess limit is not subject to reinstatement in the event of a loss. Catawba has a dedicated \$1.25 billion of additional nuclear accident insurance limit above its dedicated underlying limit. Catawba and Oconee also have an additional \$750 million of non-nuclear accident property damage limit.

NEIL's Accidental Outage policy provides some replacement power cost insurance for losses in the event of a major accident property damage outage of a nuclear unit. Coverage is provided on a weekly limit basis after a significant waiting period deductible and at 100 percent of the available weekly limits for 52 weeks and 80 percent of the available weekly limits for the next 110 weeks. Coverage is provided until policy aggregate limits are met where the accidental outage policy limit is \$490 million for McGuire and Catawba, \$381 million for Oconee, \$419 million for Brunswick, \$384 million for Harris and \$329 million for Robinson. NEIL sublimits the accidental outage recovery to the first 104 weeks of coverage not to exceed \$328 million from non-nuclear accidental property damage. Coverage amounts decrease in the event more than one unit at a station is out of service due to a common accident.

Potential Retroactive Premium Assessments

In the event of NEIL losses, NEIL's board of directors may assess member companies retroactive premiums of amounts up to 10 times their annual premiums for up to 6 years after a loss. NEIL has never exercised this assessment. The maximum aggregate annual retrospective premium obligations for Duke Energy Carolinas are \$73 million for primary property insurance and \$32 million for accidental outage insurance. The maximum aggregate annual retrospective premium obligations Duke Energy Progress are \$60 million for primary property insurance and \$16 million for accidental outage insurance. Duke Energy Carolinas maintains excess property insurance for Catawba with a maximum assessment of \$7 million, and shares with Duke Energy Progress blanket excess property limits across other sites with a combined potential maximum assessment of \$17 million. The current potential maximum assessments for Duke Energy Florida are \$8 million for primary property insurance. The maximum assessment amounts include 100 percent of Duke Energy Carolinas', Duke Energy Progress', and Duke Energy Florida's potential obligations to NEIL for their share of jointly owned reactors.

ENVIRONMENTAL

Duke Energy is subject to international, federal, state, and local regulations regarding air and water quality, hazardous and solid waste disposal, and other environmental matters. The Subsidiary Registrants are subject to federal, state, and local regulations regarding air and water quality, hazardous and solid waste disposal and other environmental matters. These regulations can be changed from time to time, imposing new obligations on the Duke Energy Registrants.

The following environmental matters impact all of the Duke Energy Registrants.

Remediation Activities

The Duke Energy Registrants are responsible for environmental remediation at various contaminated sites. These include some properties that are part of ongoing operations and sites formerly owned or used by Duke Energy entities. These sites are in various stages of investigation, remediation and monitoring. Managed in conjunction with relevant federal, state and local agencies, activities vary with site conditions and locations, remediation requirements, complexity and sharing of responsibility. If remediation activities involve joint and several liability provisions, strict liability, or cost recovery or contribution actions, the Duke Energy Registrants could potentially be held responsible for contamination caused by other potentially responsible parties, and may also benefit from insurance policies or contractual indemnities that cover some or all cleanup costs. Liabilities are recorded when losses become probable and are reasonably estimable. The total costs that may be incurred cannot be estimated because the extent of environmental impact, allocation among potentially responsible parties, remediation alternatives, and/or regulatory decisions have not yet been determined. Additional costs associated with remediation activities are likely to be incurred in the future and could be significant. Costs are typically expensed as Operation, maintenance and other in the Consolidated Statements of Operations unless regulatory recovery of the costs is deemed probable.

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The following table contains information regarding reserves for probable and estimable costs related to the various environmental sites. These reserves are recorded in Other within Deferred Credits and Other Liabilities on the Consolidated Balance Sheets.

(in millions)	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana
Balance at December 31, 2011	61	12	23	11	12	28	9
Provisions / adjustments	39	1	19	5	14	5	3
Cash reductions	(25)	(1)	(9)	(2)	(7)	(18)	(4)
Balance at December 31, 2012	75	12	33	14	19	15	8
Provisions / adjustments	26	—	4	(1)	5	20	1
Cash reductions	(22)	(1)	(10)	(5)	(5)	(8)	(2)
Balance at December 31, 2013	79	11	27	8	19	27	7
Provisions / adjustments	32	(1)	1	4	(3)	28	4
Cash reductions	(14)	—	(11)	(7)	(4)	(1)	(1)
Balance at December 31, 2014	97	10	17	5	12	54	10

Additional losses in excess of recorded reserves that could be incurred for the stages of investigation, remediation and monitoring for environmental sites that have been evaluated at this time are presented in the table below.

(in millions)	
Duke Energy	\$ 89
Duke Energy Carolinas	25
Progress Energy	15
Duke Energy Progress	1
Duke Energy Florida	14
Duke Energy Ohio	42
Duke Energy Indiana	7

North Carolina and South Carolina Ash Basins

On February 2, 2014, a break in a 48-inch stormwater pipe beneath an ash basin at Duke Energy Carolinas' retired Dan River steam station caused a release of ash basin water and ash into the Dan River. On February 8, 2014, a permanent plug was installed in the 48-inch stormwater pipe, stopping the release of materials into the river. Duke Energy Carolinas estimates 30,000 to 39,000 tons of ash and 24 million to 27 million gallons of basin water were released into the river during the incident. Duke Energy Carolinas incurred approximately \$24 million of repairs and remediation expense related to this incident during the year ended December 31, 2014. These amounts are recorded in Operations, maintenance and other on the Consolidated Statements of Operations and Comprehensive Income. Duke Energy Carolinas will not seek recovery of these costs from customers. In July, Duke Energy completed remediation work identified by the EPA and continues to cooperate with the EPA's civil enforcement process. See the "Litigation" section below for additional information on litigation, investigations, and enforcement actions related to ash basins. Other costs related to the Dan River release, including pending or future state or federal civil enforcement proceedings, future regulatory directives, natural resources damages, additional pending litigation, future claims or litigation, and long-term environmental impact costs cannot be reasonably estimated at this time.

On September 20, 2014, the North Carolina Coal Ash Management Act of 2014 (Coal Ash Act) became law. The Coal Ash Act (i) establishes a Coal Ash Management Commission to oversee handling of coal ash within the state; (ii) prohibits construction of new and expansion of existing ash impoundments and use of existing impoundments at retired facilities, effective October 1, 2014; (iii) requires closure of ash impoundments at Duke Energy Progress' Asheville and Sutton stations and Duke Energy Carolinas' Riverbend and Dan River stations no later than August 1, 2019; (iv) requires dry disposal of fly ash at active plants not retired by December 31, 2018; (v) requires dry disposal of bottom ash at active plants by December 31, 2019, or retirement of active plants; (vi) requires all remaining ash impoundments in North Carolina to be categorized as high-risk, intermediate-risk, or low-risk no later than December 31, 2015 by the North Carolina Department of Environment and Natural Resources (DENR) with the method of closure and timing to be based upon the assigned risk, with closure no later than December 31, 2029; (vii) establishes requirements to deal with groundwater and surface water impacts from impoundments and (viii) enhances the level of regulation for structural fills utilizing coal ash. The Coal Ash Act includes a variance procedure for compliance deadlines and modification of requirements regarding structural fills and compliance boundaries. Provisions of the Coal Ash Act prohibit cost recovery for unlawful discharge of ash basin waters occurring after January 1, 2014. The Coal Ash Act included a moratorium for any NCUC ordered rate changes to effectuate the legislation, which ended January 15, 2015. The Coal Ash Act leaves the decision on cost recovery determinations related to closure of coal combustion residuals surface impoundments (ash basins or impoundments) to the normal ratemaking processes before utility regulatory commissions. In November 2014, Duke Energy submitted to DENR site specific coal ash excavation plans for the four high priority stations required to be closed no later than August 1, 2019. These plans and all associated permits must be approved by DENR before any excavation work can begin.

In September 2014, Duke Energy Carolinas executed a consent agreement with the South Carolina Department of Health and Environmental Control (SCDHEC) requiring the excavation of an inactive ash basin and ash fill area at the W.S. Lee Steam Station. As part of this agreement, in December 2014, Duke Energy Carolinas filed an ash removal plan and schedule with SCDHEC.

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Duke Energy Carolinas and Duke Energy Progress recorded asset retirement obligations at December 31, 2014 based upon the legal obligation for closure of coal ash basins and the disposal of related ash as a result of the Coal Ash Act and the agreement with SCDHEC. Refer to Note 9 for further discussion of the asset retirement obligations recorded at December 31, 2014.

Coal Combustion Residuals

On December 19, 2014, the EPA signed the first federal regulation for the disposal of coal combustion residuals (CCR) from power plants. The federal regulation classifies CCR as nonhazardous waste under the Resource Conservation and Recovery Act and applies to all new and existing landfills, new and existing surface impoundments, structural fills and CCR piles. The rule establishes requirements regarding landfill design, structural integrity design and assessment criteria for surface impoundments, groundwater monitoring and protection procedures and other operational and reporting procedures to ensure the safe disposal and management of CCR. In addition to the requirements of the federal CCR regulation, CCR landfills and surface impoundments will continue to be independently regulated by most states. Duke Energy records an asset retirement obligation when it has a legal obligation to incur retirement costs associated with the retirement of a long-lived asset and the obligation can be reasonably estimated. Once the rule is effective in 2015, additional asset retirement obligation amounts will be recorded at the Duke registrants. Cost recovery for future expenditures will be pursued through the normal ratemaking process with state utility commissions, which permit recovery of necessary and prudently incurred costs associated with Duke Energy's regulated operations. At this time, Duke Energy is evaluating the CCR regulation and developing cost estimates that will largely be dependent upon compliance alternatives selected to meet requirements of the regulations. For further discussion of asset retirement obligations see Note 9.

Litigation**Duke Energy****Ash Basin Shareholder Derivative Litigation**

Five shareholder derivative lawsuits have been filed in Delaware Chancery Court relating to the release at Dan River and to the management of Duke Energy's ash basins. On October 31, 2014, the five lawsuits were consolidated in a single proceeding titled "In Re Duke Energy Corporation Coal Ash Derivative Litigation." On December 2, 2014, plaintiffs filed a Corrected Verified Consolidated Shareholder Derivative Complaint (Consolidated Complaint).

The Consolidated Complaint names as defendants several current and former Duke Energy officers and directors (collectively, the "Duke Energy Defendants"). Duke Energy is named as a nominal defendant.

The Consolidated Complaint alleges the Duke Energy Defendants breached their fiduciary duties to the company by failing to adequately oversee Duke Energy's ash basins and that these breaches of fiduciary duty may have contributed to the incident at Dan River and continued thereafter. The lawsuit also asserts claims against the Duke Energy Defendants for corporate waste (relating to the money Duke Energy has spent and will spend as a result of the fines, penalties, and coal ash removal) and unjust enrichment (relating to the compensation and director remuneration that was received despite these alleged breaches of fiduciary duty). The lawsuit seeks both injunctive relief against Duke Energy and restitution from the Duke Energy Defendants. On January 21, 2015, the Duke Energy Defendants filed a Motion to Stay and an alternative Motion to Dismiss.

On May 28, 2014, Duke Energy received a shareholder litigation demand letter sent on behalf of shareholder Mitchell Pinsky. The letter alleges that the members of the Board of Directors and certain officers breached their fiduciary duties by allowing the company to illegally dispose of and store coal ash pollutants. The letter demands that the Board of Directors take action to recover damages associated with those breaches of fiduciary duty; otherwise, the attorney will file a shareholder derivative action. By letter dated July 3, 2014, counsel for the shareholder was informed that the Board of Directors appointed a Demand Review Committee to evaluate the allegations in the Demand Letter.

It is not possible to predict whether Duke Energy will incur any liability or to estimate the damages, if any, it might incur in connection with these matters.

Progress Energy Merger Shareholder Litigation

Duke Energy, the eleven members of the Board of Directors who were also members of the pre-merger Board of Directors (Legacy Duke Energy Directors) and certain Duke Energy officers are defendants in a purported securities class action lawsuit (*Nieman v. Duke Energy Corporation, et al.*). This lawsuit consolidates three lawsuits originally filed in July 2012, and is pending in the United States District Court for the Western District of North Carolina. The plaintiffs allege federal Securities Act and Exchange Act claims based on allegations of materially false and misleading representations and omissions in the Registration Statement filed on July 7, 2011, and purportedly incorporated into other documents, all in connection with the post-merger change in Chief Executive Officer (CEO). On August 15, 2014, the parties reached an agreement in principle to settle the litigation for an amount which, net of the expected proceeds of insurance policies, is not anticipated to have a material effect on the results of operations, cash flows or financial position of Duke Energy. On December 2, 2014, the parties executed a Memorandum of Understanding relating to the settlement which will be submitted to the court for approval.

On May 31, 2013, the Delaware Chancery Court consolidated four shareholder derivative lawsuits filed in 2012. The Court also appointed a lead plaintiff and counsel for plaintiffs and designated the case as *In Re Duke Energy Corporation Derivative Litigation*. The lawsuit names as defendants the Legacy Duke Energy Directors. Duke Energy is named as a nominal defendant. The case alleges claims for breach of fiduciary duties of loyalty and care in connection with the post-merger change in CEO. The case is stayed pending resolution of the *Nieman v. Duke Energy Corporation, et al.* case in North Carolina.

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Two shareholder Derivative Complaints, filed in 2012 in federal district court in Delaware, were consolidated as *Tansey v. Rogers, et al.* The case alleges claims for breach of fiduciary duty and waste of corporate assets, as well as claims under Section 14(a) and 20(a) of the Exchange Act. Duke Energy is named as a nominal defendant. Pursuant to an Order entered on September 2, 2014, the court administratively closed this consolidated derivative action. The parties filed a status report with the court on December 1, 2014, and will continue to do so every six months thereafter until the *Nieman v. Duke Energy Corporation, et al.* case in North Carolina has been resolved.

On August 3, 2012, Duke Energy was served with a shareholder Derivative Complaint, which was transferred to the North Carolina Business Court (*Krieger v. Johnson, et al.*). The lawsuit names as defendants William D. Johnson and the Legacy Duke Energy Directors. Duke Energy is named as a nominal defendant. The lawsuit alleges claims for breach of fiduciary duty in granting excessive compensation to Mr. Johnson. On April 30, 2014, the North Carolina Business Court granted the Legacy Duke Energy Directors' motion to dismiss the lawsuit.

It is not possible to estimate the maximum exposure of loss that may occur in connection with these lawsuits.

Price Reporting Cases

A total of five lawsuits were filed against Duke Energy affiliates and other energy companies and remain pending in a consolidated, single federal court proceeding in Nevada. Each of these lawsuits contain similar claims that defendants allegedly manipulated natural gas markets by various means, including providing false information to natural gas trade publications and entering into unlawful arrangements and agreements in violation of the antitrust laws of the respective states. Plaintiffs seek damages in unspecified amounts.

On July 18, 2011, the judge granted a defendant's motion for summary judgment in two of the remaining five cases to which Duke Energy affiliates are a party. The U.S. Court of Appeals for the Ninth Circuit subsequently reversed the lower court's decision. On July 1, 2014, the U.S. Supreme Court granted the defendants', including Duke Energy, petition for certiorari. Oral argument was held on January 12, 2015.

It is not possible to predict whether Duke Energy will incur any liability or to estimate the damages, if any, it might incur in connection with the remaining matters. However, based on Duke Energy's past experiences with similar cases of this nature, it does not believe its exposure under these remaining matters is material.

Brazil Expansion Lawsuit

On August 9, 2011, the State of São Paulo sued Duke Energy International Geracao Paranapenema S.A. (DEIGP) in Brazilian state court. The lawsuit claims DEIGP is under a continuing obligation to expand installed generation capacity in the State of São Paulo by 15 percent pursuant to a stock purchase agreement under which DEIGP purchased generation assets from the state. On August 10, 2011, a judge granted an ex parte injunction ordering DEIGP to present a detailed expansion plan in satisfaction of the 15 percent obligation. DEIGP has previously taken a position the expansion obligation is no longer viable given changes that have occurred in the electric energy sector since privatization. DEIGP submitted its proposed expansion plan on November 11, 2011, but reserved objections regarding enforceability. It is not possible to predict whether Duke Energy will incur any liability or to estimate the damages, if any, it might incur in connection with this matter.

Duke Energy Carolinas and Duke Energy Progress

DENR State Enforcement Actions

In the first quarter of 2013, environmental organizations sent notices of intent to sue Duke Energy Carolinas and Duke Energy Progress related to alleged groundwater violations and Clean Water Act (CWA) violations from coal ash basins at two of their coal-fired power plants in North Carolina. DENR filed enforcement actions against Duke Energy Carolinas and Duke Energy Progress alleging violations of water discharge permits and North Carolina groundwater standards. The case against Duke Energy Carolinas was filed in Mecklenburg County Superior Court. The case against Duke Energy Progress was filed in Wake County Superior Court. The cases are being heard before a single judge.

On October 4, 2013, Duke Energy Carolinas, Duke Energy Progress and DENR negotiated a proposed consent order covering these two plants. The consent order would have assessed civil penalties and imposed a compliance schedule requiring Duke Energy Carolinas and Duke Energy Progress to undertake monitoring and data collection activities toward making appropriate corrective action to address any substantiated violations. In light of the coal ash release that occurred at Dan River on February 2, 2014, on March 21, 2014, DENR withdrew its support of the consent orders and requested that the court proceed with the litigation.

On August 16, 2013, DENR filed an enforcement action against Duke Energy Carolinas and Duke Energy Progress related to their remaining plants in North Carolina, alleging violations of the CWA and violations of the North Carolina groundwater standards. The case against Duke Energy Carolinas was filed in Mecklenburg County Superior Court. The case against Duke Energy Progress was filed in Wake County Superior Court. Both of these cases have been assigned to the judge handling the enforcement actions discussed above. Southern Environmental Law Center (SELC), on behalf of several environmental groups, has been permitted to intervene in these cases.

It is not possible to predict any liability or estimate any damages Duke Energy Carolinas or Duke Energy Progress might incur in connection with these matters.

North Carolina Declaratory Judgment Action

On October 10, 2012, the SELC, on behalf of the same environmental groups that were permitted to challenge the consent decrees discussed above, filed a petition with the North Carolina Environmental Management Commission (EMC) asking for a declaratory ruling seeking to clarify the application of the state's groundwater protection rules to coal ash basins. The petition sought to change the interpretation of regulations that permitted DENR to assess the extent, cause and significance of any groundwater contamination before ordering action to eliminate the source of contamination, among other issues. Duke Energy Carolinas and Duke Energy Progress were both permitted to intervene in the matter. On December 3, 2012, the EMC affirmed this interpretation of the regulations.

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On March 6, 2014, the North Carolina State Court judge overturned the ruling of the EMC holding that in the case of groundwater contamination, DENR was required to issue an order to immediately eliminate the source of the contamination before an assessment of the nature, significance and extent of the contamination or the continuing damage to the groundwater was conducted. Duke Energy Carolinas, Duke Energy Progress, and the EMC appealed the ruling in April 2014. On May 16, 2014, the North Carolina Court of Appeals denied a petition to stay the case during the appeal. On October 10, 2014, the parties were notified the case has been transferred to the NCSC. Oral argument has been scheduled for March 16, 2015.

Federal Citizens Suits

There are currently five cases filed in various North Carolina federal courts contending that the DENR state enforcement actions discussed above do not adequately address the issues raised in the notices of intent to sue related to the Riverbend, Sutton, Cape Fear, H.F. Lee and Buck plants.

On June 11, 2013, Catawba Riverkeeper Foundation, Inc. (Catawba Riverkeeper) filed a separate action in the United States Court for the Western District of North Carolina. The lawsuit contends the state enforcement action discussed above does not adequately address issues raised in Catawba Riverkeeper's notice of intent to sue relating to the Riverbend plant. On April 11, 2014, the Court denied Catawba Riverkeeper's objections to the Magistrate Judge's recommendation that plaintiff's case be dismissed as well as Duke Energy Carolinas' motion to dismiss. The Court allowed limited discovery, after which Duke Energy Carolinas may file any renewed motions to dismiss.

On September 12, 2013, Cape Fear River Watch, Inc., Sierra Club, and Waterkeeper Alliance filed a citizen suit in the Federal District Court for the Eastern District of North Carolina. The lawsuit alleges unpermitted discharges to surface water and groundwater violations at the Sutton plant. On June 9, 2014, the court granted Duke Energy Progress' request to dismiss the groundwater claims but rejected its request to dismiss the surface water claims. In response to a motion filed by the SELC, on August 1, 2014, the court modified the original June 9th order to dismiss only the plaintiff's federal law claim based on hydrologic connections at Sutton Lake. The claims related to the alleged state court violations of the permits are back in the case.

On September 3, 2014, three cases were filed by various environmental groups: (i) a citizen suit in the United States Court for the Middle District of North Carolina alleging unpermitted discharges to surface water and groundwater violations at the Cape Fear plant; (ii) a citizen suit in the United States Court for the Eastern District of North Carolina alleging unpermitted discharges to surface water and groundwater violations at the H.F. Lee plant; and (iii) a citizen suit in the United States Court for the Middle District of North Carolina alleging unpermitted discharges to surface water and groundwater violations at the Buck plant. On January 5, 2015, Duke Energy Carolinas filed a Motion to Dismiss and a Motion to Stay the proceeding relating to the Buck plant.

It is not possible to predict whether Duke Energy Carolinas or Duke Energy Progress will incur any liability or to estimate the damages, if any, they might incur in connection with these matters.

North Carolina Ash Basin Grand Jury Investigation

As a result of the Dan River ash basin water release discussed above, DENR issued a Notice of Violation and Recommendation of Assessment of Civil Penalties with respect to this matter on February 28, 2014, which the company responded to on March 13, 2014. Duke Energy and certain Duke Energy employees received subpoenas issued by the United States Attorney for the Eastern District of North Carolina in connection with a criminal investigation related to the release and all 14 of the North Carolina facilities with ash basins and the nature of Duke Energy's contacts with DENR with respect to those facilities. This is a multidistrict investigation that also involves state law enforcement authorities.

On February 20, 2015, Duke Energy Carolinas, Duke Energy Progress and Duke Energy Business Services LLC (DEBS), a wholly owned subsidiary of Duke Energy, each entered into a Memorandum of Plea Agreement (Plea Agreements) in connection with the investigation initiated by the United States Department of Justice Environmental Crimes Section and the United States Attorneys for the Eastern District of North Carolina, the Middle District of North Carolina and the Western District of North Carolina (collectively, USDOJ). The Plea Agreements are subject to the approval of the United States District Court for the Eastern District of North Carolina and, if approved, will end the grand jury investigation related to the Dan River ash basin release and the management of coal ash basins at 14 plants in North Carolina with coal ash basins, as discussed above.

Under the Plea Agreements, the USDOJ charged DEBS and Duke Energy Progress with four misdemeanor CWA violations related to violations at Duke Energy Progress' H.F. Lee Steam Electric Plant, Cape Fear Steam Electric Plant and Asheville Steam Electric Generating Plant. The USDOJ charged Duke Energy Carolinas and DEBS with five misdemeanor CWA violations related to violations at Duke Energy Carolinas' Dan River Steam Station and Riverbend Steam Station. DEBS, Duke Energy Carolinas and Duke Energy Progress also agreed (i) to a five-year probation period, (ii) to pay a total of approximately \$68 million in fines and restitution and \$34 million for community service and mitigation (the Payments), and (iii) to establish environmental compliance plans subject to the oversight of a court-appointed monitor paid for by the companies for the duration of the probation period (iii) for Duke Energy Carolinas and Duke Energy Progress each to maintain \$250 million under their Master Credit Facility as security to meet their obligations under the Pleas Agreements, in addition to certain other conditions set out in the Plea Agreements. Payments under the Plea Agreements will be borne by shareholders and are not tax deductible. Duke Energy Corporation has agreed to issue a guarantee of all payments and performance due from the Companies, including but not limited to payments for fines, restitution, community service, mitigation and the funding of, and obligations under, the environmental compliance plans. As a result of the Plea Agreements, Duke Energy Carolinas and Duke Energy Progress recognized charges of \$72 million and \$30 million, respectively, in the fourth quarter of 2014. The amounts are recorded in Operation, maintenance and other on the Consolidated Statements of Operations and Comprehensive Income.

The Plea Agreements do not cover pending civil claims related to the Dan River coal ash release and operations at other North Carolina coal plants. Duke Energy Corporation will continue to cooperate with government agencies and defend against remaining civil litigation associated with these matters.

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Duke Energy Carolinas***New Source Review***

In 1999-2000, the U.S. Department of Justice on behalf of the EPA filed a number of complaints and notices of violation against multiple utilities, including Duke Energy Carolinas, for alleged violations of the New Source Review (NSR) provisions of the Clean Air Act (CAA). The government alleges the utilities violated the CAA when undertaking certain maintenance and repair projects at certain coal plants without (i) obtaining NSR permits and (ii) installing the best available emission controls for sulfur dioxide, nitrogen oxide and particulate matter. The complaints seek the installation of pollution control technology on generating units that allegedly violated the CAA, and unspecified civil penalties in amounts of up to \$37,500 per day for each violation. Duke Energy Carolinas asserts there were no CAA violations because the applicable regulations do not require NSR permitting in cases where the projects undertaken are "routine" or otherwise do not result in a net increase in emissions.

In 2000, the government sued Duke Energy Carolinas in the U.S. District Court in Greensboro, North Carolina, claiming NSR violations for 29 projects performed at 25 of Duke Energy Carolinas' coal-fired units. Duke Energy Carolinas asserts the projects were routine and not projected to increase emissions. The parties subsequently filed a stipulation agreeing to dismiss with prejudice all but 13 claims at 13 generating units, 11 of which have since been retired. The parties filed opposing motions for summary judgment on the remaining claims. The Court substantially denied both motions for summary judgment. A Duke Energy request for leave to file another motion for summary judgment on alternative grounds, including expiration of the applicable statute of limitations, was denied. On October 24, 2014, Duke Energy Carolinas filed a motion to certify an appeal of the statute of limitations issue to the U.S. Court of Appeals for the Fourth Circuit. That motion is pending. Trial date has been set for October 2015. It is not possible to predict whether Duke Energy Carolinas will incur any liability or to estimate the damages, if any, it might incur in connection with this matter. Ultimate resolution of these matters could have a material effect on the results of operations, cash flows or financial position of Duke Energy Carolinas. However, the appropriate regulatory recovery will be pursued for costs incurred in connection with such resolution.

Asbestos-related Injuries and Damages Claims

Duke Energy Carolinas has experienced numerous claims for indemnification and medical cost reimbursement related to asbestos exposure. These claims relate to damages for bodily injuries alleged to have arisen from exposure to or use of asbestos in connection with construction and maintenance activities conducted on its electric generation plants prior to 1985. As of December 31, 2014, there were 54 asserted claims for non-malignant cases with the cumulative relief sought of up to \$11 million, and 28 asserted claims for malignant cases with the cumulative relief sought of up to \$7 million. Based on Duke Energy Carolinas' experience, it is expected that the ultimate resolution of most of these claims likely will be less than the amount claimed.

Duke Energy Carolinas has recognized asbestos-related reserves of \$575 million at December 31, 2014 and \$616 million at December 31, 2013. These reserves are classified in Other within Deferred Credits and Other Liabilities and Other within Current Liabilities on the Consolidated Balance Sheets. These reserves are based upon the minimum amount of the range of loss for current and future asbestos claims through 2033, are recorded on an undiscounted basis and incorporate anticipated inflation. In light of the uncertainties inherent in a longer-term forecast, management does not believe they can reasonably estimate the indemnity and medical costs that might be incurred after 2033 related to such potential claims. It is possible Duke Energy Carolinas may incur asbestos liabilities in excess of the recorded reserves.

Duke Energy Carolinas has third-party insurance to cover certain losses related to asbestos-related injuries and damages above an aggregate self-insured retention of \$476 million. Duke Energy Carolinas' cumulative payments began to exceed the self-insurance retention in 2008. Future payments up to the policy limit will be reimbursed by the third-party insurance carrier. The insurance policy limit for potential future insurance recoveries for indemnification and medical cost claim payments is \$864 million in excess of the self-insured retention. Receivables for insurance recoveries were \$616 million at December 31, 2014 and \$649 million at December 31, 2013. These amounts are classified in Other within Investments and Other Assets and Receivables on the Consolidated Balance Sheets. Duke Energy Carolinas is not aware of any uncertainties regarding the legal sufficiency of insurance claims. Duke Energy Carolinas believes the insurance recovery asset is probable of recovery as the insurance carrier continues to have a strong financial strength rating.

Progress Energy***Synthetic Fuels Matters***

Progress Energy and a number of its subsidiaries and affiliates are defendants in lawsuits arising out of a 1999 Asset Purchase Agreement. Parties to the Asset Purchase Agreement include U.S. Global, LLC (Global) and affiliates of Progress Energy.

In a case filed in the Circuit Court for Broward County, Florida, in March 2003 (the Florida Global Case), Global requested an unspecified amount of compensatory damages, as well as declaratory relief. In November 2009, the court ruled in favor of Global. In December 2009, Progress Energy made a \$154 million payment which represented payment of the total judgment, including prejudgment interest, and a required premium equivalent to two years of interest, to the Broward County Clerk of Court bond account. Progress Energy continued to accrue interest related to this judgment.

On October 3, 2012, the Florida Fourth District Court of Appeals reversed the lower court ruling. The court held that Global was entitled to approximately \$90 million of the amount paid into the registry of the court. Progress Energy was entitled to a refund of the remainder of the funds. Progress Energy received cash and recorded a \$63 million pretax gain for the refund in December 2012. The gain was recorded in Income from Discontinued Operations, net of tax in the Consolidated Statements of Operations and Comprehensive Income.

On May 9, 2013, Global filed a Seventh Amended Complaint asserting a single count for breach of the Asset Purchase Agreement and seeking specific performance. The parties reached a settlement in this matter in May 2014, and the case has been dismissed. The amount of the settlement did not have a material effect on the results of operations, cash flows or financial position of Progress Energy. As a result of the settlement of the Florida Global Case, a second suit filed in the Superior Court for Wake County, North Carolina, *Progress Synfuel Holdings, Inc. et al. v. U.S. Global, LLC*, has been dismissed.

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Duke Energy Progress and Duke Energy Florida***Spent Nuclear Fuel Matters***

On December 12, 2011, Duke Energy Progress and Duke Energy Florida sued the United States in the U.S. Court of Federal Claims. The lawsuit claimed the Department of Energy breached a contract in failing to accept spent nuclear fuel under the Nuclear Waste Policy Act of 1982 and asserted damages for the cost of on-site storage. Duke Energy Progress and Duke Energy Florida asserted damages for the period January 1, 2006 through December 31, 2010. Claims for all periods prior to 2006 have been resolved. On March 24, 2014, the U.S. Court of Federal Claims issued a judgment in favor of Duke Energy Progress and Duke Energy Florida on this matter, awarding amounts of \$83 million and \$21 million, respectively. The majority of the awards were recorded as a reduction to capital costs associated with construction of on-site storage facilities. Duke Energy Progress and Duke Energy Florida received payment of the award in September 2014. On October 16, 2014, Duke Energy Progress and Duke Energy Florida filed a new action for costs incurred from 2011 through 2013.

Duke Energy Florida***Westinghouse Contract Litigation***

On March 28, 2014 Duke Energy Florida filed a lawsuit against Westinghouse in the U.S. District Court for the Western District of North Carolina. The lawsuit seeks recovery of \$54 million in milestone payments in excess of work performed under the terminated EPC for Levy as well as a determination by the court of the amounts due to Westinghouse as a result of the termination of the EPC.

On March 31, 2014, Westinghouse filed a lawsuit against Duke Energy Florida in U.S. District Court for the Western District of Pennsylvania. The Pennsylvania lawsuit alleged damages under the EPC in excess of \$510 million for engineering and design work, costs to end supplier contracts and an alleged termination fee.

On June 9, 2014, the judge in the North Carolina case ruled that the litigation will proceed in the Western District of North Carolina. In November 2014, Westinghouse filed a Motion for Partial Judgment on the pleadings which was denied by the Magistrate Judge on February 20, 2015, subject to court approval. Trial is set for February 2016. It is not possible to predict the outcome of the litigation and whether Duke Energy Florida will incur any liability for terminating the EPC or to estimate the damages, if any, it might incur in connection with these matters. Ultimate resolution of these matters could have a material effect on the results of operations, financial position or cash flows of Duke Energy Florida. However, appropriate regulatory recovery will be pursued for the retail portion of any costs incurred in connection with such resolution.

Duke Energy Ohio***Antitrust Lawsuit***

In January 2008, four plaintiffs, including individual, industrial and nonprofit customers, filed a lawsuit against Duke Energy Ohio in federal court in the Southern District of Ohio. Plaintiffs alleged Duke Energy Ohio conspired to provide inequitable and unfair price advantages for certain large business consumers by entering into non-public option agreements in exchange for their withdrawal of challenges to Duke Energy Ohio's Rate Stabilization Plan implemented in early 2005. In March 2014, a federal judge certified this matter as a class action. The parties have agreed to mediation on March 31, 2015. Trial has been set to begin on July 27, 2015. It is not possible to predict whether Duke Energy Ohio will incur any liability or to estimate the damages, if any, that may be incurred in connection with this matter. Ultimate resolution of this matter could have a material effect on the results of operations, cash flows or financial position of Duke Energy Ohio.

Any liability related to the lawsuit attributable to the Disposal Group will not be transferred to Dynegy upon closing of the disposal of the Midwest generation business.

Asbestos-related Injuries and Damages Claims

Duke Energy Ohio has been named as a defendant or co-defendant in lawsuits related to asbestos exposure at its electric generating stations. The impact on Duke Energy Ohio's results of operations, cash flows or financial position of these cases to date has not been material. Based on estimates under varying assumptions concerning uncertainties, such as, among others: (i) the number of contractors potentially exposed to asbestos during construction or maintenance of Duke Energy Ohio generating plants, (ii) the possible incidence of various illnesses among exposed workers, and (iii) the potential settlement costs without federal or other legislation that addresses asbestos tort actions, Duke Energy Ohio estimates that the range of reasonably possible exposure in existing and future suits over the foreseeable future is not material. This assessment may change as additional settlements occur, claims are made, and more case law is established.

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Duke Energy Indiana***Edwardsport IGCC***

On December 11, 2012, Duke Energy Indiana filed an arbitration action against General Electric Company and Bechtel Corporation in connection with their work at the Edwardsport IGCC facility. Duke Energy Indiana is seeking damages equaling some or all of the additional costs incurred in the construction of the project not recovered at the IURC. The arbitration hearing concluded December 15, 2014. The parties will submit post hearing briefs. Duke Energy Indiana cannot predict the outcome of this matter.

Other Litigation and Legal Proceedings

The Duke Energy Registrants are involved in other legal, tax and regulatory proceedings arising in the ordinary course of business, some of which involve significant amounts. The Duke Energy Registrants believe the final disposition of these proceedings will not have a material effect on their results of operations, cash flows or financial position.

The table below presents recorded reserves based on management's best estimate of probable loss for legal matters discussed above, excluding asbestos related reserves. Reserves are classified on the Consolidated Balance Sheets in Other within Deferred Credits and Other Liabilities and Accounts payable and Other within Current Liabilities. The reasonably possible range of loss for all non-asbestos related matters in excess of recorded reserves is not material.

(in millions)	December 31,	
	2014	2013
Reserves for Legal Matters		
Duke Energy	\$ 323	\$ 204
Duke Energy Carolinas	72	—
Progress Energy	93	78
Duke Energy Progress	37	10
Duke Energy Florida	36	43

OTHER COMMITMENTS AND CONTINGENCIES**General**

As part of their normal business, the Duke Energy Registrants are party to various financial guarantees, performance guarantees, and other contractual commitments to extend guarantees of credit and other assistance to various subsidiaries, investees, and other third parties. These guarantees involve elements of performance and credit risk, which are not fully recognized on the Consolidated Balance Sheets and have unlimited maximum potential payments. However, the Duke Energy Registrants do not believe these guarantees will have a material effect on their results of operations, cash flows or financial position.

Purchase Obligations***Purchased Power***

Duke Energy Progress and Duke Energy Florida have ongoing purchased power contracts, including renewable energy contracts, with other utilities, wholesale marketers, co-generators, and qualified facilities. These purchased power contracts generally provide for capacity and energy payments. In addition, Duke Energy Progress and Duke Energy Florida have various contracts to secure transmission rights.

The following table presents executory purchased power contracts, excluding contracts classified as leases. All contracts represent 100 percent of net plant output.

		Minimum Purchase Amount at December 31, 2014							
(in millions)	Contract Expiration	2015	2016	2017	2018	2019	Thereafter	Total	
Duke Energy Progress	2019-2022	\$ 59	60	\$ 61	\$ 62	\$ 63	\$ 93	\$ 398	
Duke Energy Florida	2023-2043	244	273	291	306	322	1,907	3,343	

Operating and Capital Lease Commitments

The Duke Energy Registrants lease office buildings, railcars, vehicles, computer equipment and other property and equipment with various terms and expiration dates. Additionally, Duke Energy Progress has a capital lease related to firm gas pipeline transportation capacity. Duke Energy Progress and Duke Energy Florida have entered into certain purchased power agreements, which are classified as leases. Consolidated capitalized lease obligations are classified as Long-Term Debt or Other within Current Liabilities on the Consolidated Balance Sheets. Amortization of assets recorded under capital leases is included in Depreciation and amortization and Fuel used in electric generation – regulated on the Consolidated Statements of Operations.

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The following table presents rental expense for operating leases. These amounts are included in Operation, maintenance and other on the Consolidated Statements of Operations.

(in millions)	Years Ended December 31,		
	2014	2013	2012
Duke Energy	\$ 355	\$ 321	\$ 232
Duke Energy Carolinas	41	39	38
Progress Energy	257	225	232
Duke Energy Progress	161	153	164
Duke Energy Florida	96	72	68
Duke Energy Ohio	17	14	14
Duke Energy Indiana	21	22	20

The following table presents future minimum lease payments under operating leases, which at inception had a non-cancelable term of more than one year.

(in millions)	December 31, 2014						
	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana
2015	\$ 205	\$ 33	\$ 129	\$ 65	\$ 64	\$ 12	\$ 17
2016	198	29	130	66	64	11	15
2017	172	26	111	65	46	9	13
2018	157	20	109	64	45	7	10
2019	148	17	103	58	45	6	9
Thereafter	938	64	709	421	288	18	9
Total	\$ 1,818	\$ 189	\$ 1,291	\$ 739	\$ 552	\$ 63	\$ 73

The following table presents future minimum lease payments under capital leases.

(in millions)	December 31, 2014						
	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana
2015	\$ 178	\$ 6	\$ 46	\$ 21	\$ 26	\$ 7	\$ 4
2016	188	6	47	21	26	7	4
2017	190	7	47	21	26	3	2
2018	198	7	48	22	26	4	2
2019	208	8	51	25	26	2	2
Thereafter	1,771	60	678	398	280	—	42
Minimum annual payments	2,733	94	917	508	410	23	56
Less: amount representing interest	(1,305)	(67)	(603)	(361)	(242)	(3)	(39)
Total	\$ 1,428	\$ 27	\$ 314	\$ 147	\$ 168	\$ 20	\$ 17

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Combined Notes To Consolidated Financial Statements – (Continued)

6. DEBT AND CREDIT FACILITIES**Summary of Debt and Related Terms**

The following tables summarize outstanding debt.

(in millions)	December 31, 2014							
	Weighted Average Interest Rate	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana
Unsecured debt, maturing 2015 - 2073	4.92%	\$ 12,937	\$ 1,155	\$ 3,850	\$ —	\$ 150	\$ 773	\$ 742
Secured debt, maturing 2016 - 2037	2.50%	2,806	400	525	300	225	—	—
First mortgage bonds, maturing 2015 - 2044 ^(a)	4.76%	19,180	6,161	9,800	5,475	4,325	900	2,319
Capital leases, maturing 2015 - 2051 ^(b)	5.30%	1,428	27	314	146	168	20	16
Tax-exempt bonds, maturing 2015 - 2041 ^(c)	2.13%	1,296	355	291	291	—	77	573
Notes payable and commercial paper ^(d)	0.70%	2,989	—	—	—	—	—	—
Money pool/intercompany borrowings		—	300	835	—	84	516	221
Fair value hedge carrying value adjustment		8	8	—	—	—	—	—
Unamortized debt discount and premium, net ^(e)		1,890	(15)	(26)	(11)	(8)	(29)	(9)
Total debt	4.29%	\$ 42,534	\$ 8,391	\$ 15,589	\$ 6,201	\$ 4,944	\$ 2,257	\$ 3,862
Short-term notes payable and commercial paper		(2,514)	—	—	—	—	—	—
Short-term money pool borrowings		—	—	(835)	—	(84)	(491)	(71)
Current maturities of long-term debt ^(f)		(2,807)	(507)	(1,507)	(945)	(562)	(157)	(5)
Total long-term debt^(f)	4.58%	\$ 37,213	\$ 7,884	\$ 13,247	\$ 5,256	\$ 4,298	\$ 1,609	\$ 3,786

(a) Substantially all electric utility property is mortgaged under mortgage bond indentures.

(b) Duke Energy includes \$129 million and \$787 million of capital lease purchase accounting adjustments related to Duke Energy Progress and Duke Energy Florida, respectively, related to power purchase agreements that are not accounted for as capital leases in their respective financial statements because of grandfathering provisions in GAAP.

(c) Substantially all tax-exempt bonds are secured by first mortgage bonds or letters of credit.

(d) Includes \$475 million that was classified as Long-Term Debt on the Consolidated Balance Sheets due to the existence of long-term credit facilities that back-stop these commercial paper balances, along with Duke Energy's ability and intent to refinance these balances on a long-term basis. The weighted-average days to maturity was 27 days.

(e) Duke Energy includes \$1,975 million in purchase accounting adjustments related to the merger with Progress Energy. See Note 2 for additional information.

(f) Refer to Note 17 for additional information on amounts from consolidated VIE's.

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December 31, 2013								
(in millions)	Weighted Average Interest Rate	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana
Unsecured debt, maturing 2014 - 2073	5.18%	\$ 13,550	\$ 1,157	\$ 4,150	\$ —	\$ 150	\$ 805	\$ 744
Secured debt, maturing 2014 - 2037	2.69%	2,559	400	305	305	—	—	—
First mortgage bonds, maturing 2015 - 2043 ^(a)	4.90%	17,831	6,161	8,450	4,125	4,325	900	2,319
Capital leases, maturing 2014 - 2051 ^(b)	5.23%	1,516	30	327	148	179	27	20
Other debt, maturing 2027	4.77%	8	—	—	—	—	8	—
Tax-exempt bonds, maturing 2014 - 2041 ^(c)	1.28%	2,356	395	910	669	241	479	573
Notes payable and commercial paper ^(d)	1.02%	1,289	—	—	—	—	—	—
Money pool/intercompany borrowings		—	300	1,213	462	181	43	150
Fair value hedge carrying value adjustment		9	9	—	—	—	—	—
Unamortized debt discount and premium, net ^(e)		1,977	(16)	(27)	(12)	(9)	(31)	(10)
Total debt	4.52%	\$ 41,095	\$ 8,436	\$ 15,328	\$ 5,697	\$ 5,067	\$ 2,231	\$ 3,796
Short-term notes payable and commercial paper		(839)	—	—	—	—	—	—
Short-term money pool borrowings		—	—	(1,213)	(462)	(181)	(43)	—
Current maturities of long-term debt ^(f)		(2,104)	(47)	(485)	(174)	(11)	(47)	(5)
Total long-term debt^(f)	4.59%	\$ 38,152	\$ 8,389	\$ 13,630	\$ 5,061	\$ 4,875	\$ 2,141	\$ 3,791

(a) Substantially all electric utility property is mortgaged under mortgage bond indentures.

(b) Duke Energy includes \$144 million and \$838 million of capital lease purchase accounting adjustments related to Duke Energy Progress and Duke Energy Florida, respectively, related to power purchase agreements that are not accounted for as capital leases in their respective financial statements because of grandfathering provisions in GAAP.

(c) Substantially all tax-exempt bonds are secured by first mortgage bonds or letters of credit.

(d) Includes \$450 million that was classified as Long-Term Debt on the Consolidated Balance Sheets due to the existence of long-term credit facilities that back-stop these commercial paper balances, along with Duke Energy's ability and intent to refinance these balances on a long-term basis. The weighted-average days to maturity was 49 days.

(e) Duke Energy includes \$2,067 million in purchase accounting adjustments related to the merger with Progress Energy. See Note 2 for additional information.

(f) Refer to Note 17 for additional information on amounts from consolidated VIE's.

Current Maturities of Long-Term Debt

The following table shows the significant components of Current maturities of Long-Term Debt on the Consolidated Balance Sheets. The Duke Energy Registrants currently anticipate satisfying these obligations with cash on hand and proceeds from additional borrowings.

(in millions)	Maturity Date	Interest Rate	December 31, 2014
Unsecured Debt			
Duke Energy (Parent)	April 2015	3.350%	\$ 450
First Mortgage Bonds			
Duke Energy Ohio	March 2015	0.375%	150
Duke Energy Progress	April 2015	5.150%	300
Duke Energy Carolinas	October 2015	5.300%	500
Duke Energy Florida	November 2015	0.650%	250
Duke Energy Florida	December 2015	5.100%	300
Duke Energy Progress	December 2015	5.250%	400
Tax-exempt Bonds			
Duke Energy Progress	January 2015	0.108%	243
Other			214

Current maturities of long-term debt	\$	2,807
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Maturities and Call Options

The following table shows the annual maturities of long-term debt for the next five years and thereafter. Amounts presented exclude short-term notes payable and commercial paper and money pool borrowings for the Subsidiary Registrants.

(in millions)	December 31, 2014						
	Duke Energy ^(a)	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana
2015	\$ 2,793	\$ 507	\$ 1,507	\$ 945	\$ 562	\$ 157	\$ 5
2016	2,980	756	614	302	12	57	480
2017	2,452	116	940	453	487	3	3
2018	3,207	1,505	515	3	512	28	153
2019	2,810	5	1,418	606	12	552	62
Thereafter	23,803	5,502	9,760	3,892	3,275	969	3,088
Total long-term debt, including current maturities	\$ 38,045	\$ 8,391	\$ 14,754	\$ 6,201	\$ 4,860	\$ 1,766	\$ 3,791

(a) Excludes \$1,975 million in purchase accounting adjustments related to the merger with Progress Energy. See Note 2 for additional information.

The Duke Energy Registrants have the ability under certain debt facilities to call and repay the obligation prior to its scheduled maturity. Therefore, the actual timing of future cash repayments could be materially different than as presented above.

Short-Term Obligations Classified as Long-Term Debt

Tax-exempt bonds that may be put to the Duke Energy Registrants at the option of the holder and certain commercial paper issuances and money pool borrowings are classified as Long-Term Debt on the Consolidated Balance Sheets. These tax-exempt bonds, commercial paper issuances and money pool borrowings, which are short-term obligations by nature, are classified as long term due to Duke Energy's intent and ability to utilize such borrowings as long-term financing. As Duke Energy's Master Credit Facility and other bilateral letter of credit agreements have non-cancelable terms in excess of one year as of the balance sheet date, Duke Energy has the ability to refinance these short-term obligations on a long-term basis. The following tables show short-term obligations classified as long-term debt.

(in millions)	December 31, 2014			
	Duke Energy	Duke Energy Carolinas	Duke Energy Ohio	Duke Energy Indiana
Tax-exempt bonds	\$ 347	\$ 35	\$ 27	\$ 285
Commercial paper	475	300	25	150
Secured debt ^(a)	200	—	—	—
Total	\$ 1,022	\$ 335	\$ 52	\$ 435

(in millions)	December 31, 2013			
	Duke Energy	Duke Energy Carolinas	Duke Energy Ohio	Duke Energy Indiana
Tax exempt bonds	\$ 471	\$ 75	\$ 111	\$ 285
Commercial paper	450	300	—	150
Secured debt ^(a)	200	—	—	—
Total	\$ 1,121	\$ 375	\$ 111	\$ 435

(a) Instrument has a term of less than one year with the right to extend the maturity date for additional one-year periods with a final maturity date no later than December 2026.

Summary of Significant Debt Issuances

The following tables summarize significant debt issuances (in millions).

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Issuance Date	Maturity Date	Interest Rate	Year Ended December 31, 2014			
			Duke Energy (Parent)	Duke Energy Progress	Duke Energy Florida	Duke Energy
Unsecured Debt						
April 2014 ^(a)	April 2024	3.750%	600	—	—	600
April 2014 ^{(a)(b)}	April 2017	0.613%	400	—	—	400
June 2014 ^(c)	May 2019	11.970%	—	—	—	108
June 2014 ^(c)	May 2021	13.680%	—	—	—	110
Secured Debt						
March 2014 ^(d)	March 2017	0.863%	—	—	225	225
July 2014 ^(e)	July 2036	5.340%	—	—	—	129
First Mortgage Bonds						
March 2014 ^(f)	March 2044	4.375%	—	400	—	400
March 2014 ^{(f)(g)}	March 2017	0.435%	—	250	—	250
November 2014 ^(h)	December 2044	4.150%	—	500	—	500
November 2014 ^{(g)(h)}	November 2017	0.432%	—	200	—	200
Total issuances			\$ 1,000	\$ 1,350	\$ 225	\$ 2,922

- (a) Proceeds were used to redeem \$402 million of tax-exempt bonds at Duke Energy Ohio, the repayment of outstanding commercial paper and for general corporate purposes. See Note 13 for additional information related to the redemption of Duke Energy Ohio's tax-exempt bonds.
- (b) The debt is floating rate based on three-month London Interbank Offered Rate (LIBOR) plus a fixed credit spread of 38 basis points.
- (c) Proceeds were used to repay \$196 million of debt for International Energy and for general corporate purposes.
- (d) Relates to the securitization of accounts receivable at a subsidiary of Duke Energy Florida. Proceeds were used to repay short-term borrowings under the intercompany money pool borrowing arrangement and for general corporate purposes. See Note 17 for further details.
- (e) Proceeds were used to fund a portion of Duke Energy's prior investment in the existing Wind Star renewables portfolio.
- (f) Proceeds were used to repay short-term borrowings under the intercompany money pool borrowing arrangement and for general corporate purposes.
- (g) The debt is floating rate based on three-month LIBOR plus a fixed credit spread of 20 basis points.
- (h) Proceeds will be used to redeem \$450 million of tax-exempt bonds, repay short-term borrowings under the intercompany money pool borrowing arrangement and for general corporate purposes.

Issuance Date	Maturity Date	Interest Rate	Year Ended December 31, 2013						
			Duke Energy (Parent)	Duke Energy Progress	Duke Energy Ohio	Duke Energy Indiana	Duke Energy		
Unsecured Debt									
January 2013 ^(a)	January 2073	5.125%	\$ 500	\$ —	\$ —	\$ —	\$ —	\$ 500	
June 2013 ^(b)	June 2018	2.100%	500	—	—	—	—	500	
August 2013 ^{(c)(d)}	August 2023	11.000%	—	—	—	—	—	220	
October 2013 ^(e)	October 2023	3.950%	400	—	—	—	—	400	
Secured Debt									
February 2013 ^{(f)(g)}	December 2030	2.043%	—	—	—	—	—	203	
February 2013 ^(f)	June 2037	4.740%	—	—	—	—	—	220	
April 2013 ^(h)	April 2026	5.456%	—	—	—	—	—	230	
December 2013 ⁽ⁱ⁾	December 2016	0.852%	—	300	—	—	—	300	
First Mortgage Bonds									
March 2013 ⁽ⁱ⁾	March 2043	4.100%	—	500	—	—	—	500	
July 2013 ^(k)	July 2043	4.900%	—	—	—	—	350	350	
July 2013 ^{(k)(l)}	July 2016	0.619%	—	—	—	—	150	150	
September 2013 ^(m)	September 2023	3.800%	—	—	300	—	—	300	
September 2013 ^{(m)(n)}	March 2015	0.400%	—	—	150	—	—	150	

Total issuances	\$	1,400	\$	800	\$	450	\$	500	\$	4,023
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(a) Callable after January 2018 at par. Proceeds were used to redeem the \$300 million 7.10% Cumulative Quarterly Income Preferred Securities (QUIPS) and to repay a portion of outstanding commercial paper and for general corporate purposes.

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- (b) Proceeds were used to repay \$250 million of current maturities and for general corporate purposes, including the repayment of outstanding commercial paper.
- (c) Proceeds were used to repay \$200 million of current maturities. The maturity date included above applies to half of the instrument. The remaining half matures in August 2018.
- (d) The debt is floating rate based on a consumer price index and an overnight funds rate in Brazil. The debt is denominated in Brazilian Real.
- (e) Proceeds were used to repay commercial paper as well as for general corporate purposes.
- (f) Represents the conversion of construction loans related to two renewable energy projects issued in December 2012 to term loans. No cash proceeds were received in conjunction with the conversion. The term loans have varying maturity dates. The maturity date presented represents the latest date for all components of the respective loans.
- (g) The debt is floating rate. Duke Energy has entered into a pay fixed-receive floating interest rate swap for 95 percent of the loans.
- (h) Represents the conversion of a \$190 million bridge loan issued in conjunction with the acquisition of Ibener in December 2012. Duke Energy received incremental proceeds of \$40 million upon conversion of the bridge loan. The debt is floating rate and is denominated in U.S. dollars. Duke Energy has entered into a pay fixed-receive floating interest rate swap for 75 percent of the loan.
- (i) Relates to the securitization of accounts receivable at a subsidiary of Duke Energy Progress; the proceeds were used to repay short-term debt. See Note 17 for further details.
- (j) Proceeds were used to repay notes payable to affiliated companies as well as for general corporate purposes.
- (k) Proceeds were used to repay \$400 million of current maturities.
- (l) The debt is floating rate based on three-month LIBOR and a fixed credit spread of 35 basis points.
- (m) Proceeds were used for general corporate purposes including the repayment of short-term notes payable, a portion of which was incurred to fund the retirement of \$250 million of first mortgage bonds that matured in the first half of 2013.
- (n) The debt is floating rate based on three-month LIBOR plus a fixed credit spread of 14 basis points.

Available Credit Facilities

At December 31, 2014, Duke Energy had a Master Credit Facility with a capacity of \$6 billion through December 2018. In January 2015, Duke Energy amended the Master Credit Facility to increase its capacity to \$7.5 billion through January 2020. The Duke Energy Registrants, excluding Progress Energy, each have borrowing capacity under the Master Credit Facility up to specified sublimits for each borrower. Duke Energy has the unilateral ability at any time to increase or decrease the borrowing sublimits of each borrower, subject to a maximum sublimit for each borrower. The amount available under the Master Credit Facility has been reduced to backstop the issuances of commercial paper, certain letters of credit and variable-rate demand tax-exempt bonds that may be put to the Duke Energy Registrants at the option of the holder. The table below includes the current borrowing sublimits and available capacity under the Master Credit Facility.

(in millions)	December 31, 2014						
	Duke Energy	Duke Energy (Parent)	Duke Energy Carolinas	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana
Facility size ^(a)	\$ 6,000	\$ 2,250	\$ 1,000	\$ 750	\$ 650	\$ 650	\$ 700
Reduction to backstop issuances							
Commercial paper ^(b)	(2,021)	(1,479)	(300)	—	(29)	(38)	(175)
Outstanding letters of credit	(70)	(62)	(4)	(2)	(1)	—	(1)
Tax-exempt bonds	(116)	—	(35)	—	—	—	(81)
Available capacity	\$ 3,793	\$ 709	\$ 661	\$ 748	\$ 620	\$ 612	\$ 443

(a) Represents the sublimit of each borrower.

(b) Duke Energy issued \$475 million of commercial paper and loaned the proceeds through the money pool to Duke Energy Carolinas, Duke Energy Ohio and Duke Energy Indiana. The balances are classified as Long-Term Debt Payable to Affiliated Companies in the Consolidated Balance Sheets.

On February 20, 2015, Duke Energy Carolinas, Duke Energy Progress and DEBS, a wholly owned subsidiary of Duke Energy, each entered into the Plea Agreements in connection with the investigation initiated by the USDOJ. Under the terms of the Plea Agreements, Duke Energy Carolinas and Duke Energy Progress are required to each maintain \$250 million of available capacity under the Master Credit Facility as security to meet their obligations under the Plea Agreements, in addition to certain other conditions set out in the Plea Agreements. The Plea Agreements are subject to court approval. See Note 5 for further details.

Other Debt Matters

In September 2013, Duke Energy filed a registration statement (Form S-3) with the Securities and Exchange Commission (SEC). Under this Form S-3, which is uncapped, the Duke Energy Registrants, excluding Progress Energy, may issue debt and other securities in the future at amounts, prices and with terms to be determined at the time of future offerings. The registration statement also allows for the issuance of common stock by Duke Energy.

Duke Energy has an effective Form S-3 with the SEC to sell up to \$3 billion of variable denomination floating-rate demand notes, called PremierNotes. The Form S-3 states that no more than \$1.5 billion of the notes will be outstanding at any particular time. The notes are offered on a continuous basis and bear interest at a floating rate per annum determined by the Duke Energy PremierNotes Committee, or its designee, on a weekly basis. The interest rate payable on notes held by an investor may vary based on the principal amount of the investment. The notes have no stated maturity date, are non-transferable and may be redeemed in whole or in part by Duke Energy or at the investor's option at any time. The balance as of December 31, 2014 and 2013 was \$968 million and \$836 million, respectively. The notes are short-term debt obligations of Duke Energy and are reflected as Notes payable and commercial paper on Duke Energy's Consolidated Balance Sheets.

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At December 31, 2014 and 2013, \$767 million and \$811 million, respectively, of debt issued by Duke Energy Carolinas was guaranteed by Duke Energy.

Money Pool

The Subsidiary Registrants, excluding Progress Energy receive support for their short-term borrowing needs through participation with Duke Energy and certain of its subsidiaries in a money pool arrangement. Under this arrangement, those companies with short-term funds may provide short-term loans to affiliates participating in this arrangement. The money pool is structured such that the Subsidiary Registrants, excluding Progress Energy, separately manage their cash needs and working capital requirements. Accordingly, there is no net settlement of receivables and payables between money pool participants. Duke Energy (Parent), may loan funds to its participating subsidiaries, but may not borrow funds through the money pool. Accordingly, as the money pool activity is between Duke Energy and its wholly owned subsidiaries, all money pool balances are eliminated within Duke Energy's Consolidated Balance Sheets.

Money pool receivable balances are reflected within Notes receivable from affiliated companies on the Subsidiary Registrants' Consolidated Balance Sheets. Money pool payable balances are reflected within either Notes payable to affiliated companies or Long-Term Debt Payable to Affiliated Companies on the Subsidiary Registrants' Consolidated Balance Sheets.

Restrictive Debt Covenants

The Duke Energy Registrants' debt and credit agreements contain various financial and other covenants. The Master Credit Facility contains a covenant requiring the debt-to-total capitalization ratio not exceed 65 percent for each borrower. Failure to meet those covenants beyond applicable grace periods could result in accelerated due dates and/or termination of the agreements. As of December 31, 2014, each of the Duke Energy Registrants were in compliance with all covenants related to their significant debt agreements. In addition, some credit agreements may allow for acceleration of payments or termination of the agreements due to nonpayment, or acceleration of other significant indebtedness of the borrower or some of its subsidiaries. None of the significant debt or credit agreements contain material adverse change clauses.

Other Loans

During 2014 and 2013, Duke Energy and Duke Energy Progress had loans outstanding against the cash surrender value of life insurance policies it owns on the lives of its executives. The amounts outstanding were \$603 million, including \$44 million at Duke Energy Progress and \$571 million, including \$48 million at Duke Energy Progress as of December 31, 2014 and 2013, respectively. The amounts outstanding were carried as a reduction of the related cash surrender value that is included in Other within Investments and Other Assets on the Consolidated Balance Sheets.

7. GUARANTEES AND INDEMNIFICATIONS

Duke Energy and Progress Energy have various financial and performance guarantees and indemnifications, which are issued in the normal course of business. As discussed below, these contracts include performance guarantees, stand-by letters of credit, debt guarantees, surety bonds and indemnifications. Duke Energy and Progress Energy enter into these arrangements to facilitate commercial transactions with third parties by enhancing the value of the transaction to the third party. At December 31, 2014, Duke Energy and Progress Energy do not believe conditions are likely for significant performance under these guarantees. To the extent liabilities are incurred as a result of the activities covered by the guarantees, such liabilities are included on the accompanying Consolidated Balance Sheets.

On January 2, 2007, Duke Energy completed the spin-off of its natural gas businesses to shareholders. Guarantees issued by Duke Energy or its affiliates, or assigned to Duke Energy prior to the spin-off, remained with Duke Energy subsequent to the spin-off. Guarantees issued by Spectra Energy Capital, LLC, formerly known as Duke Capital LLC, (Spectra Capital) or its affiliates prior to the spin-off remained with Spectra Capital subsequent to the spin-off, except for guarantees that were later assigned to Duke Energy. Duke Energy has indemnified Spectra Capital against any losses incurred under certain of the guarantee obligations that remain with Spectra Capital. At December 31, 2014, the maximum potential amount of future payments associated with these guarantees was \$205 million, the majority of which expires by 2028.

Duke Energy has issued performance guarantees to customers and other third parties that guarantee the payment and performance of other parties, including certain non-wholly owned entities, as well as guarantees of debt of certain non-consolidated entities and less than wholly owned consolidated entities. If such entities were to default on payments or performance, Duke Energy would be required under the guarantees to make payments on the obligations of the less than wholly owned entity. The maximum potential amount of future payments required under these guarantees as of December 31, 2014, was \$267 million. Of this amount, \$15 million relates to guarantees issued on behalf of less than wholly owned consolidated entities, with the remainder related to guarantees issued on behalf of third parties and unconsolidated affiliates of Duke Energy. Of the guarantees noted above, \$120 million of the guarantees expire between 2015 and 2033, with the remaining performance guarantees having no contractual expiration.

Duke Energy has guaranteed certain issuers of surety bonds, obligating itself to make payment upon the failure of a wholly owned and former non-wholly owned entity to honor its obligations to a third party. Under these arrangements, Duke Energy has payment obligations that are triggered by a draw by the third party or customer due to the failure of the wholly owned or former non-wholly owned entity to perform according to the terms of its underlying contract. At December 31, 2014, Duke Energy had guaranteed \$44 million of outstanding surety bonds, most of which have no set expiration.

Duke Energy uses bank-issued stand-by letters of credit to secure the performance of wholly owned and non-wholly owned entities to a third party or customer. Under these arrangements, Duke Energy has payment obligations to the issuing bank which are triggered by a draw by the third party or customer due to the failure of the wholly owned or non-wholly owned entity to perform according to the terms of its underlying contract. At December 31, 2014, Duke Energy had issued a total of \$452 million in letters of credit, which expire between 2015 and 2020. The unused amount under these letters of credit was \$46 million.

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Duke Energy and Progress Energy have issued indemnifications for certain asset performance, legal, tax and environmental matters to third parties, including indemnifications made in connection with sales of businesses. At December 31, 2014, the estimated maximum exposure for these indemnifications was \$107 million, the majority of which expires in 2017. Of this amount, \$7 million has no contractual expiration. For certain matters for which Progress Energy receives timely notice, indemnity obligations may extend beyond the notice period. Certain indemnifications related to discontinued operations have no limitations as to time or maximum potential future payments.

The following table includes the liabilities recognized for the guarantees discussed above. These amounts are primarily recorded in Other within Deferred Credits and other Liabilities on the Consolidated Balance Sheets. As current estimates change, additional losses related to guarantees and indemnifications to third parties, which could be material, may be recorded by the Duke Energy Registrants in the future.

	December 31,	
	2014	2013
Duke Energy	\$ 28	\$ 24
Progress Energy	13	9
Duke Energy Florida	7	3

8. JOINT OWNERSHIP OF GENERATING AND TRANSMISSION FACILITIES

The Duke Energy Registrants hold ownership interests in certain jointly owned generating and transmission facilities. The Duke Energy Registrants are entitled to shares of the generating capacity and output of each unit equal to their respective ownership interests, except as outlined below. The Duke Energy Registrants pay their ownership share of additional construction costs, fuel inventory purchases and operating expenses, except in certain instances where agreements have been executed to limit certain joint owners' maximum exposure to the additional costs. The Duke Energy Registrants share of revenues and operating costs of the jointly owned generating facilities is included within the corresponding line in the Consolidated Statements of Operations. Each participant in the jointly owned facilities must provide its own financing, except in certain instances where agreements have been executed to limit certain joint owners' maximum exposure to the additional costs.

The following table presents the share of jointly owned plant or facilities included on the Consolidated Balance Sheets. All facilities are operated by the Duke Energy Registrants unless otherwise noted.

	December 31, 2014			
	Ownership Share	Property, Plant and Equipment	Accumulated Depreciation	Construction Work in Progress
Duke Energy Carolinas				
Catawba Nuclear Station (Units 1 and 2) ^{(a)(b)}	19.25%	\$ 886	\$ 534	\$ 29
Duke Energy Progress				
Mayo Station ^{(a)(c)}	83.83%	1,111	360	10
Shearon Harris Nuclear Station ^{(a)(c)}	83.83%	3,872	2,242	208
Brunswick Nuclear Station ^{(a)(c)}	81.67%	2,673	1,372	290
Roxboro Station (Unit 4) ^{(a)(c)}	87.06%	954	514	24
Duke Energy Florida				
Crystal River Nuclear Station (Unit 3) ^{(a)(d)}	91.78%	—	—	—
Intercession City Station (Unit P11) ^(a)	(e)	24	14	—
Duke Energy Ohio				
Miami Fort Station (Units 7 and 8) ^{(f)(g)}	64.0%	—	—	—
J.M. Stuart Station ^{(f)(h)(i)}	39.0%	—	—	—
Conesville Station (Unit 4) ^{(f)(h)(i)}	40.0%	—	—	—
W.M. Zimmer Station ^{(f)(h)}	46.5%	—	—	—
Killen Station ^{(f)(g)(i)}	33.0%	—	—	—
Transmission facilities ^{(a)(h)}	Various	96	51	1
Duke Energy Indiana				
Gibson Station (Unit 5) ^{(a)(j)}	50.05%	315	170	6
Vermillion ^{(a)(k)}	62.5%	154	105	—
Transmission and local facilities ^{(a)(j)}	Various	3,918	1,633	—

International Energy

	Brazil - Canoas I and II ⁽¹⁾	47.2%	235	78	—
(a)	Included in Regulated Utilities segment.				
(b)	Jointly owned with North Carolina Municipal Power Agency Number 1, NCEMC and Piedmont Municipal Power Agency.				
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- (c) Jointly owned with NCEMPA. Duke Energy Progress executed an agreement in September 2014 to purchase NCEMPA's ownership interest in these facilities. See Note 2 for further discussion.
- (d) All costs associated with Crystal River Unit 3 are included within Regulatory assets on the Consolidated Balance Sheets of Duke Energy, Progress Energy and Duke Energy Florida. See Note 4 for additional information. Co-owned with Seminole Electric Cooperative, Inc., City of Ocala, Orlando Utilities Commission, City of Gainesville, City of Leesburg, Kissimmee Utility Authority, Utilities Commission of the City of New Smyrna Beach, City of Alachua and City of Bushnell (Florida Municipal Joint Owners). Duke Energy Florida is in the process of obtaining the remaining ownership interest from the Florida Municipal Joint Owners.
- (e) Jointly owned with Georgia Power Company (GPC). GPC has exclusive rights to the output of the unit during the months of June through September and pays all fuel and water costs during this period. Duke Energy Florida pays all fuel and water costs during the remaining months. Other costs are allocated 66.67 percent to Duke Energy Florida and the remainder to GPC.
- (f) All costs associated with these plants are included in Assets held for sale on the Consolidated Balance Sheets of Duke Energy and Duke Energy Ohio as part of the Disposal Group. See Note 2 for further discussion.
- (g) Jointly owned with The Dayton Power and Light Company.
- (h) Jointly owned with America Electric Power Generation Resources and The Dayton Power and Light Company.
- (i) Station is not operated by Duke Energy Ohio.
- (j) Jointly owned with WVPA and Indiana Municipal Power Agency.
- (k) Jointly owned with WVPA.
- (l) Included in International Energy segment. Jointly owned with Companhia Brasileira de Alumínio.

9. ASSET RETIREMENT OBLIGATIONS

Asset retirement obligations recognized by Duke Energy Carolinas, Progress Energy and Duke Energy Progress relate primarily to decommissioning nuclear power facilities, closure of ash basins in North Carolina and South Carolina, asbestos removal and closure of landfills at fossil generation facilities. Asset retirement obligations recognized at Duke Energy Florida relate primarily to decommissioning nuclear power facilities, asbestos removal and closure of landfills at fossil generation facilities. Asset retirement obligations at Duke Energy Ohio relate primarily to the retirement of natural gas mains, asbestos removal and closure of landfills at fossil generation facilities. Asset retirement obligations at Duke Energy Indiana relate primarily to obligations associated with asbestos removal and closure of landfills at fossil generation facilities. Duke Energy also has asset retirement obligations related to the removal of renewable energy generation assets in addition to the above items. Certain of the Duke Energy Registrants' assets have an indeterminate life, such as transmission and distribution facilities, and thus the fair value of the retirement obligation is not reasonably estimable. A liability for these asset retirement obligations will be recorded when a fair value is determinable.

The following table presents changes in the liability associated with asset retirement obligations.

(in millions)	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana
Balance at December 31, 2012^(a)	\$ 5,176	\$ 1,959	\$ 2,420	\$ 1,656	\$ 764	\$ 28	\$ 37
Acquisitions	4	—	—	—	—	—	—
Accretion expense ^(b)	239	122	113	80	33	2	—
Liabilities settled	(12)	—	(12)	—	(12)	—	—
Revisions in estimates of cash flows ^(c)	(449)	(487)	49	1	48	(2)	(7)
Balance at December 31, 2013^(a)	4,958	1,594	2,570	1,737	833	28	30
Acquisitions	4	—	—	—	—	—	—
Accretion expense ^(b)	246	113	135	97	38	2	2
Liabilities settled ^(d)	(68)	—	(68)	—	(68)	—	—
Liabilities incurred in the current year ^(e)	3,500	1,717	1,783	1,783	—	—	—
Revisions in estimates of cash flows ^(c)	(174)	4	291	288	3	(3)	—
Balance at December 31, 2014	\$ 8,466	\$ 3,428	\$ 4,711	\$ 3,905	\$ 806	\$ 27	\$ 32

- (a) Balances at December 31, 2013 and 2012, include \$8 million and \$7 million, respectively, reported in Other current liabilities on the Consolidated Balance Sheets at Duke Energy, Progress Energy and Duke Energy Progress.
- (b) Substantially all accretion expense for the years ended December 31, 2014 and 2013 relates to Duke Energy's regulated electric operations and has been deferred in accordance with regulatory accounting treatment.
- (c) For 2014, amounts for Duke Energy, Progress Energy and Duke Energy Progress primarily relate to Duke Energy Progress' site-specific nuclear decommissioning cost studies. Amounts at Duke Energy also include impacts from Duke Energy Progress' site-specific nuclear decommissioning cost studies on purchase accounting amounts. For 2013, amounts for Duke Energy, Duke Energy Carolinas, Progress Energy and Duke Energy Florida primarily relate to the site-specific nuclear decommissioning cost studies.
- (d) Amounts relate to liability settlements for Crystal River Unit 3.
- (e) Amounts primarily relate to asset retirement obligations recorded as a result of the Coal Ash Act and an agreement with the SCDHEC related to the W.S. Lee Steam Station.

The Duke Energy Registrants' regulated operations accrue costs of removal for property that does not have an associated legal retirement obligation based on regulatory orders from state commissions. These costs of removal are recorded as a regulatory liability in accordance with regulatory accounting treatment. The Duke Energy Registrants do not accrue the estimated cost of removal for any nonregulated assets. See Note 4 for the

estimated cost of removal for assets without an associated legal retirement obligation, which are included in Regulatory liabilities on the Consolidated Balance Sheets.

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Ash Basins

As of December 31, 2014, as a result of the Coal Ash Act and the agreement with SCDHEC discussed in Note 5, Duke Energy Carolinas and Duke Energy Progress have asset retirement obligations in the amount of \$1,735 million and \$1,792 million, respectively, related to closure of ash basins in North Carolina and South Carolina.

The asset retirement obligation amount is based upon estimated ash basin closure costs for each of Duke Energy's 32 ash basins located at 14 plants in North Carolina and an ash basin and ash fill area at a plant in South Carolina. The amount recorded represents the discounted cash flows for estimated ash basin closure costs based upon probability weightings of the potential closure methods as evaluated on a site by site basis. Actual costs to be incurred will be dependent upon factors that vary from site to site. The most significant factors are the method and timeframe of closure at the individual sites. Closure methods considered include removing the water from the basins and capping the ash with a synthetic barrier, excavating and relocating the ash to a lined structural fill or lined landfill, or recycling the ash for concrete or some other beneficial use. The ultimate method and timetable for closure will be in compliance with future standards set by the Coal Ash Management Commission established by the Coal Ash Act. The asset retirement obligation amounts will be adjusted as additional information is gained from the Coal Ash Management Commission on acceptable compliance approaches which may change management assumptions.

Asset retirement costs associated with the asset retirement obligations for operating plants and retired plants are included in Net property, plant and equipment, and Regulatory assets, respectively, on the Consolidated Balance Sheets. Of the asset retirement obligations recorded, \$896 million and \$603 million were recorded in Net property, plant and equipment for Duke Energy Carolinas and Duke Energy Progress, respectively, and \$839 million and \$1,152 million were recorded in Regulatory assets for Duke Energy Carolinas and Duke Energy Progress, respectively. The asset retirement costs recorded for Duke Energy Progress are net of \$37 million of Regulatory liabilities related to cost of removal. Cost recovery for these expenditures is believed to be probable and will be pursued through the normal ratemaking process with the NCUC, PSCSC and FERC.

In December 2014, the EPA signed the first regulation for the disposal of CCR. The federal regulation classifies CCR as nonhazardous waste. The regulation applies to all new and existing landfills, new and existing surface impoundments, structural fills and CCR piles. The law establishes requirements regarding landfill design, structural integrity design and assessment criteria for surface impoundments, groundwater monitoring and protection procedures and other operational and reporting procedures to ensure the safe disposal and management of CCR. Once the rule is effective in 2015, additional ARO amounts will be recorded at the Duke Energy Registrants. For more information, see Note 5.

Nuclear Decommissioning Costs

Use of the NDTF investments are restricted to nuclear decommissioning activities. The NDTF investments are managed and invested in accordance with applicable requirements of various regulatory bodies, including the NRC, FERC, NCUC, PSCSC, FPSC and the Internal Revenue Service (IRS). The fair value of assets legally restricted for purposes of settling asset retirement obligations associated with nuclear decommissioning are \$5,182 million and \$2,678 million for Duke Energy and Duke Energy Carolinas at December 31, 2014, respectively, and \$4,769 million and \$2,477 million for Duke Energy and Duke Energy Carolinas at December 31, 2013, respectively. The NDTF balances for Progress Energy, Duke Energy Progress and Duke Energy Florida represent the fair value of assets legally restricted for purposes of settling asset retirement obligations associated with nuclear decommissioning. The NCUC, PSCSC and FPSC require updated cost estimates for decommissioning nuclear plants every five years.

The following table summarizes information about nuclear decommissioning cost studies.

(in millions)	Annual Funding Requirement	Decommissioning Costs ^{(a)(b)(c)}	Year of Cost Study
Duke Energy Carolinas ^(d)	\$ 21	\$ 3,420	2013
Duke Energy Progress ^(e)	14	3,062	2014
Duke Energy Florida	—	1,083	2013

- (a) Represents cost per the most recent site-specific nuclear decommissioning cost studies, including costs to decommission plant components not subject to radioactive contamination.
- (b) Includes the Subsidiary Registrants' ownership interest in jointly owned reactors. Other joint owners are responsible for decommissioning costs related to their interest in the reactors.
- (c) Amounts are in dollars of year of cost study.
- (d) In the fourth quarter of 2014, Duke Energy Carolinas requested from the NCUC a reduction in the annual funding requirement to zero. Duke Energy Carolinas received approval from the NCUC in January 2015.
- (e) Duke Energy Progress' site-specific cost nuclear decommissioning cost studies are expected to be filed with the NCUC and PSCSC by the second quarter of 2015. Duke Energy Progress will also complete a new funding study, which will be completed and filed with the NCUC and PSCSC in 2015.

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Nuclear Operating Licenses

Operating licenses for nuclear units are potentially subject to extension. The following table includes the current expiration of nuclear operating licenses.

Unit	Year of Expiration
Duke Energy Carolinas	
Catawba Unit 1	2043
Catawba Unit 2	2043
McGuire Unit 1	2041
McGuire Unit 2	2043
Oconee Unit 1	2033
Oconee Unit 2	2033
Oconee Unit 3	2034
Duke Energy Progress	
Brunswick Unit 1	2036
Brunswick Unit 2	2034
Harris	2046
Robinson	2030
Duke Energy Florida	
Crystal River Unit 3	(a)

- (a) Duke Energy Florida has requested the NRC terminate the operating license as Crystal River Unit 3 permanently ceased operation in February 2013. Refer to Note 4 for further information on decommissioning activity and transition to SAFSTOR.

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10. PROPERTY, PLANT AND EQUIPMENT

The following tables summarize the property, plant and equipment.

(in millions)	December 31, 2014							
	Estimated Useful Life (Years)	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana
Land		\$ 1,459	\$ 403	\$ 704	\$ 380	\$ 324	\$ 114	\$ 108
Plant - Regulated								
Electric generation, distribution and transmission	2 - 138	82,206	31,751	33,672	20,616	13,056	3,956	11,911
Natural gas transmission and distribution	12 - 67	2,230	—	—	—	—	2,230	—
Other buildings and improvements	9 - 100	1,445	465	607	286	318	200	173
Plant - Nonregulated								
Electric generation, distribution and transmission	1 - 30	2,380	—	—	—	—	—	—
Other buildings and improvements	5 - 50	2,498	—	—	—	—	—	—
Nuclear fuel		2,865	1,676	1,190	1,190	—	—	—
Equipment	3 - 34	1,762	341	506	388	118	330	166
Construction in process		4,519	2,081	1,215	908	307	97	481
Other	5 - 80	3,497	655	756	439	310	214	195
Total property, plant and equipment ^{(a)(d)}		104,861	37,372	38,650	24,207	14,433	7,141	13,034
Total accumulated depreciation - regulated ^{(b)(c)(d)}		(32,628)	(12,700)	(13,506)	(9,021)	(4,478)	(2,213)	(4,219)
Total accumulated depreciation - nonregulated ^{(c)(d)}		(2,196)	—	—	—	—	—	—
Generation facilities to be retired, net		9	—	—	—	—	9	—
Total net property, plant and equipment		\$ 70,046	\$ 24,672	\$ 25,144	\$ 15,186	\$ 9,955	\$ 4,937	\$ 8,815

- (a) Includes capitalized leases of \$1,548 million, \$40 million, \$315 million, \$146 million, \$169 million, \$98 million, and \$30 million at Duke Energy, Duke Energy Carolinas, Progress Energy, Duke Energy Progress, Duke Energy Florida, Duke Energy Ohio, and Duke Energy Indiana, respectively, primarily in regulated plant. The Progress Energy, Duke Energy Progress and Duke Energy Florida amounts are net of \$72 million, \$5 million and \$67 million, respectively, of accumulated amortization of capitalized leases.
- (b) Includes \$1,408 million, \$847 million, \$561 million and \$561 million of accumulated amortization of nuclear fuel at Duke Energy, Duke Energy Carolinas, Progress Energy and Duke Energy Progress, respectively.
- (c) Includes accumulated amortization of capitalized leases of \$52 million, \$8 million, \$25 million and \$6 million at Duke Energy, Duke Energy Carolinas, Duke Energy Ohio and Duke Energy Indiana, respectively.
- (d) Includes gross property, plant and equipment cost of consolidated VIEs of \$1,873 million and accumulated depreciation of consolidated VIEs of \$257 million at Duke Energy.

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(in millions)	December 31, 2013							
	Estimated Useful Life (Years)	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana
Land		\$ 1,481	\$ 397	\$ 705	\$ 383	\$ 321	\$ 137	\$ 105
Plant - Regulated								
Electric generation, distribution and transmission	2 - 125	78,272	30,018	31,792	19,190	12,601	3,925	11,594
Natural gas transmission and distribution	12 - 67	2,138	—	—	—	—	2,138	—
Other buildings and improvements	2 - 100	1,397	447	610	282	315	190	159
Plant - Nonregulated								
Electric generation, distribution and transmission	2 - 100	6,267	—	—	—	—	4,017	—
Other buildings and improvements	9 - 100	2,512	—	—	—	—	5	—
Nuclear fuel		2,458	1,446	1,012	1,012	—	—	—
Equipment	1 - 33	1,557	287	621	357	94	317	146
Construction in process		3,595	1,741	873	631	238	166	307
Other	5 - 33	3,438	570	867	418	294	248	178
Total property, plant and equipment ^{(a)(d)}		103,115	34,906	36,480	22,273	13,863	11,143	12,489
Total accumulated depreciation - regulated ^{(b)(c)(d)}		(31,659)	(11,894)	(13,098)	(8,623)	(4,252)	(2,160)	(3,913)
Total accumulated depreciation - nonregulated ^{(c)(d)}		(1,966)	—	—	—	—	(748)	—
Total net property, plant and equipment		\$ 69,490	\$ 23,012	\$ 23,382	\$ 13,650	\$ 9,611	\$ 8,235	\$ 8,576

- (a) Includes capitalized leases of \$1,606 million, \$53 million, \$328 million, \$148 million, \$180 million, \$96 million, and \$30 million at Duke Energy, Duke Energy Carolinas, Progress Energy, Duke Energy Progress, Duke Energy Florida, Duke Energy Ohio, and Duke Energy Indiana, respectively, primarily in regulated plant. The Progress Energy, Duke Energy Progress and Duke Energy Florida amounts are net of \$60 million, an insignificant amount and \$57 million, respectively, of accumulated amortization of capitalized leases.
- (b) Includes \$1,118 million, \$681 million, \$438 million and \$438 million of accumulated amortization of nuclear fuel at Duke Energy, Duke Energy Carolinas, Progress Energy and Duke Energy Progress, respectively.
- (c) Includes accumulated amortization of capitalized leases of \$40 million, \$4 million, \$21 million and \$5 million at Duke Energy, Duke Energy Carolinas, Duke Energy Ohio and Duke Energy Indiana, respectively.
- (d) Includes gross property, plant and equipment cost of consolidated VIEs of \$1,678 million and accumulated depreciation of consolidated VIEs of \$175 million at Duke Energy.

The following table presents capitalized interest, which includes the debt component of AFUDC.

(in millions)	Years Ended December 31,		
	2014	2013	2012
Duke Energy	\$ 75	\$ 89	\$ 176
Duke Energy Carolinas	38	41	72
Progress Energy	11	19	41
Duke Energy Progress	10	16	23
Duke Energy Florida	1	3	18
Duke Energy Ohio	10	11	13
Duke Energy Indiana	6	9	39

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11. GOODWILL AND INTANGIBLE ASSETS**Goodwill**

The following tables present goodwill by reportable operating segment for Duke Energy and Duke Energy Ohio.

Duke Energy

(in millions)	Regulated Utilities	International Energy	Commercial Power	Total
Balance at December 31, 2013				
Goodwill	\$ 15,950	\$ 326	\$ 935	\$ 17,211
Accumulated impairment charges	—	—	(871)	(871)
Balance at December 31, 2013, net of accumulated impairment charges	15,950	326	64	16,340
Foreign exchange and other changes	—	(19)	—	(19)
Balance at December 31, 2014				
Goodwill	15,950	307	935	17,192
Accumulated impairment charges	—	—	(871)	(871)
Balance at December 31, 2014, net of accumulated impairment charges	\$ 15,950	\$ 307	\$ 64	\$ 16,321

Duke Energy Ohio

(in millions)	Regulated Utilities	Commercial Power	Total
Balance at December 31, 2013			
Goodwill	\$ 1,136	\$ 1,188	\$ 2,324
Accumulated impairment charges	(216)	(1,188)	(1,404)
Balance at December 31, 2013, net of accumulated impairment charges	920	—	920
Balance at December 31, 2014			
Goodwill	1,136	1,188	2,324
Accumulated impairment charges	(216)	(1,188)	(1,404)
Balance at December 31, 2014, net of accumulated impairment charges	\$ 920	\$ —	\$ 920

Progress Energy

Progress Energy's Goodwill is included in the Regulated Utilities operating segment and there are no accumulated impairment charges.

Impairment Testing

Duke Energy, Duke Energy Ohio and Progress Energy are required to perform an annual goodwill impairment test as of the same date each year and, accordingly, performs its annual impairment testing of goodwill as of August 31. Duke Energy, Duke Energy Ohio and Progress Energy update their test between annual tests if events or circumstances occur that would more likely than not reduce the fair value of a reporting unit below its carrying value. As the fair value of Duke Energy, Duke Energy Ohio and Progress Energy's reporting units exceeded their respective carrying values at the date of the annual impairment analysis, no impairment charges were recorded in 2014.

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Intangible Assets

The following tables show the carrying amount and accumulated amortization of intangible assets within Other on the Consolidated Balance Sheets of the Duke Energy Registrants at December 31, 2014 and 2013.

(in millions)	December 31, 2014						
	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio ^(a)	Duke Energy Indiana
Emission allowances	\$ 23	\$ 1	\$ 7	\$ 3	\$ 4	\$ —	\$ 16
Renewable energy certificates	97	25	69	69	—	3	—
Gas, coal and power contracts	24	—	—	—	—	—	24
Wind development rights	97	—	—	—	—	—	—
Other	76	—	—	—	—	—	—
Total gross carrying amounts	317	26	76	72	4	3	40
Accumulated amortization - gas, coal and power contracts	(15)	—	—	—	—	—	(15)
Accumulated amortization - wind development rights	(14)	—	—	—	—	—	—
Accumulated amortization - other	(25)	—	—	—	—	—	—
Total accumulated amortization	(54)	—	—	—	—	—	(15)
Total intangible assets, net	\$ 263	\$ 26	\$ 76	\$ 72	\$ 4	\$ 3	\$ 25

- (a) During 2014, Duke Energy Ohio reduced the carrying amount of OVEC to zero. A charge of \$94 million is recorded in Impairment Charges on Duke Energy Ohio's Consolidated Statement of Operations. In addition, Duke Energy Ohio has emission allowances and renewable energy certificates that have been reclassified to Assets Held For Sale pending the sale of the Disposal Group. See Note 17 for further information.

(in millions)	December 31, 2013						
	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana
Emission allowances	\$ 63	\$ 1	\$ 21	\$ 3	\$ 18	\$ 20	\$ 21
Renewable energy certificates	82	16	64	64	—	2	—
Gas, coal and power contracts	180	—	—	—	—	156	24
Wind development rights	86	—	—	—	—	—	—
Other	76	—	—	—	—	—	—
Total gross carrying amounts	487	17	85	67	18	178	45
Accumulated amortization - gas, coal and power contracts	(73)	—	—	—	—	(60)	(13)
Accumulated amortization - wind development rights	(12)	—	—	—	—	—	—
Accumulated amortization - other	(24)	—	—	—	—	—	—
Total accumulated amortization	(109)	—	—	—	—	(60)	(13)
Total intangible assets, net	\$ 378	\$ 17	\$ 85	\$ 67	\$ 18	\$ 118	\$ 32

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Amortization Expense

The following table presents amortization expense for gas, coal and power contracts, wind development rights and other intangible assets.

(in millions)	December 31,		
	2014	2013	2012
Duke Energy	\$ 6	\$ 13	\$ 14
Duke Energy Ohio	2	8	12
Duke Energy Indiana	1	1	1

The table below shows the expected amortization expense for the next five years for intangible assets as of December 31, 2014. The expected amortization expense includes estimates of emission allowances consumption and estimates of consumption of commodities such as gas and coal under existing contracts, as well as estimated amortization related to the wind development projects. The amortization amounts discussed below are estimates and actual amounts may differ from these estimates due to such factors as changes in consumption patterns, sales or impairments of emission allowances or other intangible assets, delays in the in-service dates of wind assets, additional intangible acquisitions and other events.

(in millions)	2015	2016	2017	2018	2019
Duke Energy	\$ 11	\$ 8	\$ 7	\$ 7	\$ 7
Duke Energy Ohio	2	1	1	1	1
Duke Energy Indiana	5	3	2	2	2

12. INVESTMENTS IN UNCONSOLIDATED AFFILIATES**EQUITY METHOD INVESTMENTS**

Investments in domestic and international affiliates that are not controlled by Duke Energy, but over which it has significant influence, are accounted for using the equity method. As of December 31, 2014 and 2013, the carrying amount of investments in affiliates with carrying amounts greater than zero approximated the amount of underlying equity in net assets.

The following table presents Duke Energy's investments in unconsolidated affiliates accounted for under the equity method, as well as the respective equity in earnings, by segment.

(in millions)	Years Ended December 31,					
	2014		2013		2012	
	Investments	Equity in earnings	Investments	Equity in earnings	Equity in earnings	
Regulated Utilities	\$ 3	\$ (3)	\$ 4	\$ (1)	\$ (5)	
International Energy	69	120	82	110	134	
Commercial Power	258	10	252	7	14	
Other	28	3	52	6	5	
Total	\$ 358	\$ 130	\$ 390	\$ 122	\$ 148	

During the years ended December 31, 2014, 2013 and 2012, Duke Energy received distributions from equity investments of \$154 million, \$144 million and \$183 million, respectively, which are included in Other assets within Cash Flows from Operating Activities on the Consolidated Statements of Cash Flows.

Significant investments in affiliates accounted for under the equity method are discussed below.

International Energy

Duke Energy owns a 25 percent indirect interest in NMC, which owns and operates a methanol and MTBE business in Jubail, Saudi Arabia.

Commercial Power

Investments accounted for under the equity method primarily consist of Duke Energy's approximate 50 percent ownership interest in the five Catamount Sweetwater, LLC wind farm projects (Phase I-V), INDU Solar Holdings, LLC and DS Cornerstone, LLC. All of these entities own solar or wind power projects in the United States. Duke Energy also owns a 50 percent interest in Duke American Transmission Co., LLC, which builds, owns and operates electric transmission facilities in North America.

Other

On December 31, 2013, Duke Energy completed the sale of its 50 percent ownership interest in DukeNet, which owned and operated telecommunications businesses, to Time Warner Cable, Inc. After retiring existing DukeNet debt and payment of transaction expenses, Duke Energy received \$215 million in cash proceeds and recorded a \$105 million pretax gain in the fourth quarter of 2013.

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13. RELATED PARTY TRANSACTIONS

The Subsidiary Registrants engage in related party transactions, which are generally performed at cost and in accordance with the applicable state and federal commission regulations. Refer to the Consolidated Balance Sheets of the Subsidiary Registrants for balances due to or due from related parties. Material amounts related to transactions with related parties included in the Consolidated Statements of Operations and Comprehensive Income are presented in the following table.

(in millions)	Years Ended December 31,		
	2014	2013	2012
Duke Energy Carolinas			
Corporate governance and shared service expenses ^(a)	\$ 851	\$ 927	\$ 1,112
Indemnification coverages ^(b)	21	22	21
JDA revenue ^(c)	133	121	18
JDA expense ^(c)	198	116	91
Progress Energy			
Corporate governance and shared services provided by Duke Energy ^(a)	\$ 732	\$ 290	\$ 63
Corporate governance and shared services provided to Duke Energy ^(d)	—	96	47
Indemnification coverages ^(b)	33	34	17
JDA revenue ^(c)	198	116	91
JDA expense ^(c)	133	121	18
Duke Energy Progress			
Corporate governance and shared service expenses ^(a)	\$ 386	\$ 266	\$ 254
Indemnification coverages ^(b)	17	20	8
JDA revenue ^(c)	198	116	91
JDA expense ^(c)	133	121	18
Duke Energy Florida			
Corporate governance and shared service expenses ^(a)	\$ 346	\$ 182	\$ 186
Indemnification coverages ^(b)	16	14	8
Duke Energy Ohio			
Corporate governance and shared service expenses ^(a)	\$ 316	\$ 347	\$ 358
Indemnification coverages ^(b)	13	15	15
Duke Energy Indiana			
Corporate governance and shared service expenses ^(a)	\$ 384	\$ 422	\$ 419
Indemnification coverages ^(b)	11	14	8

- (a) The Subsidiary Registrants are charged their proportionate share of corporate governance and other shared services costs, primarily related to human resources, employee benefits, legal and accounting fees, as well as other third-party costs. These amounts are recorded in Operation, maintenance and other on the Consolidated Statements of Operations and Comprehensive Income.
- (b) The Subsidiary Registrants incur expenses related to certain indemnification coverages through Bison, Duke Energy's wholly owned captive insurance subsidiary. These expenses are recorded in Operation, maintenance and other on the Consolidated Statements of Operations and Comprehensive Income.
- (c) Duke Energy Carolinas and Duke Energy Progress participate in a JDA which allows the collective dispatch of power plants between the service territories to reduce customer rates. Revenues from the sale of power under the JDA are recorded in Operating Revenues on the Consolidated Statements of Operations and Comprehensive Income. Expenses from the purchase of power under the JDA are recorded in Fuel used in electric generation and purchased power on the Consolidated Statements of Operations and Comprehensive Income.
- (d) In 2013 and 2012, Progress Energy Service Company (PESC), a consolidated subsidiary of Progress Energy, charged a proportionate share of corporate governance and other costs to consolidated affiliates of Duke Energy. Corporate governance and other shared costs were primarily related to human resources, employee benefits, legal and accounting fees, as well as other third-party costs. These charges were recorded as an offset to Operation, maintenance and other in the Consolidated Statements of Operations and Comprehensive Income. Effective January 1, 2014, PESC was contributed to Duke Energy Corporate Services (DECS), a consolidated subsidiary of Duke Energy, and these costs were no longer charged out of Progress Energy. Progress Energy recorded a non-cash after-tax equity transfer related to the contribution of PESC to DECS in its Consolidated Statements of Changes in Common Stockholder's Equity.

In addition to the amounts presented above, the Subsidiary Registrants record the impact on net income of other affiliate transactions, including rental of office space, participation in a money pool arrangement, other operational transactions and their proportionate share of certain charged expenses. See

Note 6 for more information regarding money pool. The net impact of these transactions was not material for the years ended December 31, 2014, 2013 and 2012 for the Subsidiary Registrants.

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As discussed in Note 17, certain trade receivables have been sold by Duke Energy Ohio and Duke Energy Indiana to CRC, an affiliate formed by a subsidiary of Duke Energy. The proceeds obtained from the sales of receivables are largely cash but do include a subordinated note from CRC for a portion of the purchase price.

In January 2012, Duke Energy Ohio recorded a non-cash equity transfer of \$28 million related to the sale of Vermillion to Duke Energy Indiana. Duke Energy Indiana recorded a non-cash after-tax equity transfer of \$26 million for the purchase of Vermillion from Duke Energy Ohio. See Note 2 for further discussion.

Duke Energy Commercial Asset Management (DECAM) is a nonregulated, indirect subsidiary of Duke Energy Ohio that owns generating plants included in the Disposal Group discussed in Note 2. DECAM's business activities include the execution of commodity transactions, third-party vendor and supply contracts, and service contracts for certain of Duke Energy's nonregulated entities. The commodity contracts DECAM enters are accounted for as undesignated contracts or NPNS. Consequently, mark-to-market impacts of intercompany contracts with, and sales of power to, nonregulated entities are included in (Loss) Income from discontinued operations in Duke Energy Ohio's Consolidated Statements of Operations and Comprehensive Income. These amounts totaled net expense of \$24 million and \$6 million and net revenue of \$24 million, for the years ended December 31, 2014, 2013 and 2012, respectively.

Because it is not a rated entity, DECAM receives credit support from Duke Energy or its nonregulated subsidiaries, not from the regulated utility operations of Duke Energy Ohio. DECAM meets its funding needs through an intercompany loan agreement from a subsidiary of Duke Energy. DECAM also has the ability to loan money to the subsidiary of Duke Energy. DECAM had an outstanding intercompany loan payable of \$459 million and \$43 million for the years ended December 31, 2014 and 2013, respectively. These amounts are recorded in Notes payable to affiliated companies on Duke Energy Ohio's Consolidated Balance Sheets.

As discussed in Note 6, in April 2014, Duke Energy issued \$1 billion of senior unsecured notes. Proceeds from the issuances of approximately \$400 million were loaned to DECAM, and such funds were ultimately used to redeem \$402 million of tax-exempt bonds at Duke Energy Ohio. This transaction substantially completed the restructuring of Duke Energy Ohio's capital structure to reflect appropriate debt and equity ratios for its regulated operations. The restructuring was completed in the second quarter of 2014, and resulted in the transfer of all of Duke Energy Ohio's nonregulated generation assets, excluding Beckjord, out of its regulated public utility subsidiary and into DECAM.

14. DERIVATIVES AND HEDGING

The Duke Energy Registrants use commodity and interest rate contracts to manage commodity price and interest rate risks. The primary use of energy commodity derivatives is to hedge the generation portfolio against changes in the prices of electricity and natural gas. Interest rate swaps are used to manage interest rate risk associated with borrowings.

All derivative instruments not identified as NPNS are recorded at fair value as assets or liabilities on the Consolidated Balance Sheets. Cash collateral related to derivative instruments executed under master netting agreement is offset against the collateralized derivatives on the balance sheet.

Changes in the fair value of derivative agreements that either do not qualify for or have not been designated as hedges are reflected in current earnings or as regulatory assets or liabilities.

COMMODITY PRICE RISK

The Duke Energy Registrants are exposed to the impact of changes in the future prices of electricity, coal and natural gas. Exposure to commodity price risk is influenced by a number of factors including the term of contracts, the liquidity of markets, and delivery locations.

Fair Value and Cash Flow Hedges

At December 31, 2014, there were no open commodity derivative instruments designated as hedges.

Undesignated Contracts

Undesignated contracts may include contracts not designated as a hedge, contracts that do not qualify for hedge accounting, derivatives that do not or no longer qualify for the NPNS scope exception, and de-designated hedge contracts. These contracts expire as late as 2018.

Duke Energy Carolinas' undesignated contracts are primarily associated with forward sales and purchases of electricity. Duke Energy Progress' and Duke Energy Florida's undesignated contracts are primarily associated with forward purchases of natural gas. Duke Energy Ohio's undesignated contracts are primarily associated with forward sales and purchases of electricity, coal, and natural gas. Duke Energy Indiana's undesignated contracts are primarily associated with forward purchases and sales of electricity and financial transmission rights.

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Volumes

The tables below show information relating to volumes of outstanding commodity derivatives. Amounts disclosed represent the notional volumes of commodity contracts excluding NPNS. Amounts disclosed represent the absolute value of notional amounts. The Duke Energy Registrants have netted contractual amounts where offsetting purchase and sale contracts exist with identical delivery locations and times of delivery. Where all commodity positions are perfectly offset, no quantities are shown.

	December 31, 2014						
	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana
Electricity (gigawatt-hours) ^(a)	25,370	—	—	—	—	19,141	—
Natural gas (millions of decatherms)	676	35	328	116	212	313	—

	December 31, 2013						
	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana
Electricity (gigawatt-hours) ^(a)	71,466	1,205	925	925	—	69,362	203
Natural gas (millions of decatherms)	636	—	363	141	222	274	—

(a) Amounts at Duke Energy Ohio include intercompany positions that eliminate at Duke Energy.

INTEREST RATE RISK

The Duke Energy Registrants are exposed to changes in interest rates as a result of their issuance or anticipated issuance of variable-rate and fixed-rate debt and commercial paper. Interest rate risk is managed by limiting variable-rate exposures to a percentage of total debt and by monitoring changes in interest rates. To manage risk associated with changes in interest rates, the Duke Energy Registrants may enter into interest rate swaps, U.S. Treasury lock agreements, and other financial contracts. In anticipation of certain fixed-rate debt issuances, a series of forward starting interest rate swaps may be executed to lock in components of current market interest rates. These instruments are later terminated prior to or upon the issuance of the corresponding debt. Pretax gains or losses recognized from inception to termination of the hedges are amortized as a component of interest expense over the life of the debt.

Duke Energy has a combination foreign exchange, pay fixed-receive floating interest rate swap to fix the U.S. dollar equivalent payments on a floating-rate Chilean debt issue.

The following tables show notional amounts for derivatives related to interest rate risk.

(in millions)	December 31, 2014				December 31, 2013			
	Duke Energy	Duke Energy Florida	Duke Energy Ohio		Duke Energy	Duke Energy Ohio		
Cash flow hedges ^(a)	\$ 750	\$ —	\$ —		\$ 798	\$ —		
Undesignated contracts	277	250	27		34	27		
Total notional amount	\$ 1,027	250	\$ 27		\$ 832	\$ 27		

(a) Duke Energy includes amounts related to consolidated VIEs of \$541 million at December 31, 2014 and \$584 million at December 31, 2013.

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DUKE ENERGY

The following table shows the fair value of derivatives and the line items in the Consolidated Balance Sheets where they are reported. Although derivatives subject to master netting arrangements are netted on the Consolidated Balance Sheets, the fair values presented below are shown gross and cash collateral on the derivatives has not been netted against the fair values shown.

(in millions)	December 31,			
	2014		2013	
	Asset	Liability	Asset	Liability
Derivatives Designated as Hedging Instruments				
Commodity contracts				
Current liabilities: other	\$ —	\$ —	\$ —	\$ 1
Interest rate contracts				
Investments and other assets: other	10	—	27	—
Current liabilities: other	—	13	—	18
Deferred credits and other liabilities: other	—	29	—	4
Total Derivatives Designated as Hedging Instruments	\$ 10	\$ 42	\$ 27	\$ 23
Derivatives Not Designated as Hedging Instruments				
Commodity contracts				
Current assets: other	\$ 18	\$ —	\$ 201	\$ 158
Current assets: assets held for sale	15	—	—	—
Investments and other assets: other	3	—	215	131
Investments and other assets: assets held for sale	15	—	—	—
Current liabilities: other	1	307	13	153
Current liabilities: assets held for sale	174	253	—	—
Deferred credits and other liabilities: other	2	91	5	166
Deferred credits and other liabilities: assets held for sale	111	208	—	—
Interest rate contracts				
Current assets: other	2	—	—	—
Current liabilities: other	—	1	—	1
Deferred credits and other liabilities: other	—	7	—	4
Total Derivatives Not Designated as Hedging Instruments	341	867	434	613
Total Derivatives	\$ 351	\$ 909	\$ 461	\$ 636

The tables below show the balance sheet location of derivative contracts subject to enforceable master netting agreements and include collateral posted to offset the net position. This disclosure is intended to enable users to evaluate the effect of netting arrangements on financial position. The amounts shown were calculated by counterparty. Accounts receivable or accounts payable may also be available to offset exposures in the event of bankruptcy. These amounts are not included in the tables below.

(in millions)	Derivative Assets			
	December 31, 2014		December 31, 2013	
	Current ^(a)	Non-Current ^(b)	Current ^(a)	Non-Current ^(b)
Gross amounts recognized	\$ 210	\$ 136	\$ 214	\$ 233
Gross amounts offset	(153)	(88)	(179)	(138)
Net amount subject to master netting	57	48	35	95
Amounts not subject to master netting	—	5	—	14
Net amounts recognized on the Consolidated Balance Sheet	\$ 57	\$ 53	\$ 35	\$ 109

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(in millions)	Derivative Liabilities			
	December 31, 2014		December 31, 2013	
	Current ^(c)	Non-Current ^(d)	Current ^(g)	Non-Current ^(h)
Gross amounts recognized \$	573	\$ 319	\$ 322	\$ 299
Gross amounts offset	(213)	(173)	(192)	(155)
Net amounts subject to master netting	360	146	130	144
Amounts not subject to master netting	1	16	4	11
Net amounts recognized on the Consolidated Balance Sheet \$	361	\$ 162	\$ 134	\$ 155

(a) Included in Other and Assets Held for Sale within Current Assets on the Consolidated Balance Sheet.

(b) Included in Other and Assets held for Sale within Investments and Other Assets on the Consolidated Balance Sheet.

(c) Included in Other and Liabilities Associated with Assets Held for Sale within Current Liabilities on the Consolidated Balance Sheet.

(d) Included in Other and Liabilities Associated with Assets Held for Sale within Deferred Credits and Other Liabilities on the Consolidated Balance Sheet.

(e) Included in Other within Current Assets on the Consolidated Balance Sheet.

(f) Included in Other within Investments and Other Assets on the Consolidated Balance Sheet.

(g) Included in Other within Current Liabilities on the Consolidated Balance Sheet.

(h) Included in Other within Deferred Credits and Other Liabilities on the Consolidated Balance Sheet.

The following table shows the gains and losses recognized on cash flow hedges and the line items on the Consolidated Statements of Operations where such gains and losses are included when reclassified from AOCI. Amounts for interest rate contracts are reclassified to earnings as interest expense over the term of the related debt.

(in millions)	Years Ended December 31,		
	2014	2013	2012
Pretax Gains (Losses) Recorded in AOCI			
Interest rate contracts	\$ (39)	\$ 79	\$ (23)
Commodity contracts	—	1	1
Total Pretax Gains (Losses) Recorded in AOCI	\$ (39)	\$ 80	\$ (22)
Location of Pretax Gains and (Losses) Reclassified from AOCI into Earnings			
Interest rate contracts			
Interest expense	(7)	(2)	2

There was no hedge ineffectiveness during the years ended December 31, 2014, 2013 and 2012, and no gains or losses were excluded from the assessment of hedge effectiveness during the same periods.

A \$10 million pretax gain is expected to be recognized in earnings during the next 12 months as interest expense.

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The following table shows the gains and losses during the year recognized on undesignated derivatives and the line items on the Consolidated Statements of Operations or the Consolidated Balance Sheets where the pretax gains and losses were reported. Amounts included in Regulatory Assets or Liabilities for commodity contracts are reclassified to earnings to match recovery through the fuel clause. Amounts included in Regulatory Assets or Liabilities for interest rate contracts are reclassified to earnings as interest expense over the term of the related debt.

(in millions)	Years Ended December 31,		
	2014	2013	2012
Location of Pretax Gains and (Losses) Recognized in Earnings			
Commodity contracts			
Revenue: Regulated electric	\$ —	\$ 11	\$ (23)
Other income and expenses	—	—	(2)
Fuel used in electric generation and purchased power-regulated	(44)	(200)	(194)
Income (Loss) From Discontinued Operations	(729)	(57)	40
Interest rate contracts			
Interest expense	(6)	(18)	(8)
Total Pretax (Losses) Gains Recognized in Earnings	\$ (779)	\$ (264)	\$ (187)
Location of Pretax Gains and (Losses) Recognized as Regulatory Assets or Liabilities			
Commodity contracts			
Regulatory assets	\$ (268)	\$ 10	\$ (2)
Regulatory liabilities	14	15	36
Interest rate contracts			
Regulatory assets	—	55	10
Regulatory liabilities	2	—	—
Total Pretax Gains (Losses) Recognized as Regulatory Assets or Liabilities	\$ (252)	\$ 80	\$ 44

DUKE ENERGY CAROLINAS

The following table shows the fair value of derivatives and the line items in the Consolidated Balance Sheets where they are reported. Although derivatives subject to master netting arrangements are netted on the Consolidated Balance Sheets, the fair values presented below are shown gross and cash collateral on the derivatives has not been netted against the fair values shown.

(in millions)	December 31,			
	2014		2013	
	Asset	Liability	Asset	Liability
Derivatives Not Designated as Hedging Instruments				
Commodity contracts				
Current liabilities: other	\$ —	\$ 14	\$ —	\$ 1
Deferred credits and other liabilities: other	—	5	—	1
Total Derivatives Not Designated as Hedging Instruments	—	19	—	2
Total Derivatives	\$ —	\$ 19	\$ —	\$ 2

The tables below show the balance sheet location of derivative contracts subject to enforceable master netting agreements and include collateral posted to offset the net position. This disclosure is intended to enable users to evaluate the effect of netting arrangements on financial position. The amounts shown were calculated by counterparty. Accounts receivable or accounts payable may also be available to offset exposures in the event of bankruptcy. These amounts are not included in the tables below.

(in millions)	Derivative Assets			
	December 31, 2014		December 31, 2013	
	Current ^(a)	Non-Current ^(b)	Current ^(a)	Non-Current ^(b)

Gross amounts recognized	\$	—	\$	—	\$	—	\$	—
Gross amounts offset		—		—		—		—
Net amount subject to master netting		—		—		—		—
Amounts not subject to master netting		—		—		—		—
Net amounts recognized on the Consolidated Balance Sheet	\$	—	\$	—	\$	—	\$	—

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(in millions)	Derivative Liabilities			
	December 31, 2014		December 31, 2013	
	Current ^(c)	Non-Current ^(d)	Current ^(c)	Non-Current ^(d)
Gross amounts recognized	\$ 14	\$ 5	\$ —	\$ —
Gross amounts offset	—	—	—	—
Net amount subject to master netting	14	5	—	—
Amounts not subject to master netting	—	—	1	1
Net amounts recognized on the Consolidated Balance Sheet	\$ 14	\$ 5	\$ 1	\$ 1

(a) Included in Other within Current Assets on the Consolidated Balance Sheet.

(b) Included in Other within Investments and Other Assets on the Consolidated Balance Sheet.

(c) Included in Other within Current Liabilities on the Consolidated Balance Sheet.

(d) Included in Other within Deferred Credits and Other Liabilities on the Consolidated Balance Sheet.

The following table shows the gains and losses during the year recognized on cash flow hedges and the line items on the Consolidated Statements of Operations and Comprehensive Income where such gains and losses are included when reclassified from AOCI. Amounts for interest rate contracts are reclassified to earnings as interest expense over the term of the related debt.

(in millions)	Years Ended December 31,		
	2014	2013	2012
Location of Pretax Gains and (Losses) Reclassified from AOCI into Earnings			
Interest rate contracts			
Interest expense	\$ (3)	\$ (3)	\$ (3)

A \$3 million pretax gain is expected to be recognized in earnings during the next 12 months as interest expense.

The following table shows the gains and losses during the year recognized on undesignated derivatives and the line items on the Consolidated Statements of Operations and Comprehensive Income or the Consolidated Balance Sheets where the pretax gains and losses were reported. Amounts not included in Regulatory Assets or Liabilities for commodity contracts are reclassified to earnings to match recovery through the fuel clause. Amounts included in Regulatory Assets or Liabilities for interest rate contracts are reclassified to earnings as interest expense over the term of the related debt.

(in millions)	Years Ended December 31,		
	2014	2013	2012
Location of Pretax Gains and (Losses) Recognized in Earnings			
Commodity contracts			
Revenue: Regulated electric	\$ —	\$ (12)	\$ (12)
Total Pretax (Losses) Gains Recognized in Earnings	—	(12)	(12)
Location of Pretax Gains and (Losses) Recognized as Regulatory Assets or Liabilities			
Commodity contracts			
Regulatory assets	\$ (19)	\$ —	\$ —

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PROGRESS ENERGY

The following table shows the fair value of derivatives and the line items in the Consolidated Balance Sheets where they are reported. Although derivatives subject to master netting arrangements are netted on the Consolidated Balance Sheets, the fair values presented below are shown gross and cash collateral on the derivatives has not been netted against the fair values shown.

(in millions)	December 31,			
	2014		2013	
	Asset	Liability	Asset	Liability
Derivatives Designated as Hedging Instruments				
<i>Commodity contracts</i>				
Current liabilities: other	\$ —	\$ 1	\$ —	\$ 1
Deferred credits and other liabilities: other	—	—	—	4
Total Derivatives Designated as Hedging Instruments	\$ —	\$ 1	\$ —	\$ 5
Derivatives Not Designated as Hedging Instruments				
<i>Commodity contracts</i>				
Current assets: other	\$ —	\$ —	\$ 3	\$ 2
Investments and other assets: other	—	—	2	1
Current liabilities: other	—	288	11	105
Deferred credits and other liabilities: other	—	80	4	91
<i>Interest rate contracts</i>				
Current assets: other	2	—	—	—
Deferred credits and other liabilities: other	—	2	—	—
Total Derivatives Not Designated as Hedging Instruments	2	370	20	199
Total Derivatives	\$ 2	\$ 371	\$ 20	\$ 204

The tables below show the balance sheet location of derivative contracts subject to enforceable master netting agreements and include collateral posted to offset the net position. This disclosure is intended to enable users to evaluate the effect of netting arrangements on financial position. The amounts shown were calculated by counterparty. Accounts receivable or accounts payable may also be available to offset exposures in the event of bankruptcy. These amounts are not included in the tables below.

(in millions)	Derivative Assets			
	December 31, 2014		December 31, 2013	
	Current ^(a)	Non-Current ^(b)	Current ^(a)	Non-Current ^(b)
Gross amounts recognized	\$ 2	\$ —	\$ 15	\$ 5
Gross amounts offset	(2)	—	(13)	(4)
Net amounts recognized on the Consolidated Balance Sheet	\$ —	\$ —	\$ 2	\$ 1

(in millions)	Derivative Liabilities			
	December 31, 2014		December 31, 2013	
	Current ^(c)	Non-Current ^(d)	Current ^(c)	Non-Current ^(d)
Gross amounts recognized	\$ 289	\$ 82	\$ 107	\$ 93
Gross amounts offset	(17)	(8)	(17)	(10)
Net amounts subject to master netting	272	74	90	83
Amounts not subject to master netting	—	—	—	4
Net amounts recognized on the Consolidated Balance Sheet	\$ 272	\$ 74	\$ 90	\$ 87

(a) Included in Other within Current Assets on the Consolidated Balance Sheet.

(b) Included in Other within Investments and Other Assets on the Consolidated Balance Sheet.

(c) Included in Other within Current Liabilities on the Consolidated Balance Sheet.

(d) Included in Other within Deferred Credits and Other Liabilities on the Consolidated Balance Sheet.

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The following table shows the gains and losses during the year recognized on cash flow hedges and the line items on the Consolidated Statements of Operations and Comprehensive Income or Consolidated Balance Sheet where such gains and losses are included when reclassified from AOCI. Amounts for interest rate contracts are reclassified to earnings as interest expense over the term of the related debt.

(in millions)	Years Ended December 31,		
	2014	2013	2012
Pretax Gains (Losses) Recorded in AOCI			
Commodity contracts	\$ —	\$ 1	\$ 1
Interest rate contracts	—	—	(11)
Total Pretax Gains (Losses) Recorded in AOCI	\$ —	\$ 1	\$ (10)
Location of Pretax Gains and (Losses) Reclassified from AOCI into Earnings			
<i>Interest rate contracts</i>			
Interest expense	(13)	—	(14)
Location of Pretax Gains and (Losses) Reclassified from AOCI to Regulatory Assets or Liabilities^(a)			
<i>Interest rate contracts</i>			
Regulatory assets	—	—	(159)

(a) Effective with the merger, Duke Energy Progress and Duke Energy Florida no longer designates interest rate derivatives for regulated operations as cash flow hedges. As a result, the pretax losses on derivatives as of the date of the merger were reclassified from AOCI to regulatory assets.

There was no hedge ineffectiveness during the years ended December 31, 2014, 2013 and 2012, and no gains or losses have been excluded from the assessment of hedge effectiveness during the same periods.

A \$13 million pretax loss is expected to be recognized in earnings during the next 12 months as interest expense.

The following table shows the gains and losses during the year recognized on undesignated derivatives and the line items on the Consolidated Statements of Operations and Comprehensive Income or the Consolidated Balance Sheets where the pretax gains and losses were reported. Amounts included in Regulatory Assets or Liabilities for commodity contracts are reclassified to earnings to match recovery through the fuel clause. Amounts included in Regulatory Assets or Liabilities for interest rate contracts are reclassified to earnings as interest expense over the term of the related debt.

(in millions)	Years Ended December 31,		
	2014	2013	2012
Location of Pretax Gains and (Losses) Recognized in Earnings			
<i>Commodity contracts</i>			
Operating revenues	\$ —	\$ 11	\$ (11)
Fuel used in electric generation and purchased power	(44)	(200)	(454)
Other income and expenses, net	—	—	7
<i>Interest rate contracts</i>			
Interest expense	(4)	(17)	(8)
Total Pretax (Losses) Gains Recognized in Earnings	\$ (48)	\$ (206)	\$ (466)
Location of Pretax Gains and (Losses) Recognized as Regulatory Assets or Liabilities			
<i>Commodity contracts</i>			
Regulatory assets	\$ (233)	\$ 10	\$ (171)
Regulatory liabilities	2	—	—
<i>Interest rate contracts</i>			
Regulatory assets	2	18	6
Total Pretax Gains (Losses) Recognized as Regulatory Assets or Liabilities	\$ (229)	\$ 28	\$ (165)

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DUKE ENERGY PROGRESS

The following table shows the fair value of derivatives and the line items in the Consolidated Balance Sheets where they are reported. Although derivatives subject to master netting arrangements are netted on the Consolidated Balance Sheets, the fair values presented below are shown gross and cash collateral on the derivatives has not been netted against the fair values shown. Substantially all derivatives not designated as hedging instruments receive regulatory accounting treatment.

(in millions)	December 31,			
	2014		2013	
	Asset	Liability	Asset	Liability
Derivatives Designated as Hedging Instruments				
<i>Commodity contracts</i>				
Current liabilities: other	\$ —	\$ 1	\$ —	\$ 1
Total Derivatives Designated as Hedging Instruments	—	1	—	1
Derivatives Not Designated as Hedging Instruments				
<i>Commodity contracts</i>				
Investments and other assets: other	\$ —	\$ —	\$ 2	\$ 1
Current liabilities: other	—	108	2	40
Deferred credits and other liabilities: other	—	23	2	29
Total Derivatives Not Designated as Hedging Instruments	—	131	6	70
Total Derivatives	\$ —	\$ 132	\$ 6	\$ 71

The tables below show the balance sheet location of derivative contracts subject to enforceable master netting agreements and include collateral posted to offset the net position. This disclosure is intended to enable users to evaluate the effect of netting arrangements on financial position. The amounts shown were calculated by counterparty. Accounts receivable or accounts payable may also be available to offset exposures in the event of bankruptcy. These amounts are not included in the tables below.

(in millions)	Derivative Assets			
	December 31, 2014		December 31, 2013	
	Current ^(a)	Non-Current ^(b)	Current ^(a)	Non-Current ^(b)
Gross amounts recognized	\$ —	\$ —	\$ 3	\$ 3
Gross amounts offset	—	—	(3)	(3)
Net amounts recognized on the Consolidated Balance Sheet	\$ —	\$ —	\$ —	\$ —

(in millions)	Derivative Liabilities			
	December 31, 2014		December 31, 2013	
	Current ^(c)	Non-Current ^(d)	Current ^(c)	Non-Current ^(d)
Gross amounts recognized	\$ 109	\$ 23	\$ 41	\$ 30
Gross amounts offset	—	—	(3)	(3)
Net amounts recognized on the Consolidated Balance Sheet	\$ 109	\$ 23	\$ 38	\$ 27

(a) Included in Other within Current Assets on the Consolidated Balance Sheet.

(b) Included in Other within Investments and Other Assets on the Consolidated Balance Sheet.

(c) Included in Other within Current Liabilities on the Consolidated Balance Sheet.

(d) Included in Other within Deferred Credits and Other Liabilities on the Consolidated Balance Sheet.

The following table shows the gains and losses during the year recognized on cash flow hedges and the line items on the Consolidated Statements of Operations and Comprehensive Income or Consolidated Balance Sheets in which such gains and losses are included when reclassified from AOCI. Amounts for interest rate contracts are reclassified to earnings as interest expense over the term of the related debt.

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Combined Notes To Consolidated Financial Statements – (Continued)

(in millions)	Years Ended December 31,		
	2014	2013	2012
Pretax Gains (Losses) Recorded in AOCI			
Interest rate contracts	\$ —	\$ —	\$ (7)
Location of Pretax Gains and (Losses) Reclassified from AOCI into Earnings			
<i>Interest rate contracts</i>			
Interest expense	—	—	(5)
Location of Pretax Gains and (Losses) Reclassified from AOCI to Regulatory Assets or Liabilities^(a)			
<i>Interest rate contracts</i>			
Regulatory assets	—	\$ —	(117)

(a) Effective with the merger, Duke Energy Progress no longer designates interest rate derivatives for regulated operations as cash flow hedges. As a result, the pretax losses on derivatives as of the date of the merger were reclassified from AOCI to Regulatory assets.

There was no hedge ineffectiveness during the years ended December 31, 2014, 2013 and 2012, and no gains or losses have been excluded from the assessment of hedge effectiveness during the same periods.

The following table shows the gains and losses during the year recognized on undesignated derivatives and the line items on the Consolidated Statements of Operations and Comprehensive Income or the Consolidated Balance Sheets where the pretax gains and losses were reported. Amounts included in Regulatory Assets or Liabilities for commodity contracts are reclassified to earnings to match recovery through the fuel clause. Amounts included in Regulatory Assets or Liabilities for interest rate contracts are reclassified to earnings as interest expense over the term of the related debt.

(in millions)	Years Ended December 31,		
	2014	2013	2012
Location of Pretax Gains and (Losses) Recognized in Earnings			
<i>Commodity contracts</i>			
Operating revenues	\$ —	\$ 11	\$ (11)
Fuel used in electric generation and purchased power	(15)	(71)	(115)
<i>Interest rate contracts</i>			
Interest expense	—	(13)	(6)
Total Pretax (Losses) Gains Recognized in Earnings	\$ (15)	\$ (73)	\$ (132)
Location of Pretax Gains and (Losses) Recognized as Regulatory Assets or Liabilities			
<i>Commodity contracts</i>			
Regulatory assets	\$ (82)	\$ (6)	\$ (55)
<i>Interest rate contracts</i>			
Regulatory assets	—	13	6
Total Pretax Gains (Losses) Recognized as Regulatory Assets or Liabilities	\$ (82)	\$ 7	\$ (49)

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DUKE ENERGY FLORIDA

The following table shows the fair value of derivatives and the line items in the Consolidated Balance Sheets where they are reported. Although derivatives subject to master netting arrangements are netted on the Consolidated Balance Sheets, the fair values presented below are shown gross and cash collateral on the derivatives has not been netted against the fair values shown.

(in millions)	December 31,			
	2014		2013	
	Asset	Liability	Asset	Liability
Derivatives Not Designated as Hedging Instruments				
Commodity contracts				
Current assets: other	\$ —	\$ —	\$ 3	\$ 2
Current liabilities: other	—	180	9	64
Deferred credits and other liabilities: other	—	57	2	63
Interest rate contracts				
Current assets: other	2	—	—	—
Deferred credits and other liabilities: other	—	2	—	—
Total Derivatives Not Designated as Hedging Instruments	2	239	14	129
Total Derivatives	\$ 2	\$ 239	\$ 14	\$ 129

The tables below show the balance sheet location of derivative contracts subject to enforceable master netting agreements and include collateral posted to offset the net position. This disclosure is intended to enable users to evaluate the effect of netting arrangements on financial position. The amounts shown were calculated by counterparty. Accounts receivable or accounts payable may also be available to offset exposures in the event of bankruptcy. These amounts are not included in the tables below.

(in millions)	Derivative Assets			
	December 31, 2014		December 31, 2013	
	Current ^(a)	Non-Current ^(b)	Current ^(a)	Non-Current ^(b)
Gross amounts recognized	\$ 2	\$ —	\$ 12	\$ 2
Gross amounts offset	(2)	—	(10)	(2)
Net amounts recognized on the Consolidated Balance Sheet	\$ —	\$ —	\$ 2	\$ —

(in millions)	Derivative Liabilities			
	December 31, 2014		December 31, 2013	
	Current ^(c)	Non-Current ^(d)	Current ^(c)	Non-Current ^(d)
Gross amounts recognized	\$ 180	\$ 59	\$ 66	\$ 63
Gross amounts offset	(17)	(8)	(15)	(7)
Net amounts recognized on the Consolidated Balance Sheet	\$ 163	\$ 51	\$ 51	\$ 56

(a) Included in Other within Current Assets on the Consolidated Balance Sheet.

(b) Included in Other within Investments and Other Assets on the Consolidated Balance Sheet.

(c) Included in Other within Current Liabilities on the Consolidated Balance Sheet.

(d) Included in Other within Deferred Credits and Other Liabilities on the Consolidated Balance Sheet.

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The following table shows the gains and losses during the year recognized on cash flow hedges and the line items on the Consolidated Statements of Operations and Comprehensive Income or Consolidated Balance Sheets in which such gains and losses are included when reclassified from AOCI. Amounts for interest rate contracts are reclassified to earnings as interest expense over the term of the related debt.

(in millions)	Years Ended December 31,		
	2014	2013	2012
Pretax Gains (Losses) Recorded in AOCI			
Commodity contracts	\$ —	\$ 1	\$ 1
Interest rate contracts	—	—	(2)
Total Pretax Gains (Losses) Recorded in AOCI	\$ —	\$ 1	\$ (1)
Location of Pretax Gains and (Losses) Reclassified from AOCI into Earnings			
<i>Interest rate contracts</i>			
Interest expense	(2)	—	(2)
Location of Pretax Gains and (Losses) Reclassified from AOCI to Regulatory Assets^(a)			
<i>Interest rate contracts</i>			
Regulatory assets	—	—	(42)

(a) Effective with the merger, Duke Energy Florida no longer designates interest rate derivatives for regulated operations as cash flow hedges. As a result, the pretax losses on derivatives as of the date of the merger were reclassified from AOCI to Regulatory assets.

The following table shows the gains and losses during the year recognized on undesignated derivatives and the line items on the Consolidated Statements of Operations and Comprehensive Income or the Consolidated Balance Sheets where the pretax gains and losses were reported. Amounts included in Regulatory Assets or Liabilities for commodity contracts are reclassified to earnings to match recovery through the fuel clause. Amounts included in Regulatory Assets or Liabilities for interest rate contracts are reclassified to earnings as interest expense over the term of the related debt.

(in millions)	Years Ended December 31,		
	2014	2013	2012
Location of Pretax Gains and (Losses) Recognized in Earnings			
Commodity contracts			
Fuel used in electric generation and purchased power	\$ (29)	\$ (129)	\$ (339)
Interest rate contracts			
Interest expense	(4)	(5)	(2)
Total Pretax (Losses) Gains Recognized in Earnings	\$ (33)	\$ (134)	\$ (341)
Location of Pretax Gains and (Losses) Recognized as Regulatory Assets or Liabilities			
Commodity contracts			
Regulatory assets	\$ (151)	\$ 16	\$ (116)
Interest rate contracts			
Regulatory assets	2	5	—
Regulatory liabilities	2	—	—
Total Pretax Gains (Losses) Recognized as Regulatory Assets or Liabilities	\$ (147)	\$ 21	\$ (116)

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Combined Notes To Consolidated Financial Statements – (Continued)

DUKE ENERGY OHIO

The following table shows the fair value of derivatives and the line items in the Consolidated Balance Sheets where they are reported. Although derivatives subject to master netting arrangements are netted on the Consolidated Balance Sheets, the fair values presented below are shown gross and cash collateral on the derivatives has not been netted against the fair values shown.

(in millions)	December 31,			
	2014		2013	
	Asset	Liability	Asset	Liability
Derivatives Not Designated as Hedging Instruments				
Commodity contracts				
Current assets: other	\$ 1	\$ —	\$ 186	\$ 163
Current assets: assets held for sale	28	4	—	—
Investments and other assets: other	—	—	202	130
Investments and other assets: assets held for sale	26	4	—	—
Current liabilities: other	—	—	1	36
Current liabilities: assets held for sale	175	252	—	—
Deferred credits and other liabilities: other	—	—	2	56
Deferred credits and other liabilities: assets held for sale	111	207	—	—
Interest rate contracts				
Current liabilities: other	—	1	—	1
Deferred credits and other liabilities: other	—	5	—	4
Total Derivatives Not Designated as Hedging Instruments	341	473	391	390
Total Derivatives	\$ 341	\$ 473	\$ 391	\$ 390

The tables below show the balance sheet location of derivative contracts subject to enforceable master netting agreements and include collateral posted to offset the net position. This disclosure is intended to enable users to evaluate the effect of netting arrangements on financial position. The amounts shown were calculated by counterparty. Accounts receivable or accounts payable may also be available to offset exposures in the event of bankruptcy. These amounts are not included in the tables below.

(in millions)	Derivative Assets			
	December 31, 2014		December 31, 2013	
	Current ^(a)	Non-Current ^(b)	Current ^(e)	Non-Current ^(f)
Gross amounts recognized	\$ 204	\$ 137	\$ 186	\$ 205
Gross amounts offset	(179)	(114)	(165)	(132)
Net amounts recognized on the Consolidated Balance Sheet	\$ 25	\$ 23	\$ 21	\$ 73

(in millions)	Derivative Liabilities			
	December 31, 2014		December 31, 2013	
	Current ^(c)	Non-Current ^(d)	Current ^(g)	Non-Current ^(h)
Gross amounts recognized	\$ 257	\$ 216	\$ 199	\$ 186
Gross amounts offset	(222)	(193)	(173)	(143)
Net amounts subject to master netting	35	23	26	43
Amounts not subject to master netting	—	—	1	4
Net amounts recognized on the Consolidated Balance Sheet	\$ 35	\$ 23	\$ 27	\$ 47

(a) Included in Other and Assets Held for Sale within Current Assets on the Consolidated Balance Sheet.

(b) Included in Other and Assets held for Sale within Investments and Other Assets on the Consolidated Balance Sheet.

(c) Included in Other and Liabilities Associated with Assets Held for Sale within Current Liabilities on the Consolidated Balance Sheet.

(d) Included in Other and Liabilities Associated with Assets Held for Sale within Deferred Credits and Other Liabilities on the Consolidated Balance Sheet.

- Sheet.
- (e) Included in Other within Current Assets on the Consolidated Balance Sheet.
 - (f) Included in Other within Investments and Other Assets on the Consolidated Balance Sheet.
 - (g) Included in Other within Current Liabilities on the Consolidated Balance Sheet.
 - (h) Included in Other within Deferred Credits and Other Liabilities on the Consolidated Balance Sheet.

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The following table shows the gains and losses during the year recognized on undesignated derivatives and the line items on the Consolidated Statements of Operations and Comprehensive Income or the Consolidated Balance Sheets where the pretax gains and losses were reported. Amounts included in Regulatory Assets or Liabilities for commodity contracts are reclassified to earnings to match recovery through the fuel clause. Amounts included in Regulatory Assets or Liabilities for interest rate contracts are reclassified to earnings as interest expense over the term of the related debt.

(in millions)	Years Ended December 31,		
	2014	2013	2012
Location of Pretax Gains and (Losses) Recognized in Earnings			
Commodity contracts			
Income (Loss) from discontinued operations	(758)	(56)	78
Interest rate contracts			
Interest expense	(1)	(1)	(1)
Total Pretax (Losses) Gains Recognized in Earnings	\$ (759)	\$ (57)	\$ 77
Location of Pretax Gains and (Losses) Recognized as Regulatory Assets or Liabilities			
Commodity contracts			
Regulatory assets	\$ 1	\$ —	\$ 2
Regulatory liabilities	5	—	(1)
Interest rate contracts			
Regulatory assets	(2)	4	—
Total Pretax Gains (Losses) Recognized as Regulatory Assets or Liabilities	\$ 4	\$ 4	\$ 1

DUKE ENERGY INDIANA

The following table shows the fair value of derivatives and the line items in the Consolidated Balance Sheets where they are reported. Although derivatives subject to master netting arrangements are netted on the Consolidated Balance Sheets, the fair values presented below are shown gross and cash collateral on the derivatives has not been netted against the fair values shown.

(in millions)	December 31,			
	2014		2013	
	Asset	Liability	Asset	Liability
Derivatives Not Designated as Hedging Instruments				
Commodity contracts				
Current Assets: Other	\$ 14	\$ —	\$ 12	\$ —
Total Derivatives Not Designated as Hedging Instruments	14	—	12	—
Total Derivatives	\$ 14	\$ —	\$ 12	\$ —

The tables below show the balance sheet location of derivative contracts subject to enforceable master netting agreements and include collateral posted to offset the net position. This disclosure is intended to enable users to evaluate the effect of netting arrangements on financial position. The amounts shown were calculated by counterparty. Accounts receivable or accounts payable may also be available to offset exposures in the event of bankruptcy. These amounts are not included in the tables below.

(in millions)	Derivative Assets			
	December 31, 2014		December 31, 2013	
	Current ^(a)	Non-Current ^(b)	Current ^(a)	Non-Current ^(b)
Gross amounts recognized	\$ 14	\$ —	\$ 12	\$ —
Gross amounts offset	—	—	(1)	—
Net amounts recognized on the Consolidated Balance Sheet	\$ 14	\$ —	\$ 11	\$ —

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(in millions)	Derivative Liabilities			
	December 31, 2014		December 31, 2013	
	Current ^(c)	Non-Current ^(d)	Current ^(c)	Non-Current ^(d)
Gross amounts recognized	\$ —	\$ —	\$ —	\$ —
Gross amounts offset	—	—	—	—
Net amount subject to master netting	—	—	—	—
Amounts not subject to master netting	—	—	—	—
Net amounts recognized on the Consolidated Balance Sheet	\$ —	\$ —	\$ —	\$ —

(a) Included in Other within Current Assets on the Consolidated Balance Sheet.

(b) Included in Other within Investments and Other Assets on the Consolidated Balance Sheet.

(c) Included in Other within Current Liabilities on the Consolidated Balance Sheet.

(d) Included in Other within Deferred Credits and Other Liabilities on the Consolidated Balance Sheet.

The following table shows the gains and losses during the year recognized on cash flow hedges and the line items on the Consolidated Statements of Operations and Comprehensive Income where such gains and losses are included when reclassified from AOCI. Amounts for interest rate contracts are reclassified to earnings as interest expense over the term of the related debt.

(in millions)	Years Ended December 31,		
	2014	2013	2012
Location of Pretax Gains and (Losses) Reclassified from AOCI into Earnings			
Interest rate contracts			
Interest expense	\$ —	\$ 3	\$ 3

The following table shows the gains and losses during the year recognized on undesignated derivatives and the line items on the Consolidated Balance Sheets where the pretax gains and losses were reported. Amounts included in Regulatory Assets or Liabilities for commodity contracts are reclassified to earnings to match recovery through the fuel clause. Amounts included in Regulatory Assets or Liabilities for interest rate contracts are reclassified to earnings as interest expense over the term of the related debt.

(in millions)	Years Ended December 31,		
	2014	2013	2012
Location of Pretax Gains and (Losses) Recognized in Earnings			
Commodity contracts			
Revenue: Regulated electric	\$ —	\$ 1	\$ —
Location of Pretax Gains and (Losses) Recognized as Regulatory Assets or Liabilities			
Commodity contracts			
Regulatory assets	\$ (16)	\$ —	\$ 2
Regulatory liabilities	9	16	35
Interest rate contracts			
Regulatory assets	—	34	4
Regulatory liabilities	—	—	—
Total Pretax Gains (Losses) Recognized as Regulatory Assets or Liabilities	\$ (7)	\$ 50	\$ 41

CREDIT RISK

Certain derivative contracts contain contingent credit features. These features may include (i) material adverse change clauses or payment acceleration clauses that could result in immediate payments or (ii) the posting of letters of credit or termination of the derivative contract before maturity if specific events occur, such as a credit rating downgrade below investment grade.

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The following tables show information with respect to derivative contracts that are in a net liability position and contain objective credit-risk related payment provisions.

(in millions)	December 31, 2014					
	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio
Aggregate fair value amounts of derivative instruments in a net liability position	\$ 845	\$ 19	\$ 370	\$ 131	\$ 239	\$ 456
Fair value of collateral already posted	209	—	23	—	23	186
Additional cash collateral or letters of credit in the event credit-risk-related contingent features were triggered	407	19	347	131	216	41

(in millions)	December 31, 2013				
	Duke Energy	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio
Aggregate fair value amounts of derivative instruments in a net liability position	\$ 525	\$ 168	\$ 60	\$ 108	\$ 355
Fair value of collateral already posted	135	10	—	10	125
Additional cash collateral or letters of credit in the event credit-risk-related contingent features were triggered	205	158	60	98	47

The Duke Energy Registrants have elected to offset cash collateral and fair values of derivatives. For amounts to be netted, the derivative must be executed with the same counterparty under the same master netting agreement. Amounts disclosed below represent the receivables related to the right to reclaim cash collateral and payables related to the obligation to return cash collateral under master netting arrangements.

(in millions)	December 31,			
	2014		2013	
	Receivables	Payables	Receivables	Payables
Duke Energy				
Amounts offset against net derivative positions	\$ 145	\$ —	\$ 30	\$ —
Amounts not offset against net derivative positions	64	—	122	—
Progress Energy				
Amounts offset against net derivative positions	23	—	10	—
Duke Energy Florida				
Amounts offset against net derivative positions	23	—	10	—
Duke Energy Ohio				
Amounts offset against net derivative positions	122	—	19	—
Amounts not offset against net derivative positions	64	—	115	—
Duke Energy Indiana				
Amounts offset against net derivative positions	—	—	—	1
Amounts not offset against net derivative positions	—	—	1	—

15. INVESTMENTS IN DEBT AND EQUITY SECURITIES

The Duke Energy Registrants classify their investments in debt and equity securities as either trading or available-for-sale.

TRADING SECURITIES

Investments in debt and equity securities held in grantor trusts associated with certain deferred compensation plans and certain other investments are classified as trading securities. The fair value of these investments was \$7 million as of December 31, 2014 and \$18 million as of December 31, 2013.

AVAILABLE-FOR-SALE SECURITIES

All other investments in debt and equity securities are classified as available-for-sale securities.

Duke Energy's available-for-sale securities are primarily comprised of investments held in (i) the NDTF at Duke Energy Carolinas, Duke Energy Progress and Duke Energy Florida, (ii) grantor trusts at Duke Energy Progress, Duke Energy Florida and Duke Energy Indiana related to OPEB plans, (iii) Duke Energy's captive insurance investment portfolio, and (iv) Duke Energy's foreign operations investment portfolio.

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Duke Energy holds corporate debt securities that were purchased using excess cash from its foreign operations. These investments are either classified as Cash and cash equivalents or Short-term investments on the Consolidated Balance Sheets based on maturity date and are available for current operations of Duke Energy's foreign business. The fair value of these investments classified as Short-term investments was \$44 million as of December 31, 2013.

Duke Energy classifies all other investments in debt and equity securities as long-term, unless otherwise noted.

Investment Trusts

The investments within the NDTF at Duke Energy Carolinas, Duke Energy Progress and Duke Energy Florida and the Duke Energy Progress, Duke Energy Florida and Duke Energy Indiana grantor trusts (Investment Trusts) are managed by independent investment managers with discretion to buy, sell, and invest pursuant to the objectives set forth by the trust agreements. The Duke Energy Registrants have limited oversight of the day-to-day management of these investments. As a result, the ability to hold investments in unrealized loss positions is outside the control of the Duke Energy Registrants. Accordingly, all unrealized losses associated with debt and equity securities within the Investment Trusts are considered other-than-temporary impairments and are recognized immediately. Pursuant to regulatory accounting, realized and unrealized gains and losses associated with investments within the Investment Trusts are deferred as a regulatory asset or liability. As a result, there is no immediate impact on earnings of the Duke Energy Registrants.

Other Available-for-Sale Securities

Unrealized gains and losses on all other available-for-sale securities are included in other comprehensive income until realized, unless it is determined the carrying value of an investment is other-than-temporarily impaired. If an other-than-temporary impairment exists, the unrealized loss is included in earnings based on the criteria discussed below.

The Duke Energy Registrants analyze all investment holdings each reporting period to determine whether a decline in fair value should be considered other-than-temporary. Criteria used to evaluate whether an impairment associated with equity securities is other-than-temporary includes, but is not limited to, (i) the length of time over which the market value has been lower than the cost basis of the investment, (ii) the percentage decline compared to the cost of the investment, and (iii) management's intent and ability to retain its investment for a period of time sufficient to allow for any anticipated recovery in market value. If a decline in fair value is determined to be other-than-temporary, the investment is written down to its fair value through a charge to earnings.

If the entity does not have an intent to sell a debt security and it is not more likely than not management will be required to sell the debt security before the recovery of its cost basis, the impairment write-down to fair value would be recorded as a component of other comprehensive income, except for when it is determined a credit loss exists. In determining whether a credit loss exists, management considers, among other things, (i) the length of time and the extent to which the fair value has been less than the amortized cost basis, (ii) changes in the financial condition of the issuer of the security, or in the case of an asset backed security, the financial condition of the underlying loan obligors, (iii) consideration of underlying collateral and guarantees of amounts by government entities, (iv) ability of the issuer of the security to make scheduled interest or principal payments, and (v) any changes to the rating of the security by rating agencies. If a credit loss exists, the amount of impairment write-down to fair value is split between credit loss and other factors. The amount related to credit loss is recognized in earnings. The amount related to other factors is recognized in other comprehensive income. There were no credit losses as of December 31, 2014 and 2013. There were no other-than-temporary impairments for debt or equity securities as of December 31, 2014 and 2013.

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DUKE ENERGY

The following table presents the estimated fair value of investments in available-for-sale securities.

(in millions)	December 31, 2014			December 31, 2013		
	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
NDTF						
Cash and cash equivalents	\$ —	\$ —	\$ 136	\$ —	\$ —	\$ 110
Equity securities	1,926	29	3,650	1,813	10	3,579
Corporate debt securities	14	2	454	8	6	400
Municipal bonds	5	—	184	2	6	160
U.S. government bonds	19	2	978	7	12	730
Other debt securities	1	2	147	22	2	154
Total NDTF	1,965	35	5,549	1,852	36	5,133
Other Investments						
Cash and cash equivalents	—	—	15	—	—	21
Equity securities	34	—	96	29	—	91
Corporate debt securities	1	1	58	1	1	99
Municipal bonds	3	1	76	2	2	79
U.S. government bonds	—	—	27	—	—	17
Other debt securities	1	1	80	—	8	111
Total Other Investments^(a)	39	3	352	32	11	418
Total Investments	\$ 2,004	\$ 38	\$ 5,901	\$ 1,884	\$ 47	\$ 5,551

(a) These amounts are recorded in Other within Investments and Other Assets on the Consolidated Balance Sheets.

The table below summarizes the maturity date for debt securities.

(in millions)	December 31, 2014
Due in one year or less	178
Due after one through five years	571
Due after five through 10 years	464
Due after 10 years	791
Total	2,004

Realized gains and losses, which were determined on a specific identification basis, from sales of available-for-sale securities were as follows.

(in millions)	Years Ended December 31,		
	2014	2013	2012
Realized gains	\$ 271	\$ 209	\$ 117
Realized losses	105	65	19

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DUKE ENERGY CAROLINAS

The following table presents the estimated fair value of investments in available-for-sale securities.

(in millions)	December 31, 2014			December 31, 2013		
	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
NDTF						
Cash and cash equivalents	\$ —	\$ —	\$ 51	\$ —	\$ —	\$ 42
Equity securities	1,102	17	2,162	974	6	1,964
Corporate debt securities	8	2	316	5	5	274
Municipal bonds	1	—	62	—	2	54
U.S. government bonds	7	1	308	3	7	354
Other debt securities	1	2	133	22	2	146
Total NDTF	1,119	22	3,032	1,004	22	2,834
Other Investments						
Other debt securities	—	1	3	—	1	3
Total Other Investments^(a)	—	1	3	—	1	3
Total Investments	\$ 1,119	\$ 23	\$ 3,035	\$ 1,004	\$ 23	\$ 2,837

(a) These amounts are recorded in Other within Investments and Other Assets on the Consolidated Balance Sheets.

The table below summarizes the maturity date for debt securities.

(in millions)	December 31, 2014
Due in one year or less	\$ 1
Due after one through five years	155
Due after five through 10 years	257
Due after 10 years	409
Total	\$ 822

Realized gains and losses, which were determined on a specific identification basis, from sales of available-for-sale securities were as follows.

(in millions)	Years Ended December 31,		
	2014	2013	2012
Realized gains	\$ 109	\$ 115	\$ 89
Realized losses	93	12	6

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PROGRESS ENERGY

The following table presents the estimated fair value of investments in available-for-sale securities.

(in millions)	December 31, 2014			December 31, 2013		
	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
NDTF						
Cash and cash equivalents	\$ —	\$ —	\$ 85	\$ —	\$ —	\$ 68
Equity securities	824	12	1,488	839	4	1,615
Corporate debt securities	6	—	138	3	1	126
Municipal bonds	4	—	122	2	4	106
U.S. government bonds	12	1	670	4	5	376
Other debt securities	—	—	14	—	—	8
Total NDTF	846	13	2,517	848	14	2,299
Other Investments						
Cash and cash equivalents	—	—	15	—	—	20
Municipal bonds	3	—	43	1	—	39
Total Other Investments^(a)	3	—	58	1	—	59
Total Investments	\$ 849	\$ 13	\$ 2,575	\$ 849	\$ 14	\$ 2,358

(a) These amounts are recorded in Other within Investments and Other Assets on the Consolidated Balance Sheets.

The table below summarizes the maturity date for debt securities.

(in millions)	December 31, 2014
Due in one year or less	\$ 161
Due after one through five years	350
Due after five through 10 years	157
Due after 10 years	319
Total	\$ 987

Realized gains and losses, which were determined on a specific identification basis, from sales of available-for-sale securities were as follows.

(in millions)	Years Ended December 31,		
	2014	2013	2012
Realized gains	\$ 157	\$ 90	\$ 34
Realized losses	11	46	18

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DUKE ENERGY PROGRESS

The following table presents the estimated fair value of investments in available-for-sale securities.

(in millions)	December 31, 2014			December 31, 2013		
	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
NDTF						
Cash and cash equivalents	\$ —	\$ —	\$ 50	\$ —	\$ —	\$ 48
Equity securities	612	10	1,171	535	3	1,069
Corporate debt securities	5	—	97	3	1	80
Municipal bonds	4	—	120	2	4	104
U.S. government bonds	9	1	265	4	3	232
Other debt securities	—	—	8	—	—	5
Total NDTF	630	11	1,711	544	11	1,538
Other Investments						
Cash and cash equivalents	—	—	—	—	—	2
Total Other Investments^(a)	—	—	—	—	—	2
Total Investments	\$ 630	\$ 11	\$ 1,711	\$ 544	\$ 11	\$ 1,540

(a) These amounts are recorded in Other within Investments and Other Assets on the Consolidated Balance Sheets.

The table below summarizes the maturity date for debt securities.

(in millions)	December 31, 2014
Due in one year or less	\$ 14
Due after one through five years	140
Due after five through 10 years	109
Due after 10 years	227
Total	\$ 490

Realized gains and losses, which were determined on a specific identification basis, from sales of available-for-sale securities were as follows.

(in millions)	Years Ended December 31,		
	2014	2013	2012
Realized gains	\$ 19	\$ 58	\$ 21
Realized losses	5	26	8

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DUKE ENERGY FLORIDA

The following table presents the estimated fair value of investments in available-for-sale securities.

(in millions)	December 31, 2014			December 31, 2013		
	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
NDTF						
Cash and cash equivalents	\$ —	\$ —	\$ 35	\$ —	\$ —	\$ 20
Equity securities	212	2	317	304	1	546
Corporate debt securities	1	—	41	—	—	46
Municipal bonds	—	—	2	—	—	2
U.S. government bonds	3	—	405	—	2	144
Other debt securities	—	—	6	—	—	3
Total NDTF	216	2	806	304	3	761
Other Investments						
Cash and cash equivalents	—	—	1	—	—	3
Municipal bonds	3	—	43	1	—	39
Total Other Investments^(a)	3	—	44	1	—	42
Total Investments	\$ 219	\$ 2	\$ 850	\$ 305	\$ 3	\$ 803

(a) These amounts are recorded in Other within Investments and Other Assets on the Consolidated Balance Sheets.

The table below summarizes the maturity date for debt securities.

(in millions)	December 31, 2014
Due in one year or less	\$ 147
Due after one through five years	210
Due after five through 10 years	48
Due after 10 years	92
Total	\$ 497

Realized gains and losses, which were determined on a specific identification basis, from sales of available-for-sale securities were as follows.

(in millions)	Years Ended December 31,		
	2014	2013	2012
Realized gains	\$ 138	\$ 32	\$ 13
Realized losses	5	20	9

DUKE ENERGY INDIANA

The following table presents the estimated fair value of investments in available-for-sale securities.

(in millions)	December 31, 2014			December 31, 2013		
	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
Other Investments						
Cash and cash equivalents	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 1
Equity securities	28	—	71	24	—	65
Municipal bonds	—	1	30	—	1	28

Total Other Investments ^(a)		28		1		101		24		1		94
Total Investments	\$	28	\$	1	\$	101	\$	24	\$	1	\$	94

(a) These amounts are recorded in Other within Investments and Other Assets on the Consolidated Balance Sheets.

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The table below summarizes the maturity date for debt securities.

(in millions)	December 31, 2014
Due in one year or less	\$ 1
Due after one through five years	17
Due after five through 10 years	8
Due after 10 years	4
Total	\$ 30

Realized gains and losses, which were determined on a specific identification basis, from sales of available-for-sale securities were insignificant for the years ended December 31, 2014, 2013 and 2012.

16. FAIR VALUE MEASUREMENTS

Fair value is the exchange price to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. The fair value definition focuses on an exit price versus the acquisition cost. Fair value measurements use market data or assumptions market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs may be readily observable, corroborated by market data, or generally unobservable. Valuation techniques maximize the use of observable inputs and minimize use of unobservable inputs. A midmarket pricing convention (the midpoint price between bid and ask prices) is permitted for use as a practical expedient.

Fair value measurements are classified in three levels based on the fair value hierarchy:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity can access at the measurement date. An active market is one in which transactions for an asset or liability occur with sufficient frequency and volume to provide ongoing pricing information.

Level 2 – A fair value measurement utilizing inputs other than quoted prices included in Level 1 that are observable, either directly or indirectly, for an asset or liability. Inputs include (i) quoted prices for similar assets or liabilities in active markets, (ii) quoted prices for identical or similar assets or liabilities in markets that are not active, (iii) and inputs other than quoted market prices that are observable for the asset or liability, such as interest rate curves and yield curves observable at commonly quoted intervals, volatilities and credit spreads. A Level 2 measurement cannot have more than an insignificant portion of its valuation based on unobservable inputs. Instruments in this category include non-exchange-traded derivatives, such as over-the-counter forwards, swaps and options; certain marketable debt securities; and financial instruments traded in less than active markets.

Level 3 – Any fair value measurement which includes unobservable inputs for more than an insignificant portion of the valuation. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value. Level 3 measurements may include longer-term instruments that extend into periods in which observable inputs are not available.

The fair value accounting guidance permits entities to elect to measure certain financial instruments that are not required to be accounted for at fair value, such as equity method investments or the company's own debt, at fair value. The Duke Energy Registrants have not elected to record any of these items at fair value.

Transfers between levels represent assets or liabilities that were previously (i) categorized at a higher level for which the inputs to the estimate became less observable or (ii) classified at a lower level for which the inputs became more observable during the period. The Duke Energy Registrant's policy is to recognize transfers between levels of the fair value hierarchy at the end of the period. There were no transfers between Levels 1 and 2 during the years ended December 31, 2014, 2013 and 2012. Transfers out of Level 3 during the year ended December 31, 2014 are the result of forward commodity prices becoming observable due to the passage of time.

Valuation methods of the primary fair value measurements disclosed below are as follows.

Investments in equity securities

The majority of investments in equity securities are valued using Level 1 measurements. Investments in equity securities are typically valued at the closing price in the principal active market as of the last business day of the quarter. Principal active markets for equity prices include published exchanges such as NASDAQ and New York Stock Exchange (NYSE). Foreign equity prices are translated from their trading currency using the currency exchange rate in effect at the close of the principal active market. There was no after-hours market activity that was required to be reflected in the reported fair value measurements. Investments in equity securities that are Level 2 or 3 are typically ownership interests in commingled investment funds.

Investments in debt securities

Most investments in debt securities are valued using Level 2 measurements because the valuations use interest rate curves and credit spreads applied to the terms of the debt instrument (maturity and coupon interest rate) and consider the counterparty credit rating. If the market for a particular fixed income security is relatively inactive or illiquid, the measurement is Level 3.

Commodity derivatives

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Commodity derivatives with clearinghouses are classified as Level 1. Other commodity derivatives are primarily fair valued using internally developed discounted cash flow models which incorporate forward price, adjustments for liquidity (bid-ask spread) and credit or non-performance risk (after reflecting credit enhancements such as collateral), and are discounted to present value. Pricing inputs are derived from published exchange transaction prices and other observable data sources. In the absence of an active market, the last available price may be used. If forward price curves are not observable for the full term of the contract and the unobservable period had more than an insignificant impact on the valuation, the commodity derivative is classified as Level 3. In isolation, increases (decreases) in natural gas forward prices result in favorable (unfavorable) fair value adjustments for gas purchase contracts; and increases (decreases) in electricity forward prices result in unfavorable (favorable) fair value adjustments for electricity sales contracts. Duke Energy regularly evaluates and validates pricing inputs used to estimate fair value of gas commodity contracts by a market participant price verification procedure. This procedure provides a comparison of internal forward commodity curves to market participant generated curves.

Interest rate derivatives

Most over-the-counter interest rate contract derivatives are valued using financial models which utilize observable inputs for similar instruments and are classified as Level 2. Inputs include forward interest rate curves, notional amounts, interest rates and credit quality of the counterparties.

Goodwill and Long-Lived Assets and Assets Held for Sale

See Note 11 for a discussion of the valuation of goodwill and long-lived assets and Note 2 related to the assets and related liabilities of the Disposal Group classified as held for sale.

DUKE ENERGY

The following tables provide recorded balances for assets and liabilities measured at fair value on a recurring basis on the Consolidated Balance Sheets. Derivative amounts in the table below exclude cash collateral which is disclosed in Note 14. See Note 15 for additional information related to investments by major security type.

(in millions)	December 31, 2014			
	Total Fair Value	Level 1	Level 2	Level 3
Nuclear decommissioning trust fund equity securities	\$ 3,650	\$ 3,493	\$ 6	\$ 151
Nuclear decommissioning trust fund debt securities	1,899	648	1,251	—
Other trading and available-for-sale equity securities	96	96	—	—
Other trading and available-for-sale debt securities	263	41	217	5
Derivative assets	110	49	24	37
Total assets	6,018	4,327	1,498	193
Derivative liabilities	(668)	(162)	(468)	(38)
Net assets	\$ 5,350	\$ 4,165	\$ 1,030	\$ 155

(in millions)	December 31, 2013			
	Total Fair Value	Level 1	Level 2	Level 3
Nuclear decommissioning trust fund equity securities	\$ 3,579	\$ 3,495	\$ 57	\$ 27
Nuclear decommissioning trust fund debt securities	1,553	402	1,100	51
Other trading and available-for-sale equity securities	102	91	11	—
Other trading and available-for-sale debt securities	333	36	277	20
Derivative assets	145	33	70	42
Total assets	5,712	4,057	1,515	140
Derivative liabilities	(321)	11	(303)	(29)
Net assets	\$ 5,391	\$ 4,068	\$ 1,212	\$ 111

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The following tables provide reconciliations of beginning and ending balances of assets and liabilities measured at fair value using Level 3 measurements. Amounts included in earnings for derivatives are primarily included in Operating Revenues.

(in millions)	December 31, 2014		
	Investments	Derivatives (net)	Total
Balance at beginning of period	\$ 98	\$ 13	\$ 111
Total pretax realized or unrealized gains (losses) included in earnings	—	(7)	(7)
Purchases, sales, issuances and settlements:			
Purchases	34	50	84
Sales	(58)	—	(58)
Settlements	—	(54)	(54)
Transfers into Level 3	68	6	74
Total gains included on the Consolidated Balance Sheet as regulatory assets or liabilities	14	(9)	5
Balance at end of period	\$ 156	\$ (1)	\$ 155
Pretax amounts included in the Consolidated Statements of Comprehensive Income related to Level 3 measurements outstanding	\$ —	\$ (14)	\$ (14)

(in millions)	December 31, 2013		
	Investments	Derivatives (net)	Total
Balance at beginning of period	\$ 98	\$ (85)	\$ 13
Total pretax realized or unrealized gains (losses) included in earnings	—	(42)	(42)
Purchases, sales, issuances and settlements:			
Purchases	9	21	30
Sales	(6)	—	(6)
Issuances	—	11	11
Settlements	(9)	25	16
Transfers into Level 3	—	86	86
Total gains included on the Consolidated Balance Sheet as regulatory assets or liabilities	6	(3)	3
Balance at end of period	\$ 98	\$ 13	\$ 111

(in millions)	December 31, 2012		
	Investments	Derivatives (net)	Total
Balance at beginning of period	\$ 124	\$ (39)	\$ 85
Amounts acquired in Progress Energy Merger	—	(30)	(30)
Total pretax realized or unrealized gains (losses) included in earnings	—	8	8
Total pretax gains included in other comprehensive income	13	—	13
Purchases, sales, issuances and settlements:			
Purchases	14	22	36
Sales	(2)	—	(2)
Issuances	—	(15)	(15)
Settlements	(55)	(32)	(87)
Total gains included on the Consolidated Balance Sheet as regulatory assets or liabilities	4	1	5
Balance at end of period	\$ 98	\$ (85)	\$ 13

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DUKE ENERGY CAROLINAS

The following tables provide recorded balances for assets and liabilities measured at fair value on a recurring basis on the Consolidated Balance Sheets. Derivative amounts in the table below exclude cash collateral, which is disclosed in Note 14. See Note 15 for additional information related to investments by major security type.

(in millions)	December 31, 2014			
	Total Fair Value	Level 1	Level 2	Level 3
Nuclear decommissioning trust fund equity securities	\$ 2,162	\$ 2,005	\$ 6	\$ 151
Nuclear decommissioning trust fund debt securities	870	138	732	—
Other trading and available-for-sale debt securities	3	—	—	3
Total assets	3,035	2,143	738	154
Derivative liabilities	(19)	—	(19)	—
Net assets	\$ 3,016	\$ 2,143	\$ 719	\$ 154

(in millions)	December 31, 2013			
	Total Fair Value	Level 1	Level 2	Level 3
Nuclear decommissioning trust fund equity securities	\$ 1,964	\$ 1,879	\$ 58	\$ 27
Nuclear decommissioning trust fund debt securities	870	168	651	51
Other trading and available-for-sale debt securities	3	—	—	3
Total assets	2,837	2,047	709	81
Derivative liabilities	(2)	—	—	(2)
Net assets	\$ 2,835	\$ 2,047	\$ 709	\$ 79

The following tables provide a reconciliation of beginning and ending balances of assets and liabilities measured at fair value using Level 3 measurements.

(in millions)	December 31, 2014		
	Investments	Derivatives (net)	Total
Balance at beginning of period	\$ 81	\$ (2)	\$ 79
Purchases, sales, issuances and settlements:			
Purchases	34	—	34
Sales	(43)	—	(43)
Settlements	—	2	2
Transfers into Level 3	68	—	68
Total gains included on the Consolidated Balance Sheet as regulatory assets or liabilities	14	—	14
Balance at end of period	\$ 154	\$ —	\$ 154

(in millions)	December 31, 2013		
	Investments	Derivatives (net)	Total
Balance at beginning of period	\$ 72	\$ (12)	\$ 60
Purchases, sales, issuances and settlements:			
Purchases	9	—	9
Issuances	(6)	—	(6)
Settlements	—	10	10
Total gains included on the Consolidated Balance Sheet as regulatory assets or liabilities	6	—	6
Balance at end of period	\$ 81	\$ (2)	\$ 79

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(in millions)	December 31, 2012		
	Investments	Derivatives (net)	Total
Balance at beginning of period	\$ 65	\$ —	\$ 65
Total pretax gains included in other comprehensive income	2	—	2
Purchases, sales, issuances and settlements:			
Purchases	14	—	14
Sales	—	(14)	(14)
Issuances	(2)	—	(2)
Settlements	(11)	2	(9)
Total gains included on the Consolidated Balance Sheet as regulatory assets or liabilities	4	—	4
Balance at end of period	\$ 72	\$ (12)	\$ 60

PROGRESS ENERGY

The following tables provide recorded balances for assets and liabilities measured at fair value on a recurring basis end on the Consolidated Balance Sheets. Derivative amounts in the table below exclude cash collateral, which is disclosed in Note 14. See Note 15 for additional information related to investments by major security type.

(in millions)	December 31, 2014			
	Total Fair Value	Level 1	Level 2	Level 3
Nuclear decommissioning trust fund equity securities	\$ 1,488	\$ 1,488	\$ —	\$ —
Nuclear decommissioning trust fund debt securities	1,029	510	519	—
Other trading and available-for-sale debt securities	58	15	43	—
Derivative assets	4	—	4	—
Total assets	2,579	2,013	566	—
Derivative liabilities	(373)	—	(373)	—
Net assets	\$ 2,206	\$ 2,013	\$ 193	\$ —

(in millions)	December 31, 2013			
	Total Fair Value	Level 1	Level 2	Level 3
Nuclear decommissioning trust fund equity securities	\$ 1,615	\$ 1,615	\$ —	\$ —
Nuclear decommissioning trust fund debt securities	677	233	444	—
Other trading and available-for-sale debt securities	58	19	39	—
Derivative assets	3	—	3	—
Total assets	2,353	1,867	486	—
Derivative liabilities	(187)	—	(187)	—
Net assets	\$ 2,166	\$ 1,867	\$ 299	\$ —

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The following table provides a reconciliation of beginning and ending balances of assets and liabilities measured at fair value using Level 3 measurements.

(in millions)	Derivatives (net)		
	Years Ended December 31,		
	2014	2013	2012
Balance at beginning of period	\$ —	\$ (38)	\$ (24)
Total pretax realized or unrealized gains included in earnings	—	—	1
Purchases, sales, issuances and settlements:			
Issuances	—	10	(16)
Settlements	—	—	4
Transfers into Level 3	—	34	—
Total losses included on the Consolidated Balance Sheet as regulatory assets or liabilities	—	(6)	(3)
Balance at end of period	\$ —	\$ —	\$ (38)

DUKE ENERGY PROGRESS

The following tables provide recorded balances for assets and liabilities measured at fair value on a recurring basis on the Consolidated Balance Sheets. Derivative amounts in the table below exclude cash collateral which is disclosed in Note 14. See Note 15 for additional information related to investments by major security type.

(in millions)	December 31, 2014			
	Total Fair Value	Level 1	Level 2	Level 3
Nuclear decommissioning trust fund equity securities	\$ 1,171	\$ 1,171	\$ —	\$ —
Nuclear decommissioning trust fund debt securities and other	540	151	389	—
Total assets	1,711	1,322	389	—
Derivative liabilities	(132)	—	(132)	—
Net assets	\$ 1,579	\$ 1,322	\$ 257	\$ —

(in millions)	December 31, 2013			
	Total Fair Value	Level 1	Level 2	Level 3
Nuclear decommissioning trust fund equity securities	\$ 1,069	\$ 1,069	\$ —	\$ —
Nuclear decommissioning trust fund debt securities and other	470	137	333	—
Other trading and available-for-sale debt securities and other	3	3	—	—
Derivative assets	1	—	1	—
Total assets	1,543	1,209	334	—
Derivative liabilities	(66)	—	(66)	—
Net assets	\$ 1,477	\$ 1,209	\$ 268	\$ —

The following table provides a reconciliation of beginning and ending balances of assets and liabilities measured at fair value using Level 3 measurements.

(in millions)	Derivatives (net)		
	Years Ended December 31,		
	2014	2013	2012
Balance at beginning of period	\$ —	\$ (38)	\$ (24)
Total pretax realized or unrealized gains included in earnings	—	—	1
Purchases, sales, issuances and settlements:			
Issuances	—	10	(16)
Settlements	—	—	4

Transfers into Level 3		—		34		—
Total losses included on the Consolidated Balance Sheet as regulatory assets or liabilities		—		(6)		(3)
Balance at end of period	\$	—	\$	—	\$	(38)

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DUKE ENERGY FLORIDA

The following tables provide recorded balances for assets and liabilities measured at fair value on a recurring basis on the Consolidated Balance Sheets. Derivative amounts in the table below exclude cash collateral which is disclosed in Note 14. See Note 15 for additional information related to investments by major security type.

(in millions)	December 31, 2014			
	Total Fair Value	Level 1	Level 2	Level 3
Nuclear decommissioning trust fund equity securities	\$ 317	\$ 317	\$ —	\$ —
Nuclear decommissioning trust fund debt securities and other	489	359	130	—
Other trading and available-for-sale debt securities and other	44	—	44	—
Derivative assets	4	—	4	—
Total assets	854	676	178	—
Derivative liabilities	(241)	—	(241)	—
Net assets (liabilities)	\$ 613	\$ 676	\$ (63)	\$ —

(in millions)	December 31, 2013			
	Total Fair Value	Level 1	Level 2	Level 3
Nuclear decommissioning trust fund equity securities	\$ 546	\$ 546	\$ —	\$ —
Nuclear decommissioning trust fund debt securities and other	214	96	118	—
Other trading and available-for-sale debt securities and other	40	2	38	—
Derivative assets	1	—	1	—
Total assets	801	644	157	—
Derivative liabilities	(116)	—	(116)	—
Net assets	\$ 685	\$ 644	\$ 41	\$ —

DUKE ENERGY OHIO

The following tables provide recorded balances for assets and liabilities measured at fair value on a recurring basis on the Consolidated Balance Sheets. Derivative amounts in the table below exclude cash collateral, which are disclosed in Note 14.

(in millions)	December 31, 2014			
	Total Fair Value	Level 1	Level 2	Level 3
Derivative assets	\$ 49	\$ 20	\$ 9	\$ 20
Derivative liabilities	(181)	(117)	(26)	(38)
Net assets (liabilities)	\$ (132)	\$ (97)	\$ (17)	\$ (18)

(in millions)	December 31, 2013			
	Total Fair Value	Level 1	Level 2	Level 3
Derivative assets	\$ 96	\$ 50	\$ 21	\$ 25
Derivative liabilities	(95)	(1)	(65)	(29)
Net assets (liabilities)	\$ 1	\$ 49	\$ (44)	\$ (4)

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The following table provides a reconciliation of beginning and ending balances of assets and liabilities measured at fair value using Level 3 measurements.

(in millions)	Derivatives (net)		
	Years Ended December 31,		
	2014	2013	2012
Balance at beginning of period	\$ (4)	\$ (6)	\$ (3)
Total pretax realized or unrealized gains included in earnings	(9)	(42)	(3)
Purchases, sales, issuances and settlements:			
Purchases	1	1	—
Settlements	(13)	—	1
Transfers into Level 3	6	43	—
Total losses included on the Consolidated Balance Sheet as regulatory assets or liabilities	1	—	(1)
Balance at end of period	\$ (18)	\$ (4)	\$ (6)

DUKE ENERGY INDIANA

The following tables provide recorded balances for assets and liabilities measured at fair value on a recurring basis on the Consolidated Balance Sheets. Derivative amounts in the table below exclude cash collateral, which is disclosed in Note 14. See Note 15 for additional information related to investments by major security type.

(in millions)	December 31, 2014			
	Total Fair Value	Level 1	Level 2	Level 3
Available-for-sale equity securities	\$ 71	\$ 71	\$ —	\$ —
Available-for-sale debt securities	30	—	30	—
Derivative assets	14	—	—	14
Net assets (liabilities)	\$ 115	\$ 71	\$ 30	\$ 14

(in millions)	December 31, 2013			
	Total Fair Value	Level 1	Level 2	Level 3
Available-for-sale equity securities	\$ 65	\$ 65	\$ —	\$ —
Available-for-sale debt securities	29	—	29	—
Derivative assets	12	—	—	12
Net assets (liabilities)	\$ 106	\$ 65	\$ 29	\$ 12

The following table provides a reconciliation of beginning and ending balances of assets and liabilities measured at fair value using Level 3 measurements.

(in millions)	Derivatives (net)		
	Years Ended December 31,		
	2014	2013	2012
Balance at beginning of period	\$ 12	\$ 10	\$ 4
Total pretax realized or unrealized gains included in earnings	3	8	36
Purchases, sales, issuances and settlements:			
Purchases	49	20	—
Issuances	—	—	22
Settlements	(41)	(30)	(52)
Total losses included on the Consolidated Balance Sheet as regulatory assets or liabilities	(9)	4	—
Balance at end of period	\$ 14	\$ 12	\$ 10

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QUANTITATIVE INFORMATION ABOUT UNOBSERVABLE INPUTS

The following table includes quantitative information about the Duke Energy Registrants' derivatives classified as Level 3.

December 31, 2014				
Investment Type	Fair Value (in millions)	Valuation Technique	Unobservable Input	Range
Duke Energy				
Natural gas contracts	\$ (5)	Discounted cash flow	Forward natural gas curves - price per Million British Thermal Unit (MMBtu)	\$ 2.12 - 4.35
Financial transmission rights (FTRs)	14	RTO auction pricing	FTR price - per Megawatt-Hour (MWh)	(1.92) - 9.86
Electricity contracts	(1)	Discounted cash flow	Forward electricity curves - price per MWh	25.16 - 51.75
Commodity capacity option contracts	2	Discounted cash flow	Forward capacity option curves - price per MW day	21.00 - 109.00
Reserves	(11)		Bid-ask spreads, implied volatility, probability of default	
Total Level 3 derivatives	\$ (1)			
Duke Energy Ohio				
Electricity contracts	\$ (6)	Discounted cash flow	Forward electricity curves - price per MWh	\$ 25.25 - 51.75
Natural gas contracts	(5)	Discounted cash flow	Forward natural gas curves - price per MMBtu	2.12 - 4.35
Reserves	(7)		Bid-ask spreads, implied volatility, probability of default	
Total Level 3 derivatives	\$ (18)			
Duke Energy Indiana				
FTRs	\$ 14	RTO auction pricing	FTR price - per MWh	\$ (1.92) - 9.86
December 31, 2013				
Investment Type	Fair Value (in millions)	Valuation Technique	Unobservable Input	Range
Duke Energy				
Natural gas contracts	\$ (2)	Discounted cash flow	Forward natural gas curves - price per MMBtu	\$ 3.07 - 5.37
FERC mitigation power sale agreements	(2)	Discounted cash flow	Forward electricity curves - price per MWh	25.79 - 52.38
FTRs	12	RTO auction pricing	FTR price - per MWh	(0.30) - 13.80
Electricity contracts	23	Discounted cash flow	Forward electricity curves - price per MWh	20.77 - 58.90
Commodity capacity option contracts	4	Discounted cash flow	Forward capacity option curves - price per MW day	30.40 - 165.10
Reserves	(22)		Bid-ask spreads, implied volatility, probability of default	
Total Level 3 derivatives	\$ 13			
Duke Energy Carolinas				
FERC mitigation power sale agreements	\$ (2)	Discounted cash flow	Forward electricity curves - price per MWh	\$ 25.79 - 52.38
Duke Energy Ohio				
Electricity contracts	\$ 18	Discounted cash flow	Forward electricity curves - price per MWh	\$ 20.77 - 58.90
Natural gas contracts	(2)	Discounted cash flow	Forward natural gas curves - price per MMBtu	3.07 - 5.37
Reserves	(20)		Bid-ask spreads, implied volatility, probability of default	
Total Level 3 derivatives	\$ (4)			
Duke Energy Indiana				
FTRs	\$ 12	RTO auction pricing	FTR price - per MWh	\$ (0.30) - 13.80

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OTHER FAIR VALUE DISCLOSURES

The fair value and book value of long-term debt, including current maturities, is summarized in the following table. Estimates determined are not necessarily indicative of amounts that could have been settled in current markets. Fair value of long-term debt uses Level 2 measurements.

(in millions)	December 31, 2014		December 31, 2013	
	Book Value	Fair Value	Book Value	Fair Value
Duke Energy	\$ 40,020	\$ 44,566	\$ 40,256	\$ 42,592
Duke Energy Carolinas	8,391	9,626	8,436	9,123
Progress Energy	14,754	16,951	14,115	15,234
Duke Energy Progress	6,201	6,696	5,235	5,323
Duke Energy Florida	4,860	5,767	4,886	5,408
Duke Energy Ohio	1,766	1,970	2,188	2,237
Duke Energy Indiana	3,791	4,456	3,796	4,171

At both December 31, 2014 and December 31, 2013, fair value of cash and cash equivalents, accounts and notes receivable, accounts payable, notes payable and commercial paper, and non-recourse notes payable of variable interest entities are not materially different from their carrying amounts because of the short-term nature of these instruments and/or because the stated rates approximate market rates.

17. VARIABLE INTEREST ENTITIES

A VIE is an entity that is evaluated for consolidation using more than a simple analysis of voting control. The analysis to determine whether an entity is a VIE considers contracts with an entity, credit support for an entity, the adequacy of the equity investment of an entity, and the relationship of voting power to the amount of equity invested in an entity. This analysis is performed either upon the creation of a legal entity or upon the occurrence of an event requiring reevaluation, such as a significant change in an entity's assets or activities. A qualitative analysis of control determines the party that consolidates a VIE. This assessment is based on (i) what party has the power to direct the most significant activities of the VIE that impact its economic performance, and (ii) what party has rights to receive benefits or is obligated to absorb losses that are significant to the VIE. The analysis of the party that consolidates a VIE is a continual reassessment.

No financial support was provided to any of the consolidated VIEs during the years ended December 31, 2014, 2013 and 2012, or is expected to be provided in the future, that was not previously contractually required.

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CONSOLIDATED VIEs

The following tables summarize the impact of VIEs consolidated by Duke Energy and the Subsidiary Registrants on the Consolidated Balance Sheets.

	December 31, 2014						
	Duke Energy						
	Duke Energy Carolinas	Duke Energy Progress	Duke Energy Florida				
(in millions)	DERF	DEPR ^(c)	DEFR ^(c)	CRC	Renewables	Other	Total
ASSETS							
Current Assets							
Restricted receivables of variable interest entities (net of allowance for doubtful accounts)	\$ 647	\$ 436	\$ 305	\$ 547	\$ 20	\$ 18	\$ 1,973
Other	—	—	—	—	68	6	74
Investments and Other Assets							
Other	—	—	—	—	25	25	50
Property, Plant and Equipment							
Property, plant and equipment, cost ^(a)	—	—	—	—	1,855	18	1,873
Accumulated depreciation and amortization	—	—	—	—	(250)	(5)	(255)
Regulatory Assets and Deferred Debits							
Other	—	—	—	—	34	2	36
Total assets	\$ 647	\$ 436	\$ 305	\$ 547	\$ 1,752	\$ 64	\$ 3,751
LIABILITIES AND EQUITY							
Current Liabilities							
Accounts payable	—	—	—	—	3	—	3
Taxes accrued	—	—	—	—	6	—	6
Current maturities of long-term debt	—	—	—	—	68	16	84
Other	—	—	—	—	16	5	21
Long-Term Debt ^(b)	400	300	225	325	967	17	2,234
Deferred Credits and Other Liabilities							
Deferred income taxes	—	—	—	—	283	—	283
Asset retirement obligations	—	—	—	—	29	—	29
Other	—	—	—	—	34	4	38
Total liabilities	\$ 400	\$ 300	\$ 225	\$ 325	\$ 1,406	\$ 42	\$ 2,698
Net assets of consolidated variable interest entities	\$ 247	\$ 136	\$ 80	\$ 222	\$ 346	\$ 22	\$ 1,053

(a) Restricted as collateral for non-recourse debt of VIEs.

(b) Non-recourse to the general assets of the applicable registrant.

(c) The amount for Progress Energy is equal to the amount for Duke Energy Progress Receivables Company, LLC (DEPR) and Duke Energy Florida Receivables Company, LLC (DEFR).

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	December 31, 2013						
	Duke Energy						
	Duke Energy Carolinas	Duke Energy Progress					
(in millions)	DERF	DEPR ^(c)	CRC	Renewables	Other	Total	
ASSETS							
Current Assets							
Restricted receivables of variable interest entities (net of allowance for doubtful accounts)	\$ 673	\$ 416	\$ 595	\$ 18	\$ 17	\$ 1,719	
Other	—	—	—	89	12	101	
Investments and Other Assets							
Other	—	—	—	29	51	80	
Property, Plant and Equipment							
Property, plant and equipment, cost ^(a)	—	—	—	1,662	18	1,680	
Accumulated depreciation and amortization	—	—	—	(170)	(5)	(175)	
Regulatory Assets and Deferred Debits							
Other	1	1	—	34	—	36	
Total assets	\$ 674	\$ 417	\$ 595	\$ 1,662	\$ 93	\$ 3,441	
LIABILITIES AND EQUITY							
Current Liabilities							
Accounts payable	—	—	—	2	—	2	
Taxes accrued	—	—	—	10	—	10	
Current maturities of long-term debt	—	—	—	66	14	80	
Other	—	—	—	17	10	27	
Long-Term Debt^(b)	400	300	325	907	34	1,966	
Deferred Credits and Other Liabilities							
Deferred income taxes	—	—	—	290	—	290	
Asset retirement obligations	—	—	—	26	—	26	
Other	1	—	—	17	13	31	
Total liabilities	\$ 401	\$ 300	\$ 325	\$ 1,335	\$ 71	\$ 2,432	
Net assets of consolidated variable interest entities	\$ 273	\$ 117	\$ 270	\$ 327	\$ 22	\$ 1,009	

(a) Restricted as collateral for non-recourse debt of VIEs.

(b) Non-recourse to the general assets of the applicable registrant.

(c) The amount Progress Energy is equal to the amount for DEPR.

The obligations of these VIEs are non-recourse to Duke Energy, Duke Energy Carolinas, Duke Energy Progress and Duke Energy Florida. These entities have no requirement to provide liquidity to, purchase assets of, or guarantee performance of these VIEs unless noted in the following paragraphs.

DERF / DEPR / DEFR

Duke Energy Receivables Finance Company, LLC (DERF), DEPR, and DEFR are bankruptcy remote, special purpose subsidiaries of Duke Energy Carolinas, Duke Energy Progress, and Duke Energy Florida, respectively. On a daily basis, DERF, DEPR, and DEFR buy certain accounts receivable arising from the sale of electricity and/or related services from their parent companies. DERF, DEPR, and DEFR are wholly owned limited liability companies with separate legal existence from their parents, and their assets are not generally available to creditors of their parent companies. DERF, DEPR, and DEFR borrow amounts under credit facilities to buy the receivables. Borrowing availability is limited to the amount of qualified receivables sold, which is generally expected to be in excess of the credit facilities. The credit facilities are reflected on the Consolidated Balance Sheets as Long-Term Debt. The secured credit facilities were not structured to meet the criteria for sale accounting treatment under the accounting guidance for transfers and servicing of financial assets.

The most significant activity that impacts the economic performance of DERF, DEPR, and DEFR are the decisions made to manage delinquent receivables. Duke Energy Carolinas, Duke Energy Progress, and Duke Energy Florida consolidate DERF, DEPR, and DEFR, respectively, as they make those decisions.

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The following table outlines amounts and expiration dates of the credit facilities.

		DERF		DEPR		DEFR
Credit facility amount (in millions)	\$	400	\$	300	\$	225
Expiration date		October 2016		December 2016		March 2017

CRC

On a revolving basis, CRC buys certain accounts receivable arising from the sale of electricity and/or related services from Duke Energy Ohio and Duke Energy Indiana. Receivables sold are securitized by CRC through a credit facility managed by two unrelated third parties. The proceeds Duke Energy Ohio and Duke Energy Indiana receive from the sale of receivables to CRC are typically 75 percent cash and 25 percent in the form of a subordinated note from CRC. The subordinated note is a retained interest in the receivables sold. Cash collections from the receivables are the sole source of funds to satisfy the related debt obligation. Depending on experience with collections, additional equity infusions to CRC may be required by Duke Energy to maintain a minimum equity balance of \$3 million. There were no infusions to CRC during the years ended December 31, 2014 and 2013. Borrowing availability is limited to the amount of qualified receivables sold, which is generally expected to be in excess of the credit facility. The credit facility expires in November 2016 and is reflected on the Consolidated Balance Sheets as Long-Term Debt.

CRC is considered a VIE because (i) equity capitalization is insufficient to support its operations, (ii) power to direct the most significant activities that impact economic performance of the entity are not performed by the equity holder, Cinergy, and (iii) deficiencies in net worth of CRC are not funded by Cinergy, but by Duke Energy. The most significant activity of CRC relates to the decisions made with respect to the management of delinquent receivables. Duke Energy consolidates CRC as it makes these decisions. Neither Duke Energy Ohio nor Duke Energy Indiana consolidate CRC.

Renewables

Certain of Duke Energy's renewable energy facilities are VIEs due to long-term fixed price power purchase agreements. These fixed price agreements effectively transfer commodity price risk to the buyer of the power. Certain other of Duke Energy's renewable energy facilities are VIEs due to Duke Energy issuing guarantees for debt service and operations and maintenance reserves in support of debt financings. For certain VIEs, assets are restricted and cannot be pledged as collateral or sold to third parties without prior approval of debt holders. The most significant activities that impact the economic performance of these renewable energy facilities were decisions associated with siting, negotiating purchase power agreements, engineering, procurement and construction, and decisions associated with ongoing operations and maintenance-related activities. Duke Energy consolidates the entities as it makes all of these decisions.

NON-CONSOLIDATED VIEs

The tables below show VIEs not consolidated and how these entities impact the Consolidated Balance Sheets.

(in millions)	December 31, 2014					
	Duke Energy			Duke Energy Ohio	Duke Energy Indiana	
	Renewables	Other	Total			
Receivables	\$ —	\$ —	\$ —	\$ 91	\$ 113	
Investments in equity method unconsolidated affiliates	150	38	188	—	—	
Investments and other assets	—	4	4	—	—	
Total assets ^(a)	\$ 150	\$ 42	\$ 192	\$ 91	\$ 113	
Other current liabilities	—	3	3	—	—	
Deferred credits and other liabilities	—	14	14	—	—	
Total liabilities	\$ —	\$ 17	\$ 17	\$ —	\$ —	
Net assets (liabilities)	\$ 150	\$ 25	\$ 175	\$ 91	\$ 113	

(a) Duke Energy Ohio recorded a pretax impairment charge of \$94 million related to OVEC.

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(in millions)	December 31, 2013					
	Duke Energy			Duke Energy Ohio	Duke Energy Indiana	
	Renewables	Other	Total			
Receivables	\$ —	\$ —	\$ —	\$ 114	\$ 143	
Investments in equity method unconsolidated affiliates	153	60	213	—	—	
Intangibles	—	96	96	96	—	
Investments and other assets	—	4	4	—	—	
Total assets	\$ 153	\$ 160	\$ 313	\$ 210	\$ 143	
Other current liabilities	—	3	3	—	—	
Deferred credits and other liabilities	—	15	15	—	—	
Total liabilities	\$ —	\$ 18	\$ 18	\$ —	\$ —	
Net assets	\$ 153	\$ 142	\$ 295	\$ 210	\$ 143	

The Duke Energy Registrants are not aware of any situations where the maximum exposure to loss significantly exceeds the carrying values shown above except for the power purchase agreement with OVEC, which is discussed below, and various guarantees, some of which are reflected in the table above as Deferred credits and other liabilities. For more information on various guarantees, refer to Note 7, "Guarantees and Indemnifications."

Renewables

Duke Energy has investments in various renewable energy project entities. Some of these entities are VIEs due to long-term fixed price power purchase agreements. These fixed price agreements effectively transfer commodity price risk to the buyer of the power. Duke Energy does not consolidate these VIEs because power to direct and control key activities is shared jointly by Duke Energy and other owners.

Other

At December 31, 2013, the most significant of the Other non-consolidated VIEs was Duke Energy Ohio's 9 percent ownership interest in OVEC. Through its ownership interest in OVEC, Duke Energy Ohio has a contractual arrangement to buy power from OVEC's power plants through June 2040. The initial carrying value of this contract was recorded as an intangible asset when Duke Energy acquired Cinergy in April 2006. Proceeds from the sale of power by OVEC to its power purchase agreement counterparties are designed to be sufficient to meet its operating expenses, fixed costs, debt amortization and interest expense, as well as earn a return on equity. Accordingly, the value of this contract is subject to variability due to fluctuations in power prices and changes in OVEC's costs of business, including costs associated with its 2,256 MW of coal-fired generation capacity. Proposed environmental rulemaking could increase the costs of OVEC, which would be passed through to Duke Energy Ohio. In 2014, Duke Energy recorded a \$94 million impairment related to OVEC.

CRC

See discussion under Consolidated VIEs for additional information related to CRC.

Amounts included in Receivables in the above table for Duke Energy Ohio and Duke Energy Indiana reflect their retained interest in receivables sold to CRC. These subordinated notes held by Duke Energy Ohio and Duke Energy Indiana are stated at fair value. Carrying values of retained interests are determined by allocating carrying value of the receivables between assets sold and interests retained based on relative fair value. The allocated bases of the subordinated notes are not materially different than their face value because (i) the receivables generally turnover in less than two months, (ii) credit losses are reasonably predictable due to the broad customer base and lack of significant concentration, and (iii) the equity in CRC is subordinate to all retained interests and thus would absorb losses first. The hypothetical effect on fair value of the retained interests assuming both a 10 percent and a 20 percent unfavorable variation in credit losses or discount rates is not material due to the short turnover of receivables and historically low credit loss history. Interest accrues to Duke Energy Ohio and Duke Energy Indiana on the retained interests using the acceptable yield method. This method generally approximates the stated rate on the notes since the allocated basis and the face value are nearly equivalent. An impairment charge is recorded against the carrying value of both retained interests and purchased beneficial interest whenever it is determined that an other-than-temporary impairment has occurred.

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Key assumptions used in estimating fair value are detailed in the following table.

	Duke Energy Ohio		Duke Energy Indiana	
	2014	2013	2014	2013
Anticipated credit loss ratio	0.6%	0.6%	0.3%	0.3%
Discount rate	1.2%	1.2%	1.2%	1.2%
Receivable turnover rate	12.8%	12.8%	10.5%	10.3%

The following table shows the gross and net receivables sold.

(in millions)	Duke Energy Ohio		Duke Energy Indiana	
	2014	2013	2014	2013
Receivables sold	\$ 273	\$ 290	\$ 310	\$ 340
Less: Retained interests	91	114	113	143
Net receivables sold	\$ 182	\$ 176	\$ 197	\$ 197

The following table shows sales and cash flows related to receivables sold.

(in millions)	Duke Energy Ohio			Duke Energy Indiana		
	Years Ended December 31,			Years Ended December 31,		
	2014	2013	2012	2014	2013	2012
Sales						
Receivables sold	\$ 2,246	\$ 2,251	\$ 2,154	\$ 2,913	\$ 2,985	\$ 2,773
Loss recognized on sale	11	12	13	11	11	12
Cash Flows						
Cash proceeds from receivables sold	2,261	2,220	2,172	2,932	2,944	2,784
Collection fees received	1	1	1	1	1	1
Return received on retained interests	4	5	5	6	6	7

Cash flows from the sales of receivables are reflected within Operating Activities on Duke Energy Ohio's and Duke Energy Indiana's Consolidated Statements of Cash Flows.

Collection fees received in connection with servicing transferred accounts receivable are included in Operation, maintenance and other on Duke Energy Ohio's and Duke Energy Indiana's Consolidated Statements of Operations and Comprehensive Income. The loss recognized on sales of receivables is calculated monthly by multiplying receivables sold during the month by the required discount. The required discount is derived monthly utilizing a three-year weighted average formula that considers charge-off history, late charge history and turnover history on the sold receivables, as well as a component for the time value of money. The discount rate, or component for the time value of money, is the prior month-end LIBOR plus a fixed rate of 1.00 percent.

18. COMMON STOCK

Basic Earnings Per Share (EPS) is computed by dividing net income attributable to Duke Energy common shareholders, adjusted for distributed and undistributed earnings allocated to participating securities, by the weighted-average number of common shares outstanding during the period. Diluted EPS is computed by dividing net income attributable to Duke Energy common shareholders, as adjusted for distributed and undistributed earnings allocated to participating securities, by the diluted weighted-average number of common shares outstanding during the period. Diluted EPS reflects the potential dilution that could occur if securities or other agreements to issue common stock, such as stock options, phantom shares and stock-based performance unit awards were exercised or settled. Duke Energy's participating securities are restricted stock units that are entitled to dividends declared on Duke Energy common shares during the restricted stock units' vesting period.

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On July 2, 2012, just prior to the close of the merger with Progress Energy, Duke Energy executed a one-for-three reverse stock split. All earnings per share amounts included in this 10-K are presented as if the one-for-three reverse stock split had been effective January 1, 2012. The following table presents Duke Energy's basic and diluted EPS calculations and reconciles the weighted-average number of common shares outstanding to the diluted weighted-average number of common shares outstanding.

(in millions, except per share amounts)	Years Ended December 31,		
	2014	2013	2012
Income from continuing operations attributable to Duke Energy common shareholders excluding impact of participating securities	2,446	2,565	1,588
Weighted-average shares outstanding - basic	707	706	574
Stock options, performance and restricted shares	—	—	1
Weighted-average shares outstanding - diluted	707	706	575
Earnings per share from continuing operations attributable to Duke Energy common shareholders			
Basic	\$ 3.46	3.64	2.77
Diluted	\$ 3.46	3.63	2.77
Potentially dilutive items excluded from the calculation ^(a)	2	2	1
Dividends declared per common share	\$ 3.15	3.09	3.03

(a) Stock options and performance and unvested stock awards were not included in the dilutive securities calculation because either the option exercise prices were greater than the average market price of the common shares during those periods, or performance measures related to the awards had not yet been met.

19. SEVERANCE

In conjunction with the merger with Progress Energy, in November 2011 Duke Energy and Progress Energy offered a voluntary severance plan to certain eligible employees. Approximately 1,100 employees from Duke Energy and Progress Energy requested severance during the voluntary window, which closed on November 30, 2011. As this was a voluntary severance plan, all severance benefits offered under this plan are considered special termination benefits under U.S. GAAP. Special termination benefits are measured upon employee acceptance and recorded immediately absent any significant retention period. If a significant retention period exists, the cost of the special termination benefits are recorded ratably over the retention period. Most plan participants have separated from the company as of December 31, 2014. The amount of severance expense associated with this voluntary plan, and other severance expense for involuntary terminations related to the merger, was not material for the year ended December 31, 2014.

Amounts included in the table below represent direct and allocated severance and related expense recorded by the Duke Energy Registrants, and are in Operation, maintenance and other within Operating Expenses on the Consolidated Statements of Operations.

(in millions)	Year Ended December 31,	
	2013	2012
Duke Energy ^(a)	\$ 34	\$ 201
Duke Energy Carolinas	8	63
Progress Energy	19	82
Duke Energy Progress	14	55
Duke Energy Florida	5	27
Duke Energy Ohio	2	21
Duke Energy Indiana	2	18

(a) Includes \$5 million and \$14 million of accelerated stock award expense and \$2 million and \$19 million of COBRA and health care reimbursement expenses for 2013 and 2012, respectively.

In conjunction with the retirement of Crystal River Unit 3, severance benefits have been made available to certain eligible impacted unionized and non-unionized employees, to the extent that those employees do not find job opportunities at other locations. Approximately 600 employees worked at Crystal River Unit 3. For the year ended December 31, 2013, Duke Energy Florida deferred \$26 million of severance costs as a regulatory asset. Duke Energy Florida did not defer severance costs as a regulatory asset for the year ended December 31, 2014. Severance costs expected to be accrued over the remaining retention period for employees identified to have a significant retention period is not material. However, these employees maintain the ability to accept job opportunities at other Duke Energy locations, which would result in severance not being paid. If a significant amount of these individuals redeploy within Duke Energy, the final severance benefits paid under the plan may be less than what has been accrued to date. Refer to Note 4 for further discussion regarding Crystal River Unit 3.

During 2014, in conjunction with the disposition of the nonregulated Midwest Generation business, severance benefits have been made available to certain eligible non-unionized employees, to the extent those employees do not find other job opportunities. Approximately 50 employees are expected to receive benefits. Duke Energy Ohio recorded severance expense of \$6 million and included in (Loss) Income from Discontinued Operations, net of tax in

the Duke Energy Statements of Operations and Comprehensive Income for the year ended December 31, 2014. For further information related to the Midwest Generation Exit, see Note 2, "Acquisitions, Dispositions and Sales of Other Assets."

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Amounts included in the table below represent the severance liability for past and ongoing severance plans. Amounts for Subsidiary Registrants do not include allocated expense or associated cash payments. Amounts for Duke Energy Indiana are not material.

(in millions)	Balance at December 31, 2013	Provision / Adjustments	Cash Reductions	Balance at December 31, 2014
Duke Energy	\$ 64	\$ 5	\$ (41)	28
Duke Energy Carolinas	5	2	(5)	2
Progress Energy	44	(10)	(16)	18
Duke Energy Progress	11	—	(10)	1
Duke Energy Florida	24	(1)	(6)	17
Duke Energy Ohio	2	5	(1)	6

As part of Duke Energy Carolinas' 2011 rate case, the NCUC approved the recovery of \$101 million of previously recorded expenses related to a prior year Voluntary Opportunity Plan. This amount was recorded as a reduction to Operation, maintenance, and other within Operating Expenses on the Consolidated Statements of Operations and recognized as a Regulatory asset on the Consolidated Balance Sheets in 2012.

20. STOCK-BASED COMPENSATION

Duke Energy's 2010 Long-Term Incentive Plan (the 2010 Plan) reserved 25 million shares of common stock for awards to employees and outside directors. Duke Energy has historically issued new shares upon exercising or vesting of share-based awards. However, Duke Energy may use a combination of new share issuances and open market repurchases for share-based awards that are exercised or become vested in the future. Duke Energy has not determined with certainty the amount of such new share issuances or open market repurchases.

The 2010 Plan allows for a maximum of 6.25 million shares of common stock to be issued under various stock-based awards other than options and stock appreciation rights.

In connection with the acquisition of Progress Energy in July 2012, Duke Energy assumed Progress Energy's 2007 Equity Incentive Plan (EIP). Stock-based awards granted under the Progress Energy EIP and held by Progress Energy employees were generally converted into outstanding Duke Energy stock-based compensation awards. The estimated fair value of these awards allocated to the purchase price was \$62 million. Refer to Note 2 for further information regarding the merger transaction.

The following table summarizes the total expense recognized by each of the Duke Energy Registrants, net of tax, for stock-based compensation.

(in millions)	Years Ended December 31,		
	2014	2013	2012
Duke Energy	\$ 38	\$ 52	\$ 48
Duke Energy Carolinas	12	13	12
Progress Energy	14	23	25
Duke Energy Progress	9	14	16
Duke Energy Florida	5	9	9
Duke Energy Ohio	5	4	4
Duke Energy Indiana	3	4	4

Pretax stock-based compensation costs, the tax benefit associated with stock-based compensation expense, and stock-based compensation costs capitalized are included in the following table.

(in millions)	Years Ended December 31,		
	2014	2013	2012
Restricted stock unit awards	\$ 39	\$ 49	\$ 43
Performance awards	22	34	33
Stock options	—	2	2
Pretax stock-based compensation cost	\$ 61	\$ 85	\$ 78
Tax benefit associated with stock-based compensation expense	\$ 23	\$ 33	\$ 30
Stock-based compensation costs capitalized	4	3	2

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STOCK OPTIONS

The following table summarizes information about stock options outstanding.

	Options (in thousands)	Weighted-Average Exercise Price (per share)	Weighted-Average Remaining Life	Aggregate Intrinsic Value (in millions)
Outstanding at December 31, 2013	793	\$ 61		
Exercised	(420)	59		
Outstanding at December 31, 2014	373	64	6 years, 10 months	\$ 7
Exercisable at December 31, 2014	53	46	1 year	2
Options expected to vest	320	67	7 years, 10 months	5

The exercise price of each option granted cannot be less than the market price of Duke Energy's common stock on the date of grant and the maximum option term is 10 years. The vesting periods range from immediate to three years. Options granted in 2013 and 2012 were expensed immediately; therefore, there is no future compensation cost associated with these options.

The following table summarizes additional information related to stock options exercised and granted.

	Years Ended December 31,		
	2014	2013	2012
Intrinsic value of options exercised (in millions)	\$ 6	\$ 26	\$ 17
Tax benefit related to options exercised (in millions)	2	10	7
Cash received from options exercised (in millions)	25	9	21
Stock options granted (in thousands)	—	310	340

RESTRICTED STOCK UNIT AWARDS

Restricted stock unit awards issued and outstanding generally vest over periods from immediate to 3 years. Fair value amounts are based on the market price of Duke Energy's common stock at the grant date. The following table includes information related to restricted stock unit awards.

	Years Ended December 31,		
	2014	2013	2012
Shares awarded (in thousands)	557	612	443
Fair value (in millions)	\$ 40	\$ 42	\$ 28

The following table summarizes information about restricted stock unit awards outstanding.

	Shares (in thousands)	Weighted-Average Grant Date Fair Value (Per Share)
Outstanding at December 31, 2013	1,400	\$ 66
Granted	557	71
Vested	(832)	62
Forfeited	(45)	68
Outstanding at December 31, 2014	1,080	69
Restricted stock unit awards expected to vest	1,057	69

The total grant date fair value of shares vested during the years ended December 31, 2014, 2013 and 2012 was \$52 million, \$50 million and \$34 million, respectively. At December 31, 2014, Duke Energy had \$18 million of unrecognized compensation cost, which is expected to be recognized over a weighted-average period of one year, ten months.

PERFORMANCE AWARDS

Stock-based awards issued and outstanding generally vest over three years if performance targets are met.

Certain performance awards granted in 2014, 2013 and 2012 contain market conditions based on the total shareholder return (TSR) of Duke Energy stock relative to a predefined peer group (relative TSR). These awards are valued using a path-dependent model that incorporates expected relative TSR into the fair value determination of Duke Energy's performance-based share awards. The model uses three-year historical volatilities and correlations for all companies in the predefined peer group, including Duke Energy, to simulate Duke Energy's relative TSR as of the end of the performance period. For

each simulation, Duke Energy's relative TSR associated with the simulated stock price at the end of the performance period plus expected dividends within the period results in a value per share for the award portfolio. The average of these simulations is the expected portfolio value per share. Actual life to date results of Duke Energy's relative TSR for each grant is incorporated within the model.

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Other performance awards not containing market conditions were awarded in 2012. The performance goal for these awards is Duke Energy's return on equity over a three-year period. Awards are measured at grant date price.

The following table includes information related to performance awards.

	Years Ended December 31,		
	2014	2013	2012
Shares awarded (in thousands)	542	633	352
Fair value (in millions)	\$ 19	\$ 28	\$ 19

The following table summarizes information about stock-based performance awards outstanding at the maximum level.

	Shares (in thousands)	Weighted-Average Grant Date Fair Value (per share)
Outstanding at December 31, 2013	1,822	\$ 46
Granted	542	34
Vested	(524)	52
Forfeited	(213)	37
Outstanding at December 31, 2014	1,627	42
Stock-based performance awards expected to vest	1,418	42

The total grant date fair value of shares vested during the years ended December 31, 2014, 2013 and 2012 was \$27 million, \$42 million and \$56 million, respectively. At December 31, 2014, Duke Energy had \$21 million of unrecognized compensation cost, which is expected to be recognized over a weighted-average period of one year, nine months.

The grant date fair value of performance awards granted in 2014 was determined based on a risk-free interest rate of 0.7 percent, which reflects the yield on three-year Treasury bonds as of the grant date, and an expected volatility of 13.5 percent based on Duke Energy's historical volatility over three years using daily stock prices.

21. EMPLOYEE BENEFIT PLANS

DEFINED BENEFIT RETIREMENT PLANS

Duke Energy maintains, and the Subsidiary Registrants participate in, qualified, non-contributory defined benefit retirement plans. The plans cover most U.S. employees using a cash balance formula. Under a cash balance formula, a plan participant accumulates a retirement benefit consisting of pay credits based upon a percentage of current eligible earnings based on age and/or years of service and interest credits. Certain employees are covered under plans that use a final average earnings formula. Under these average earnings formulas, a plan participant accumulates a retirement benefit equal to the sum of percentages of their (i) highest three-year or four-year average earnings, (ii) highest three-year or four-year average earnings in excess of covered compensation per year of participation (maximum of 35 years), and/or (iii) highest three or four-year average earnings times years of participation in excess of 35 years. Duke Energy also maintains, and the Subsidiary Registrants participate in, non-qualified, non-contributory defined benefit retirement plans which cover certain executives. As of January 1, 2014, the qualified and non-qualified non-contributory defined benefit plans are closed to new and rehired non-union and certain unionized employees.

Duke Energy uses a December 31 measurement date for its defined benefit retirement plan assets and obligations.

Net periodic benefit costs disclosed in the tables below represent the cost of the respective benefit plan for the periods presented. However, portions of the net periodic benefit costs disclosed in the tables below have been capitalized as a component of property, plant and equipment. Amounts presented in the tables below for the Subsidiary Registrants represent the amounts of pension and other post-retirement benefit cost allocated by Duke Energy for employees of the Subsidiary Registrants. Additionally, the Subsidiary Registrants are allocated their proportionate share of pension and post-retirement benefit cost for employees of Duke Energy's shared services affiliate that provide support to the Subsidiary Registrants. These allocated amounts are included in the governance and shared service costs discussed in Note 13.

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Duke Energy's policy is to fund amounts on an actuarial basis to provide assets sufficient to meet benefit payments to be paid to plan participants. The following table includes information related to the Duke Energy Registrants' contributions to its U.S. qualified defined benefit pension plans.

(in millions)	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana
Anticipated Contributions:							
2015 \$	302	\$ 91	\$ 83	\$ 42	\$ 40	\$ 8	\$ 19
Contributions Made:							
2014 \$	—	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
2013	250	—	250	63	133	—	—
2012	304	—	346	141	128	—	—

QUALIFIED PENSION PLANS**Components of Net Periodic Pension Costs**

(in millions)	Year Ended December 31, 2014						
	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana
Service cost	\$ 135	\$ 41	\$ 40	\$ 21	\$ 20	\$ 4	\$ 9
Interest cost on projected benefit obligation	344	85	112	54	57	20	29
Expected return on plan assets	(511)	(132)	(173)	(85)	(85)	(27)	(41)
Amortization of actuarial loss	150	36	68	32	32	4	13
Amortization of prior service credit	(15)	(8)	(3)	(2)	(1)	—	—
Other	8	2	3	1	1	—	1
Net periodic pension costs	\$ 111	\$ 24	\$ 47	\$ 21	\$ 24	\$ 1	\$ 11

(in millions)	Year Ended December 31, 2013						
	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana
Service cost	\$ 167	\$ 49	\$ 60	\$ 22	\$ 30	\$ 6	\$ 11
Interest cost on projected benefit obligation	320	80	116	50	53	21	28
Expected return on plan assets	(549)	(148)	(199)	(94)	(87)	(31)	(46)
Amortization of actuarial loss	244	60	101	46	49	13	24
Amortization of prior service (credit) cost	(11)	(6)	(4)	(1)	(2)	—	1
Other	7	2	2	1	1	—	1
Net periodic pension costs	\$ 178	\$ 37	\$ 76	\$ 24	\$ 44	\$ 9	\$ 19

(in millions)	Year Ended December 31, 2012						
	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana
Service cost	\$ 122	\$ 35	\$ 63	\$ 25	\$ 30	\$ 6	\$ 9
Interest cost on projected benefit obligation	307	90	127	58	56	31	30
Expected return on plan assets	(472)	(146)	(188)	(96)	(81)	(45)	(46)
Amortization of actuarial loss	144	45	93	37	48	10	15
Amortization of prior service cost (credit)	10	1	9	8	(1)	1	1
Other	6	2	2	1	1	—	—
Net periodic pension costs	\$ 117	\$ 27	\$ 106	\$ 33	\$ 53	\$ 3	\$ 9

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Amounts Recognized in Accumulated Other Comprehensive Income and Regulatory Assets

(in millions)	Year Ended December 31, 2014						
	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana
Regulatory assets, net increase (decrease)	\$ 112	\$ 30	\$ (73)	\$ (17)	\$ 11	\$ 17	\$ 4
Accumulated other comprehensive (income) loss							
Deferred income tax expense	\$ (10)	—	(2)	—	—	—	—
Actuarial losses arising during the year	29	—	—	—	—	—	—
Prior year service credit arising during the year	—	—	—	—	—	—	—
Amortization of prior year actuarial losses	(9)	—	—	—	—	—	—
Reclassification of actuarial losses to regulatory assets	(1)	—	—	—	—	—	—
Net amount recognized in accumulated other comprehensive income	\$ 9	\$ —	\$ (2)	\$ —	\$ —	\$ —	\$ —

(in millions)	Year Ended December 31, 2013						
	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana
Regulatory assets, net decrease	\$ (788)	\$ (205)	\$ (253)	\$ (109)	\$ (146)	\$ (96)	\$ (99)
Accumulated other comprehensive (income) loss							
Deferred income tax benefit	\$ 18	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Actuarial gains arising during the year	(33)	—	(2)	—	—	—	—
Prior year service credit arising during the year	(1)	—	—	—	—	—	—
Amortization of prior year actuarial losses	(15)	—	(3)	—	—	—	—
Reclassification of actuarial losses to regulatory assets	3	—	—	—	—	—	—
Net amount recognized in accumulated other comprehensive income	\$ (28)	\$ —	\$ (5)	\$ —	\$ —	\$ —	\$ —

Reconciliation of Funded Status to Net Amount Recognized

(in millions)	Year Ended December 31, 2014						
	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana
Change in Projected Benefit Obligation							
Obligation at prior measurement date	\$ 7,510	\$ 1,875	\$ 2,739	\$ 1,172	\$ 1,233	\$ 442	\$ 632
Service cost	135	41	40	21	20	4	9
Interest cost	344	85	112	54	57	20	29
Actuarial loss ^(a)	618	132	211	98	105	41	41
Transfers	—	37	(375)	(61)	(9)	(6)	—
Plan amendments	(4)	(1)	—	—	—	(1)	—
Benefits paid	(496)	(116)	(170)	(97)	(71)	(31)	(38)
Obligation at measurement date	\$ 8,107	\$ 2,053	\$ 2,557	\$ 1,187	\$ 1,335	\$ 469	\$ 673
Accumulated Benefit Obligation at measurement date	\$ 7,966	\$ 2,052	\$ 2,519	\$ 1,187	\$ 1,297	\$ 459	\$ 645

Change in Fair Value of Plan Assets

7/30/2020

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Plan assets at prior measurement date	\$	8,142	\$	2,162	\$	2,944	\$	1,330	\$	1,299	\$	448	\$	654
Actual return on plan assets		852		217		300		149		144		45		65
Benefits paid		(496)		(116)		(170)		(97)		(71)		(31)		(38)
Transfers		—		37		(352)		(61)		(9)		(6)		—
Plan assets at measurement date	\$	8,498	\$	2,300	\$	2,722	\$	1,321	\$	1,363	\$	456	\$	681
Funded status of plan	\$	391	\$	247	\$	165	\$	134	\$	28	\$	(13)	\$	8

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(a) Includes an increase in benefit obligation of \$180 million as a result of changes in Duke Energy's mortality assumptions.

(in millions)	Year Ended December 31, 2013						
	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana
Change in Projected Benefit Obligation							
Obligation at prior measurement date	8,030	2,028	2,868	1,264	1,309	527	684
Service cost	167	49	60	22	30	6	11
Interest cost	320	80	116	50	53	21	28
Actuarial gains	(399)	(73)	(118)	(26)	(75)	(71)	(56)
Transfers	—	(26)	(7)	(45)	(17)	(2)	(2)
Plan amendments	(41)	(13)	(19)	(8)	(7)	—	—
Benefits paid	(567)	(170)	(161)	(85)	(60)	(39)	(33)
Obligation at measurement date	7,510	1,875	2,739	1,172	1,233	442	632
Accumulated Benefit Obligation at measurement date	7,361	1,875	2,698	1,172	1,192	429	608
Change in Fair Value of Plan Assets							
Plan assets at prior measurement date	7,754	2,151	2,647	1,289	1,150	446	627
Actual return on plan assets	705	207	215	108	93	43	62
Benefits paid	(567)	(170)	(161)	(85)	(60)	(39)	(33)
Transfers	—	(26)	(7)	(45)	(17)	(2)	(2)
Employer contributions	250	—	250	63	133	—	—
Plan assets at measurement date	\$ 8,142	\$ 2,162	\$ 2,944	\$ 1,330	\$ 1,299	\$ 448	\$ 654
Funded status of plan	\$ 632	\$ 287	\$ 205	\$ 158	\$ 66	\$ 6	\$ 22

Amounts Recognized in the Consolidated Balance Sheets

(in millions)	December 31, 2014						
	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana
Prefunded pension ^(a)	\$ 441	\$ 247	\$ 165	\$ 134	\$ 28	\$ —	\$ 8
Non-current pension liability ^(b)	\$ 50	\$ —	\$ —	\$ —	\$ —	\$ 13	\$ —
Net asset recognized	\$ 391	\$ 247	\$ 165	\$ 134	\$ 28	\$ (13)	\$ 8
Regulatory assets	\$ 1,711	\$ 407	\$ 753	\$ 346	\$ 406	\$ 65	\$ 151
Accumulated other comprehensive (income) loss							
Deferred income tax asset	\$ (51)	\$ —	\$ (11)	\$ —	\$ —	\$ —	\$ —
Prior service credit	(5)	—	—	—	—	—	—
Net actuarial loss	140	—	21	—	—	—	—
Net amounts recognized in accumulated other comprehensive loss ^(c)	\$ 84	\$ —	\$ 10	\$ —	\$ —	\$ —	\$ —
Amounts to be recognized in net periodic pension expense in the next year							
Unrecognized net actuarial loss	\$ 166	\$ 39	\$ 65	\$ 34	\$ 31	\$ 6	\$ 14
Unrecognized prior service credit	(15)	(8)	(3)	(2)	(1)	—	—

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(in millions)	December 31, 2013						
	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana
Prefunded pension ^(a)	\$ 632	\$ 287	\$ 230	\$ 158	\$ 66	\$ 2	\$ 75
Non-current pension liability ^(b)	\$ —	\$ —	\$ 25	\$ —	\$ —	\$ (4)	\$ 53
Net asset recognized	\$ 632	\$ 287	\$ 205	\$ 158	\$ 66	\$ 6	\$ 22
Regulatory assets	\$ 1,599	\$ 377	\$ 826	\$ 363	\$ 395	\$ 48	\$ 147
Accumulated other comprehensive (income) loss							
Deferred income tax asset	\$ (41)	\$ —	\$ (9)	\$ —	\$ —	\$ —	\$ —
Prior service credit	(5)	—	—	—	—	—	—
Net actuarial loss	121	—	21	—	—	—	—
Net amounts recognized in accumulated other comprehensive loss ^(c)	\$ 75	\$ —	\$ 12	\$ —	\$ —	\$ —	\$ —

(a) Included in Other within Investments and Other Assets on the Consolidated Balance Sheets.

(b) Included in Accrued pension and other post-retirement benefit costs on the Consolidated Balance Sheets.

(c) Excludes accumulated other comprehensive income of \$22 million and \$16 million as of 2014 and 2013, respectively, net of tax, associated with a Brazilian retirement plan.

Information for Plans with Accumulated Benefit Obligation in Excess of Plan Assets

(in millions)	December 31, 2014	
	Duke Energy	Duke Energy Ohio
Projected benefit obligation	\$ 702	\$ 315
Accumulated benefit obligation	672	306
Fair value of plan assets	652	302

As of December 31, 2013, none of the qualified pension plans had an accumulated benefit obligation in excess of plan assets.

Assumptions Used for Pension Benefits Accounting

The discount rate used to determine the current year pension obligation and following year's pension expense is based on a bond selection-settlement portfolio approach. This approach develops a discount rate by selecting a portfolio of high quality corporate bonds that generate sufficient cash flow to provide for projected benefit payments of the plan. The selected bond portfolio is derived from a universe of non-callable corporate bonds rated Aa quality or higher. After the bond portfolio is selected, a single interest rate is determined that equates the present value of the plan's projected benefit payments discounted at this rate with the market value of the bonds selected.

The average remaining service period of active covered employees is nine years for Duke Energy, Duke Energy Carolinas, Progress Energy, Duke Energy Progress, Duke Energy Florida, Duke Energy Ohio and Duke Energy Indiana.

The following tables present the assumptions or range of assumptions used for pension benefit accounting.

	December 31,		
	2014	2013	2012 ^(a)
Benefit Obligations			
Discount rate	4.10%	4.70%	4.10%
Salary increase	4.00% - 4.40%	4.00% - 4.40%	4.00% - 4.30%
Net Periodic Benefit Cost			
Discount rate	4.70%	4.10%	4.60% - 5.10%
Salary increase	4.00% - 4.40%	4.00% - 4.30%	4.00% - 4.40%
Expected long-term rate of return on plan assets	6.75%	7.75%	8.00% - 8.25%

(a) For Progress Energy plans, the assumptions used in 2012 to determine net periodic pension costs reflect remeasurement as of July 1, 2012, due to the merger between Duke Energy and Progress Energy.

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Expected Benefit Payments

(in millions)	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana
Years ending December 31,							
2015	\$ 584	\$ 175	\$ 150	\$ 80	\$ 67	\$ 34	\$ 45
2016	604	184	158	85	70	35	46
2017	616	195	161	86	73	34	45
2018	625	200	165	87	76	34	46
2019	626	194	168	88	78	34	46
2020 - 2024	3,107	924	868	437	420	168	229

NON-QUALIFIED PENSION PLANS**Components of Net Periodic Pension Costs**

Year Ended December 31, 2014							
(in millions)	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana
Service cost	\$ 3	\$ —	\$ 1	\$ 1	\$ —	\$ —	\$ —
Interest cost on projected benefit obligation	14	1	5	1	2	—	—
Amortization of actuarial loss	3	—	2	—	—	—	—
Amortization of prior service credit	(1)	—	(1)	—	—	—	—
Net periodic pension costs	\$ 19	\$ 1	\$ 7	\$ 2	\$ 2	\$ —	\$ —

Year Ended December 31, 2013							
(in millions)	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana
Service cost	\$ 3	\$ —	\$ 1	\$ 1	\$ —	\$ —	\$ —
Interest cost on projected benefit obligation	13	1	7	1	1	—	—
Amortization of actuarial loss	5	—	3	1	1	—	—
Amortization of prior service credit	(1)	—	(1)	—	—	—	—
Net periodic pension costs	\$ 20	\$ 1	\$ 10	\$ 3	\$ 2	\$ —	\$ —

Year Ended December 31, 2012							
(in millions)	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana
Service cost	\$ 2	\$ —	\$ 2	\$ 1	\$ —	\$ —	\$ —
Interest cost on projected benefit obligation	12	1	8	1	2	—	—
Amortization of actuarial loss	4	—	5	1	—	—	—
Amortization of prior service cost (credit)	1	—	(1)	—	—	—	—
Net periodic pension costs	\$ 19	\$ 1	\$ 14	\$ 3	\$ 2	\$ —	\$ —

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Combined Notes To Consolidated Financial Statements – (Continued)

Amounts Recognized in Accumulated Other Comprehensive Income and Regulatory Assets and Liabilities

(in millions)	Year Ended December 31, 2014						
	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana
Regulatory assets, net increase	\$ 44	\$ 1	\$ 14	\$ 4	\$ 19	\$ 1	\$ 2
Regulatory liabilities, net decrease	\$ (7)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Accumulated other comprehensive (income) loss							
Deferred income tax benefit	\$ 4	\$ —	\$ 5	\$ —	\$ —	\$ —	\$ —
Actuarial gains arising during the year	(9)	—	(11)	—	—	—	—
Net amount recognized in accumulated other comprehensive loss (income)	\$ (5)	\$ —	\$ (6)	\$ —	\$ —	\$ —	\$ —

(in millions)	Year Ended December 31, 2013						
	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana
Regulatory assets, net (decrease) increase	\$ (14)	\$ 1	\$ (16)	\$ (4)	\$ (3)	\$ —	\$ (2)
Regulatory liabilities, net increase	\$ 5	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Accumulated other comprehensive (income) loss							
Deferred income tax benefit	\$ —	\$ —	\$ 1	\$ —	\$ —	\$ —	\$ —
Actuarial losses (gains) arising during the year	2	—	(5)	—	—	—	—
Prior year service credit arising during the year	(1)	—	—	—	—	—	—
Net amount recognized in accumulated other comprehensive loss (income)	\$ 1	\$ —	\$ (4)	\$ —	\$ —	\$ —	\$ —

Reconciliation of Funded Status to Net Amount Recognized

(in millions)	Year Ended December 31, 2014						
	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana
Change in Projected Benefit Obligation							
Obligation at prior measurement date	\$ 304	\$ 15	\$ 140	\$ 34	\$ 39	\$ 3	\$ 5
Service cost	3	—	1	1	—	—	—
Interest cost	14	1	5	1	2	—	—
Actuarial losses ^(a)	43	2	11	2	20	1	1
Settlements	—	—	—	—	—	—	—
Plan amendments	—	—	—	—	—	—	—
Transfers	—	—	(32)	—	4	—	—
Benefits paid	(27)	(2)	(9)	(3)	(4)	—	(1)
Obligation at measurement date	\$ 337	\$ 16	\$ 116	\$ 35	\$ 61	\$ 4	\$ 5
Accumulated Benefit Obligation at measurement date	\$ 333	\$ 15	\$ 116	\$ 35	\$ 61	\$ 4	\$ 5
Change in Fair Value of Plan Assets							
Plan assets at prior measurement date	—	—	—	—	—	—	—
Benefits paid	(27)	(2)	(9)	(3)	(4)	—	(1)
Employer contributions	27	2	9	3	4	—	1
Plan assets at measurement date	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

(a) Includes an increase in benefit obligation of \$21 million as a result of changes in Duke Energy's mortality assumptions.

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Combined Notes To Consolidated Financial Statements – (Continued)

(in millions)	Year Ended December 31, 2013						
	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana
Change in Projected Benefit Obligation							
Obligation at prior measurement date	\$ 335	\$ 16	\$ 176	\$ 38	\$ 45	\$ 4	\$ 5
Service cost	3	—	1	1	—	—	—
Interest cost	13	1	7	1	1	—	—
Actuarial (gains) losses	(15)	1	(11)	(3)	(3)	(1)	—
Settlements	(5)	—	—	—	—	—	—
Plan amendments	(1)	—	—	—	—	—	—
Transfers	—	—	(21)	—	—	—	—
Benefits paid	(26)	(3)	(12)	(3)	(4)	—	—
Obligation at measurement date	\$ 304	\$ 15	\$ 140	\$ 34	\$ 39	\$ 3	\$ 5
Accumulated Benefit Obligation at measurement date							
	\$ 302	\$ 15	\$ 140	\$ 34	\$ 39	\$ 3	\$ 5
Change in Fair Value of Plan Assets							
Plan assets at prior measurement date	—	—	—	—	—	—	—
Benefits paid	(26)	(3)	(12)	(3)	(4)	—	—
Employer contributions	26	3	12	3	4	—	—
Plan assets at measurement date	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

Amounts Recognized in the Consolidated Balance Sheets

(in millions)	December 31, 2014						
	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana
Current pension liability ^(a)	\$ 27	\$ 2	\$ 8	\$ 3	\$ 4	\$ —	\$ —
Non-current pension liability ^(b)	310	14	108	32	57	4	5
Total accrued pension liability	\$ 337	\$ 16	\$ 116	\$ 35	\$ 61	\$ 4	\$ 5
Regulatory assets	\$ 89	\$ 5	\$ 32	\$ 7	\$ 25	\$ 1	\$ 2
Regulatory liabilities	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Accumulated other comprehensive (income) loss							
Deferred income tax asset	4	—	2	—	—	—	—
Prior service credit	(1)	—	—	—	—	—	—
Net actuarial gain	(8)	—	(4)	—	—	—	—
Net amounts recognized in accumulated other comprehensive income	\$ (5)	\$ —	\$ (2)	\$ —	\$ —	\$ —	\$ —
Amounts to be recognized in net periodic pension expense in the next year							
Unrecognized net actuarial loss	\$ 6	\$ —	\$ 2	\$ 1	\$ 2	\$ —	\$ —
Unrecognized prior service credit	(1)	—	—	—	—	—	—

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Combined Notes To Consolidated Financial Statements – (Continued)

(in millions)	December 31, 2013						
	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana
Current pension liability ^(a)	\$ 30	\$ 2	\$ 11	\$ 2	\$ 3	\$ —	\$ —
Non-current pension liability ^(b)	274	13	129	32	36	3	5
Total accrued pension liability	\$ 304	\$ 15	\$ 140	\$ 34	\$ 39	\$ 3	\$ 5
Regulatory assets	\$ 45	\$ 4	\$ 18	\$ 3	\$ 6	\$ —	\$ —
Regulatory liabilities	\$ 7	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Accumulated other comprehensive (income) loss							
Deferred income tax asset	\$ —	\$ —	\$ (3)	\$ —	\$ —	\$ —	\$ —
Prior service credit	(1)	—	—	—	—	—	—
Net actuarial loss	1	—	7	—	—	—	—
Net amounts recognized in accumulated other comprehensive loss	\$ —	\$ —	\$ 4	\$ —	\$ —	\$ —	\$ —

(a) Included in Other within Current Liabilities on the Consolidated Balance Sheets.

(b) Included in Accrued pension and other post-retirement benefit costs on the Consolidated Balance Sheets.

Information for Plans with Accumulated Benefit Obligation in Excess of Plan Assets

(in millions)	December 31, 2014						
	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana
Projected benefit obligation	\$ 337	\$ 16	\$ 116	\$ 35	\$ 61	\$ 4	\$ 5
Accumulated benefit obligation	333	15	116	35	61	4	5

(in millions)	December 31, 2013						
	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana
Projected benefit obligation	\$ 304	\$ 15	\$ 140	\$ 34	\$ 39	\$ 3	\$ 5
Accumulated benefit obligation	302	15	140	34	39	3	5

Assumptions Used for Pension Benefits Accounting

The discount rate used to determine the current year pension obligation and following year's pension expense is based on a bond selection-settlement portfolio approach. This approach develops a discount rate by selecting a portfolio of high quality corporate bonds that generate sufficient cash flow to provide for projected benefit payments of the plan. The selected bond portfolio is derived from a universe of non-callable corporate bonds rated Aa quality or higher. After the bond portfolio is selected, a single interest rate is determined that equates the present value of the plan's projected benefit payments discounted at this rate with the market value of the bonds selected.

The average remaining service period of active covered employees is 13 years for Duke Energy and Progress Energy, nine years for Duke Energy Carolinas, Duke Energy Ohio and Duke Energy Indiana, 12 years for Duke Energy Progress and 17 years for Duke Energy Florida.

The following tables present the assumptions used for pension benefit accounting.

	December 31,		
	2014	2013	2012 ^(a)
Benefit Obligations			
Discount rate	4.10%	4.70%	4.10%
Salary increase	4.40%	4.40%	4.30%
Net Periodic Benefit Cost			
Discount rate	4.70%	4.10%	4.60% - 5.10%
Salary increase	4.40%	4.30%	4.40%

(a) For Progress Energy plans, the assumptions used in 2012 to determine net periodic pension costs reflect remeasurement as of July 1, 2012, due to the merger between Duke Energy and Progress Energy.

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Combined Notes To Consolidated Financial Statements – (Continued)

Expected Benefit Payments

(in millions)	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana
Years ending December 31,							
2015	\$ 28	\$ 2	\$ 8	\$ 3	\$ 4	\$ —	\$ —
2016	27	2	8	3	4	—	—
2017	27	2	8	3	4	—	—
2018	24	2	8	3	4	—	—
2019	24	2	8	3	4	—	—
2020 - 2024	116	6	38	13	19	2	2

Other Post-Retirement Benefit Plans

Duke Energy provides, and the Subsidiary Registrants participate in, some health care and life insurance benefits for retired employees on a contributory and non-contributory basis. Employees are eligible for these benefits if they have met age and service requirements at retirement, as defined in the plans. The health care benefits include medical, dental, and prescription drug coverage and are subject to certain limitations, such as deductibles and co-payments.

Duke Energy did not make any pre-funding contributions to its other post-retirement benefit plans during the years ended December 31, 2014, 2013 or 2012.

Components of Net Periodic Other Post-Retirement Benefit Costs

(in millions)	Year Ended December 31, 2014						
	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana
Service cost	\$ 10	\$ 2	\$ 4	\$ 1	\$ 3	\$ —	\$ 1
Interest cost on accumulated post-retirement benefit obligation	49	12	22	11	12	2	5
Expected return on plan assets	(13)	(9)	—	—	—	—	(1)
Amortization of actuarial loss (gain)	39	3	42	31	10	(2)	—
Amortization of prior service credit	(125)	(11)	(95)	(73)	(21)	—	—
Net periodic post-retirement benefit costs	\$ (40)	\$ (3)	\$ (27)	\$ (30)	\$ 4	\$ —	\$ 5

(in millions)	Year Ended December 31, 2013						
	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana
Service cost	\$ 24	\$ 2	\$ 18	\$ 9	\$ 7	\$ 1	\$ 1
Interest cost on accumulated post-retirement benefit obligation	68	13	41	22	16	2	5
Expected return on plan assets	(14)	(11)	—	—	—	(1)	(1)
Amortization of actuarial loss (gain)	52	3	57	34	16	(1)	1
Amortization of prior service credit	(41)	(7)	(30)	(20)	(6)	(1)	—
Net periodic post-retirement benefit costs	\$ 89	\$ —	\$ 86	\$ 45	\$ 33	\$ —	\$ 6

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Combined Notes To Consolidated Financial Statements – (Continued)

(in millions)	Year Ended December 31, 2012						
	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana
Service cost	\$ 16	\$ 2	\$ 17	\$ 8	\$ 7	\$ 1	\$ 1
Interest cost on accumulated post-retirement benefit obligation	56	15	43	23	18	3	6
Expected return on plan assets	(17)	(10)	(2)	—	(2)	(1)	(1)
Amortization of actuarial loss (gain)	14	3	35	20	12	(2)	—
Amortization of prior service credit	(8)	(5)	—	—	—	(1)	—
Amortization of net transition liability	10	7	4	—	3	—	—
Special termination benefit cost	9	1	5	2	1	—	—
Net periodic post-retirement benefit costs	\$ 80	\$ 13	\$ 102	\$ 53	\$ 39	\$ —	\$ 6

Amounts Recognized in Accumulated Other Comprehensive Income and Regulatory Assets and Liabilities

(in millions)	Year Ended December 31, 2014						
	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana
Regulatory assets, net increase (decrease)	\$ 162	\$ 34	\$ 129	\$ 97	\$ (4)	\$ —	\$ (7)
Regulatory liabilities, net increase (decrease)	\$ 249	\$ 76	\$ 122	\$ 61	\$ 61	\$ (2)	\$ 14
Accumulated other comprehensive (income) loss							
Deferred income tax benefit	\$ 1	\$ —	\$ 1	\$ —	\$ —	\$ —	\$ —
Actuarial losses (gains) arising during the year	1	—	(2)	—	—	—	—
Prior year service credit arising during the year	(6)	—	—	—	—	—	—
Amortization of prior year prior service credit	2	—	—	—	—	—	—
Net amount recognized in accumulated other comprehensive income	\$ (2)	\$ —	\$ (1)	\$ —	\$ —	\$ —	\$ —

(in millions)	Year Ended December 31, 2013						
	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana
Regulatory assets, net (decrease) increase	\$ (683)	\$ (51)	\$ (634)	\$ (388)	\$ (166)	\$ —	\$ (6)
Regulatory liabilities, net increase (decrease)	\$ 30	\$ —	\$ —	\$ —	\$ —	\$ 3	\$ 9
Accumulated other comprehensive (income) loss							
Deferred income tax benefit	\$ 2	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Actuarial gains arising during the year	(4)	—	—	—	—	—	—
Prior year service credit arising during the year	(3)	—	—	—	—	—	—
Amortization of prior year actuarial loss	1	—	—	—	—	—	—
Net amount recognized in accumulated other comprehensive income	\$ (4)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

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Combined Notes To Consolidated Financial Statements – (Continued)

Reconciliation of Funded Status to Accrued Other Post-Retirement Benefit Costs

(in millions)	Year Ended December 31, 2014						
	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana
Change in Projected Benefit Obligation							
Accumulated post-retirement benefit obligation at prior measurement date	\$ 1,106	\$ 265	\$ 533	\$ 233	\$ 253	\$ 42	\$ 118
Service cost	10	2	4	1	3	—	1
Interest cost	49	12	22	11	12	2	5
Plan participants' contributions	25	10	8	4	4	—	2
Actuarial gains ^(a)	(87)	(35)	(19)	(21)	—	—	(20)
Transfers	—	1	(48)	(2)	—	(1)	—
Plan amendments	(85)	(4)	(77)	—	(78)	(1)	—
Benefits paid	(103)	(31)	(44)	(19)	(24)	(3)	(10)
Accrued retiree drug subsidy	1	—	—	—	—	—	—
Accumulated post-retirement benefit obligation at measurement date	\$ 916	\$ 220	\$ 379	\$ 207	\$ 170	\$ 39	\$ 96
Change in Fair Value of Plan Assets							
Plan assets at prior measurement date	\$ 214	\$ 143	—	—	—	\$ 8	\$ 18
Actual return on plan assets	18	12	—	—	—	—	2
Benefits paid	(103)	(31)	(44)	(19)	(24)	(3)	(10)
Transfers	—	(1)	—	—	—	—	—
Employer contributions	73	12	36	14	20	3	11
Plan participants' contributions	25	10	8	4	4	—	2
Plan assets at measurement date	\$ 227	\$ 145	\$ —	\$ (1)	\$ —	\$ 8	\$ 23

(a) Includes an increase in benefit obligation of \$7 million as a result of changes in Duke Energy's mortality assumptions.

(in millions)	Year Ended December 31, 2013						
	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana
Change in Projected Benefit Obligation							
Accumulated post-retirement benefit obligation at prior measurement date	\$ 1,794	\$ 316	\$ 1,128	\$ 612	\$ 413	\$ 48	\$ 136
Service cost	24	2	18	9	7	1	1
Interest cost	68	13	41	22	16	2	5
Plan participants' contributions	47	15	14	6	7	3	3
Actuarial gains	(227)	(32)	(156)	(73)	(70)	(6)	(12)
Transfers	—	—	(1)	(8)	—	—	—
Plan amendments	(476)	(16)	(455)	(311)	(91)	—	(3)
Benefits paid	(132)	(36)	(60)	(26)	(31)	(6)	(14)
Accrued retiree drug subsidy	8	3	4	2	2	—	2
Accumulated post-retirement benefit obligation at measurement date	\$ 1,106	\$ 265	\$ 533	\$ 233	\$ 253	\$ 42	\$ 118
Change in Fair Value of Plan Assets							
Plan assets at prior measurement date	\$ 198	\$ 134	\$ —	\$ —	\$ —	\$ 7	\$ 17
Actual return on plan assets	18	13	—	—	—	2	2

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Benefits paid	(132)	(36)	(60)	(26)	(31)	(6)	(14)
Transfers	—	(1)	—	—	—	—	—
Employer contributions	83	18	46	20	24	2	10
Plan participants' contributions	47	15	14	6	7	3	3
Plan assets at measurement date	\$ 214	\$ 143	\$ —	\$ —	\$ —	\$ 8	\$ 18

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Amounts Recognized in the Consolidated Balance Sheets

(in millions)	December 31, 2014						
	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana
Current post-retirement liability ^(a)	\$ 35	\$ —	\$ 29	\$ 16	\$ 14	\$ 2	\$ —
Non-current post-retirement liability ^(b)	654	75	350	192	156	29	73
Total accrued post-retirement liability	\$ 689	\$ 75	\$ 379	\$ 208	\$ 170	\$ 31	\$ 73
Regulatory assets	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 64
Regulatory liabilities	\$ 380	\$ 76	\$ 122	\$ 61	\$ 61	\$ 19	\$ 91
Accumulated other comprehensive (income) loss							
Deferred income tax liability	\$ 5	\$ —	\$ 1	\$ —	\$ —	\$ —	\$ —
Prior service credit	(9)	—	—	—	—	—	—
Net actuarial gain	(5)	—	(2)	—	—	—	—
Net amounts recognized in accumulated other comprehensive income	\$ (9)	\$ —	\$ (1)	\$ —	\$ —	\$ —	\$ —
Amounts to be recognized in net periodic pension expense in the next year							
Unrecognized net actuarial loss (gain)	\$ 16	\$ (1)	\$ 28	\$ 18	\$ 10	\$ (2)	\$ —
Unrecognized prior service credit	(140)	(14)	(103)	(68)	(35)	—	—

(in millions)	December 31, 2013						
	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana
Current post-retirement liability ^(a)	\$ 39	\$ —	\$ 36	\$ 17	\$ 16	\$ 2	\$ —
Non-current post-retirement liability ^(b)	853	122	497	216	237	32	100
Total accrued post-retirement liability	\$ 892	\$ 122	\$ 533	\$ 233	\$ 253	\$ 34	\$ 100
Regulatory assets	\$ (162)	\$ (34)	\$ (129)	\$ (97)	\$ 4	\$ —	\$ 71
Regulatory liabilities	\$ 131	\$ —	\$ —	\$ —	\$ —	\$ 21	\$ 77
Accumulated other comprehensive (income) loss							
Deferred income tax liability	\$ 4	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Prior service credit	(5)	—	—	—	—	—	—
Net actuarial gain	(6)	—	—	—	—	—	—
Net amounts recognized in accumulated other comprehensive income	\$ (7)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

(a) Included in Other within Current Liabilities on the Consolidated Balance Sheets.

(b) Included in Accrued pension and other post-retirement benefit costs on the Consolidated Balance Sheets.

Assumptions Used for Other Post-Retirement Benefits Accounting

The discount rate used to determine the current year other post-retirement benefits obligation and following year's other post-retirement benefits expense is based on a bond selection-settlement portfolio approach. This approach develops a discount rate by selecting a portfolio of high quality corporate bonds that generate sufficient cash flow to provide for projected benefit payments of the plan. The selected bond portfolio is derived from a universe of non-callable corporate bonds rated Aa quality or higher. After the bond portfolio is selected, a single interest rate is determined that equates present value of the plan's projected benefit payments discounted at this rate with the market value of the bonds selected.

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Combined Notes To Consolidated Financial Statements – (Continued)

The following tables present the assumptions used for other post-retirement benefits accounting.

	December 31,		
	2014	2013	2012 ^(a)
Benefit Obligations			
Discount rate	4.10%	4.70%	4.10%
Net Periodic Benefit Cost			
Discount rate	4.70%	4.10%	4.60% - 5.10%
Expected long-term rate of return on plan assets	6.75%	7.75%	5.00% - 8.00%
Assumed tax rate	35%	35%	35%

(a) For Progress Energy plans, the assumptions used in 2012 to determine net periodic post-retirement benefit costs reflect remeasurement as of July 1, 2012, due to the merger between Duke Energy and Progress Energy.

Assumed Health Care Cost Trend Rate

	December 31,	
	2014	2013
Health care cost trend rate assumed for next year	6.75%	8.50%
Rate to which the cost trend is assumed to decline (the ultimate trend rate)	4.75%	5.00%
Year that rate reaches ultimate trend	2023	2021

Sensitivity to Changes in Assumed Health Care Cost Trend Rates

(in millions)	Year Ended December 31, 2014						
	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana
1-Percentage Point Increase							
Effect on total service and interest costs	\$ 2	\$ 1	\$ 1	\$ —	\$ 1	\$ —	\$ —
Effect on post-retirement benefit obligation	36	9	15	8	7	2	4
1-Percentage Point Decrease							
Effect on total service and interest costs	(2)	(1)	(1)	—	(1)	—	—
Effect on post-retirement benefit obligation	(31)	(8)	(13)	(7)	(6)	(1)	(3)

Expected Benefit Payments

(in millions)	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana
Years ending December 31,							
2015	\$ 77	\$ 17	\$ 30	\$ 16	\$ 14	\$ 4	\$ 10
2016	77	18	30	16	14	4	10
2017	76	18	29	15	14	3	9
2018	74	19	29	15	14	3	9
2019	73	19	29	15	13	3	8
2020 - 2024	332	84	132	70	61	15	35

PLAN ASSETS**Description and Allocations****Duke Energy Master Retirement Trust**

Assets for both the qualified pension and other post-retirement benefits are maintained in the Duke Energy Master Retirement Trust. Approximately 98 percent of the Duke Energy Master Retirement Trust assets were allocated to qualified pension plans and approximately 2 percent were allocated to other post-retirement plans, as of December 31, 2014 and 2013. The investment objective of the Duke Energy Master Retirement Trust is to achieve reasonable returns, subject to a prudent level of portfolio risk, for the purpose of enhancing the security of benefits for plan participants.

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The asset allocation targets were set after considering the investment objective and the risk profile. Equity securities are held for their higher expected return. Debt securities are primarily held to hedge qualified pension plan liability. Hedge funds, real estate and other global securities are held for diversification. Investments within asset classes are to be diversified to achieve broad market participation and reduce the impact of individual managers or investments.

In 2013, Duke Energy adopted a de-risking investment strategy for the Duke Energy Master Retirement Trust. As the funded status of the qualified pension plans increases, the targeted allocation to return seeking assets will be reduced and the targeted allocation to fixed-income assets will be increased to better manage Duke Energy's qualified pension liability and reduced funded status volatility. Duke Energy regularly reviews its actual asset allocation and periodically rebalances its investments to the targeted allocation when considered appropriate.

The Duke Energy Retirement Master Trust is authorized to engage in the lending of certain plan assets. Securities lending is an investment management enhancement that utilizes certain existing securities of the Duke Energy Retirement Master Trust to earn additional income. Securities lending involves the loaning of securities to approved parties. In return for the loaned securities, the Duke Energy Retirement Master Trust receives collateral in the form of cash as a safeguard against possible default of any borrower on the return of the loan under terms that permit the Duke Energy Retirement Master Trust to sell the securities. The Master Trust mitigates credit risk associated with securities lending arrangements by monitoring the fair value of the securities loaned, with additional collateral obtained or refunded as necessary. The fair value of securities on loan was approximately \$383 million and \$43 million at December 31, 2014 and 2013, respectively. Cash obtained as collateral exceeded the fair value of the securities loaned at December 31, 2014 and 2013, respectively. Securities lending income earned by the Master Trust was immaterial for the years ended December 31, 2014, 2013 and 2012, respectively.

Qualified pension and other post-retirement benefits for the Subsidiary Registrants are derived from the Duke Energy Master Retirement Trust, as such, each are allocated their proportionate share of the assets discussed below.

The following table includes the target asset allocations by asset class at December 31, 2014 and the actual asset allocations for the Duke Energy Master Retirement Trust.

	Target Allocation	Actual Allocation at December 31,	
		2014	2013
U.S. equity securities	10%	10%	10%
Non-U.S. equity securities	8%	8%	8%
Global equity securities	10%	10%	10%
Global private equity securities	3%	3%	3%
Debt securities	63%	63%	63%
Hedge funds	2%	3%	3%
Real estate and cash	2%	1%	1%
Other global securities	2%	2%	2%
Total	100%	100%	100%

VEBA I

Duke Energy also invests other post-retirement assets in the Duke Energy Corporation Employee Benefits Trust (VEBA I). The investment objective of VEBA I is to achieve sufficient returns, subject to a prudent level of portfolio risk, for the purpose of promoting the security of plan benefits for participants. VEBA I is passively managed.

The following table presents target and actual asset allocations for VEBA I at December 31, 2014.

	Target Allocation	Actual Allocation at December 31,	
		2014	2013
U.S. equity securities	30%	29%	29%
Debt securities	45%	28%	29%
Cash	25%	43%	42%
Total	100%	100%	100%

Fair Value Measurements

Duke Energy classifies recurring and non-recurring fair value measurements based on the fair value hierarchy as discussed in Note 16.

Valuation methods of the primary fair value measurements disclosed above are as follows:

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Investments in equity securities

Investments in equity securities, other than those accounted for as equity and cost method investments, are typically valued at the closing price in the principal active market as of the last business day of the reporting period. Principal active markets for equity prices include published exchanges such as NASDAQ and NYSE. Foreign equity prices are translated from their trading currency using the currency exchange rate in effect at the close of the principal active market. Prices have not been adjusted to reflect after-hours market activity. The majority of investments in equity securities are valued using Level 1 measurements. When (i) the Duke Energy Registrants lack the ability to redeem investments valued on a net asset value per share basis in the near future or (ii) net asset value per share is not available at the measurement date, the fair value measurement of the investment is categorized as Level 3.

Investments in debt securities

Most debt investments are valued based on a calculation using interest rate curves and credit spreads applied to the terms of the debt instrument (maturity and coupon interest rate) and consider the counterparty credit rating. Most debt valuations are Level 2 measurements. If the market for a particular fixed income security is relatively inactive or illiquid, the measurement is Level 3. U.S. Treasury debt is typically Level 2.

Investments in short-term investment funds

Investments in short-term investment funds are valued at the net asset value of units held at year end. Investments in short-term investment funds with published prices are valued as Level 1. Investments in short-term investment funds with unpublished prices are valued as Level 2.

Investments in real estate limited partnerships

Investments in real estate limited partnerships are valued by the trustee at each valuation date (monthly). As part of the trustee's valuation process, properties are externally appraised generally on an annual basis, conducted by reputable, independent appraisal firms, and signed by appraisers that are members of the Appraisal Institute, with the professional designation MAI. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. There are three valuation techniques that can be used to value investments in real estate assets: the market, income or cost approach. The appropriateness of each valuation technique depends on the type of asset or business being valued. In addition, the trustee may cause additional appraisals to be performed as warranted by specific asset or market conditions. Property valuations and the salient valuation-sensitive assumptions of each direct investment property are reviewed by the trustee quarterly and values are adjusted if there has been a significant change in circumstances related to the investment property since the last valuation. Value adjustments for interim capital expenditures are only recognized to the extent that the valuation process acknowledges a corresponding increase in fair value. An independent firm is hired to review and approve quarterly direct real estate valuations. Key inputs and assumptions used to determine fair value includes among others, rental revenue and expense amounts and related revenue and expense growth rates, terminal capitalization rates and discount rates. Development investments are valued using cost incurred to date as a primary input until substantive progress is achieved in terms of mitigating construction and leasing risk at which point a discounted cash flow approach is more heavily weighted. Key inputs and assumptions in addition to those noted above used to determine the fair value of development investments include construction costs, and the status of construction completion and leasing. Investments in real estate limited partnerships are valued as Level 3.

Duke Energy Master Retirement Trust

The following tables provide the fair value measurement amounts for the Duke Energy Master Retirement Trust qualified pension and other post-retirement assets.

(in millions)	December 31, 2014			
	Total Fair Value	Level 1	Level 2	Level 3
Equity securities	\$ 2,346	\$ 1,625	\$ 721	\$ —
Corporate debt securities	4,349	—	4,348	1
Short-term investment funds	333	171	162	—
Partnership interests	298	—	—	298
Hedge funds	146	—	146	—
Real estate limited partnerships	104	—	—	104
U.S. government securities	917	—	916	1
Guaranteed investment contracts	32	—	—	32
Governments bonds - foreign	44	—	44	—
Cash	30	30	—	—
Government and commercial mortgage backed securities	9	—	9	—
Net pending transactions and other investments	10	(10)	20	—
Total assets ^(a)	\$ 8,618	\$ 1,816	\$ 6,366	\$ 436

(a) Duke Energy Carolinas, Progress Energy, Duke Energy Progress, Duke Energy Florida, Duke Energy Ohio and Duke Energy Indiana were allocated approximately 28 percent, 31 percent, 15 percent, 16 percent, 5 percent and 8 percent, respectively, of the Duke Energy Master Retirement Trust assets at December 31, 2014. Accordingly, all Level 1, 2 and 3 amounts included in the table above are allocable to the Subsidiary Registrants using these percentages.

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(in millions)	December 31, 2013			
	Total Fair Value	Level 1	Level 2	Level 3
Equity securities	\$ 2,877	\$ 1,801	\$ 1,022	\$ 54
Corporate debt securities	2,604	—	2,601	3
Short-term investment funds	1,158	254	904	—
Partnership interests	307	—	—	307
Hedge funds	164	—	111	53
Real estate limited partnerships	95	—	—	95
U.S. government securities	927	—	927	—
Guarantees investment contracts	33	—	—	33
Governments bonds - foreign	19	—	18	1
Cash	58	58	—	—
Asset backed securities	7	—	7	—
Net pending transactions and other investments	12	7	5	—
Total assets ^(a)	\$ 8,261	\$ 2,120	\$ 5,595	\$ 546

(a) Duke Energy Carolinas, Progress Energy, Duke Energy Progress, Duke Energy Florida, Duke Energy Ohio and Duke Energy Indiana were allocated approximately 28 percent, 35 percent, 16 percent, 16 percent, 5 percent and 8 percent, respectively, of the Duke Energy Master Retirement Trust assets at December 31, 2013. Accordingly, all Level 1, 2 and 3 amounts included in the table above are allocable to the Subsidiary Registrants using these percentages.

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

(in millions)	2014	2013
Balance at January 1	\$ 546	\$ 352
Combination of trust assets ^(a)	—	288
Purchases, sales, issuances and settlements		
Purchases	17	25
Sales	(164)	(152)
Total gains (losses) and other, net	37	33
Balance at December 31	\$ 436	\$ 546

(a) As of January 1, 2013, assets previously held in the Progress Energy Master Retirement Trust were transferred into the Duke Energy Master Retirement Trust.

VEBA I

The following tables provide the fair value measurement amounts for VEBA I other post-retirement assets.

(in millions)	December 31, 2014			
	Total Fair Value	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 21	—	\$ 21	—
Equity securities	14	—	14	—
Debt securities	13	—	13	—
Total assets	\$ 48	—	\$ 48	—

(in millions)	December 31, 2013			
	Total Fair Value	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 21	—	\$ 21	—

Equity securities		15	—	15	—
Debt securities		15	—	15	—
Total assets	\$	51	—	\$	51

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EMPLOYEE SAVINGS PLANS

Duke Energy sponsors, and the Subsidiary Registrants participate in, employee savings plans that cover substantially all U.S. employees. Most employees participate in a matching contribution formula where Duke Energy provides a matching contribution generally equal to 100 percent of employee before-tax and Roth 401(k) contributions, and, as applicable, after-tax contributions, of up to 6 percent of eligible pay per pay period. Dividends on Duke Energy shares held by the savings plans are charged to retained earnings when declared and shares held in the plans are considered outstanding in the calculation of basic and diluted earnings per share.

As of January 1, 2014, for new and rehired non-union and certain unionized employees who are not eligible to participate in Duke Energy's defined benefit plans, an additional employer contribution of 4 percent of eligible pay per pay period, which is subject to a three-year vesting schedule, is provided to the employee's savings plan account.

The following table includes pretax employer matching contributions made by Duke Energy and expensed by the Subsidiary Registrants.

(in millions)	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana
Years ended December 31,							
2014 ^(a)	\$ 143	\$ 47	\$ 43	\$ 30	\$ 14	\$ 3	\$ 7
2013	134	45	45	25	14	3	7
2012	107	37	45	24	15	4	6

(a) For 2014, amounts include the additional employer contribution of 4 percent of eligible pay per pay period for employees not eligible to participate in a defined benefit plan.

22. INCOME TAXES**Income Tax Expense****Components of Income Tax Expense**

(in millions)	Year Ended December 31, 2014						
	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana
Current income taxes							
Federal	\$ —	\$ 161	\$ (466)	\$ (184)	\$ (53)	\$ (73)	\$ (112)
State	56	51	(8)	14	1	3	1
Foreign	144	—	—	—	—	—	—
Total current income taxes	200	212	(474)	(170)	(52)	(70)	(111)
Deferred income taxes							
Federal	1,517	407	938	436	350	113	294
State	35	(25)	84	25	52	1	15
Foreign	(67)	—	—	—	—	—	—
Total deferred income taxes ^{(a)(b)}	1,485	382	1,022	461	402	114	309
Investment tax credit amortization	(16)	(6)	(8)	(6)	(1)	(1)	(1)
Income tax expense from continuing operations	1,669	588	540	285	349	43	197
Tax benefit from discontinued operations	(295)	—	(4)	—	—	(300)	—
Total income tax expense included in Consolidated Statements of Operations	\$ 1,374	\$ 588	\$ 536	\$ 285	\$ 349	\$ (257)	\$ 197

(a) There were no benefits of net operating loss (NOL) carryforwards.

(b) Includes utilization of NOL and tax credit carryforwards of \$1,544 million at Duke Energy, \$345 million at Duke Energy Carolinas, \$530 million at Progress Energy, \$291 million at Duke Energy Progress, \$64 million at Duke Energy Florida, \$56 million at Duke Energy Ohio and \$141 million at Duke Energy Indiana.

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(in millions)	Year Ended December 31, 2013						
	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana
Current income taxes							
Federal	\$ (141)	\$ 49	\$ (221)	\$ (70)	\$ (143)	\$ (24)	\$ (88)
State	(40)	11	(37)	(10)	(13)	(4)	7
Foreign	151	—	—	—	—	—	—
Total current income taxes	(30)	60	(258)	(80)	(156)	(28)	(81)
Deferred income taxes							
Federal	1,092	464	555	316	326	65	276
State	144	75	84	59	44	6	29
Foreign	14	—	—	—	—	—	—
Total deferred income taxes ^(a)	1,250	539	639	375	370	71	305
Investment tax credit amortization	(15)	(5)	(8)	(7)	(1)	—	(1)
Income tax expense from continuing operations	1,205	594	373	288	213	43	223
Tax expense from discontinued operations	29	—	(26)	—	—	32	—
Total income tax expense included in Consolidated Statements of Operations	\$ 1,234	\$ 594	\$ 347	\$ 288	\$ 213	\$ 75	\$ 223

(a) Includes benefits of NOL carryforwards of \$808 million at Duke Energy, \$458 million at Progress Energy, \$64 million at Duke Energy Progress, \$301 million at Duke Energy Florida and \$179 million at Duke Energy Indiana.

(in millions)	Year Ended December 31, 2012						
	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana
Current income taxes							
Federal	\$ (108)	\$ (1)	\$ (88)	\$ (48)	\$ 6	\$ (8)	\$ (27)
State	29	(25)	2	(6)	—	5	27
Foreign	133	—	—	—	—	—	—
Total current income taxes	54	(26)	(86)	(54)	6	(3)	—
Deferred income taxes							
Federal	491	408	226	162	121	40	(47)
State	71	77	40	9	21	(2)	(25)
Foreign	20	—	—	—	—	—	—
Total deferred income taxes ^(a)	582	485	266	171	142	38	(72)
Investment tax credit amortization	(13)	(6)	(8)	(7)	(1)	(2)	(1)
Income tax expense (benefit) from continuing operations	623	453	172	110	147	33	(73)
Tax benefit from discontinued operations	107	—	29	—	—	65	—
Total income tax expense (benefit) included in Consolidated Statements of Operations	\$ 730	\$ 453	\$ 201	\$ 110	\$ 147	\$ 98	\$ (73)

(a) Includes benefits of NOL carryforwards of \$1,062 million at Duke Energy, \$245 million at Duke Energy Carolinas, \$357 million at Progress Energy, \$257 million at Duke Energy Progress, \$25 million at Duke Energy Florida, \$34 million at Duke Energy Ohio and \$205 million at Duke Energy Indiana.

Duke Energy Income from Continuing Operations before Income Taxes

(in millions)	Years Ended December 31,		
	2014	2013	2012
Domestic	\$ 3,600	\$ 3,183	\$ 1,600
Foreign	534	612	634
Income from continuing operations before income taxes	\$ 4,134	\$ 3,795	\$ 2,234

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Statutory Rate Reconciliation

The following tables present a reconciliation of income tax expense at the U.S. federal statutory tax rate to the actual tax expense from continuing operations.

(in millions)	Year Ended December 31, 2014						
	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana
Income tax expense, computed at the statutory rate of 35 percent	\$ 1,447	\$ 581	\$ 497	\$ 263	\$ 314	\$ 39	\$ 195
State income tax, net of federal income tax effect	59	17	49	25	34	3	10
Tax differential on foreign earnings ^(a)	(110)	—	—	—	—	—	—
AFUDC equity income	(47)	(32)	(9)	(9)	—	(1)	(5)
Renewable energy production tax credits	(67)	—	—	—	—	—	—
International tax dividend	373	—	—	—	—	—	—
Other items, net	14	22	3	6	1	2	(3)
Income tax expense from continuing operations	\$ 1,669	\$ 588	\$ 540	\$ 285	\$ 349	\$ 43	\$ 197
Effective tax rate	40.4%	35.4%	38.0%	37.9%	38.9%	38.9%	35.5%

(a) Includes a \$57 million benefit as a result of the merger of two Chilean subsidiaries and a change in income tax rates in various countries primarily relating to Peru.

During the fourth quarter of 2014, Duke Energy declared a taxable dividend of foreign earnings in the form of notes payable that will result in the repatriation of approximately \$2.7 billion of cash held and expected to be generated by International Energy over a period of up to 8 years. As a result of the decision to repatriate all cumulative historical undistributed foreign earnings, during the fourth quarter of 2014, Duke Energy recorded U.S. income tax expense of approximately \$373 million. Duke Energy's intention is to indefinitely reinvest prospective undistributed earnings generated by Duke Energy's foreign subsidiaries, and accordingly U.S. deferred taxes will not be provided for those earnings.

(in millions)	Year Ended December 31, 2013						
	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana
Income tax expense, computed at the statutory rate of 35 percent	\$ 1,328	\$ 549	\$ 361	\$ 276	\$ 188	\$ 39	\$ 203
State income tax, net of federal income tax effect	66	56	31	31	20	2	23
Tax differential on foreign earnings	(49)	—	—	—	—	—	—
AFUDC equity income	(55)	(32)	(18)	(15)	(3)	—	(5)
Renewable energy production tax credits	(62)	—	—	—	—	—	—
Other items, net	(23)	21	(1)	(4)	8	2	2
Income tax expense (benefit) from continuing operations	\$ 1,205	\$ 594	\$ 373	\$ 288	\$ 213	\$ 43	\$ 223
Effective tax rate	31.8%	37.8%	36.2%	36.5%	39.6%	39.1%	38.4%

(in millions)	Year Ended December 31, 2012						
	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana
Income tax expense, computed at the statutory rate of 35 percent	\$ 782	\$ 461	\$ 185	\$ 134	\$ 145	\$ 27	\$ (43)
State income tax, net of federal income tax effect	65	34	33	1	14	2	1
Tax differential on foreign earnings	(69)	—	—	—	—	—	—
AFUDC equity income	(101)	(54)	(37)	(24)	(13)	(2)	(26)
Renewable energy production tax credits	(25)	—	—	—	—	—	—
Other items, net	(29)	12	(9)	(1)	1	6	(5)
Income tax expense from continuing operations	\$ 623	\$ 453	\$ 172	\$ 110	\$ 147	\$ 33	\$ (73)
Effective tax rate	27.9%	34.3%	32.7%	28.7%	35.7%	42.9%	59.5%

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Valuation allowances have been established for certain foreign and state NOL carryforwards and state income tax credits that reduce deferred tax assets to an amount that will be realized on a more-likely-than-not basis. The net change in the total valuation allowance is included in Tax differential on foreign earnings and State income tax, net of federal income tax effect in the above tables.

DEFERRED TAXES**Net Deferred Income Tax Liability Components**

(in millions)	December 31, 2014						
	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana
Deferred credits and other liabilities	\$ 188	\$ 53	\$ 108	\$ 28	\$ 78	\$ (8)	\$ 12
Capital lease obligations	63	10	—	—	—	—	2
Pension, postretirement and other employee benefits	546	4	188	96	93	17	43
Progress Energy merger purchase accounting adjustments ^(a)	1,124	—	—	—	—	—	—
Tax credits and NOL carryforwards	3,540	157	980	91	252	38	260
Investments and other assets	—	—	—	—	—	14	—
Other	—	12	—	55	—	35	11
Valuation allowance	(184)	—	(13)	(1)	—	—	—
Total deferred income tax assets	5,277	236	1,263	269	423	96	328
Investments and other assets	(1,625)	(1,051)	(427)	(232)	(245)	—	(4)
Accelerated depreciation rates	(11,715)	(4,046)	(3,284)	(2,030)	(1,252)	(1,660)	(1,603)
Regulatory assets and deferred debits	(3,694)	(953)	(1,602)	(809)	(792)	(141)	(106)
Other	(44)	—	(151)	—	(246)	—	—
Total deferred income tax liabilities	(17,078)	(6,050)	(5,464)	(3,071)	(2,535)	(1,801)	(1,713)
Net deferred income tax liabilities	\$ (11,801)	\$ (5,814)	\$ (4,201)	\$ (2,802)	\$ (2,112)	\$ (1,705)	\$ (1,385)

(a) Primarily related to capital lease obligations and debt fair value adjustments.

On July 23, 2013, HB 998 was signed into law. HB 998 reduces the North Carolina corporate income tax rate from a statutory 6.9 percent to 6.0 percent in January 2014 with a further reduction to 5.0 percent in January 2015. Duke Energy recorded a net reduction of approximately \$145 million to its North Carolina deferred tax liability in the third quarter of 2013. The significant majority of this deferred tax liability reduction was offset by recording a regulatory liability pending NCUC determination of the disposition of the amounts related to Duke Energy Carolinas and Duke Energy Progress. The impact of HB 998 did not have a significant impact on the financial position, results of operation, or cash flows of Duke Energy, Duke Energy Carolinas, Progress Energy or Duke Energy Progress.

The following table presents the expiration of tax credits and NOL carryforwards.

(in millions)	December 31, 2014			
	Amount	Expiration Year		
Investment tax credits	\$ 581	2029	—	2034
Alternative minimum tax credits	1,093			Indefinite
Federal NOL carryforwards	749	2030	—	2033
State NOL carryforwards and credits ^(a)	162	2015	—	2034
Foreign NOL carryforwards ^(b)	117	2015	—	2033
Foreign Tax Credits	838	2024		
Total tax credits and NOL carryforwards	\$ 3,540			

(a) A valuation allowance of \$79 million has been recorded on the state Net Operating Loss carryforwards, as presented in the Net Deferred Income Tax Liability Components table.

(b) A valuation allowance of \$105 million has been recorded on the foreign Net Operating Loss carryforwards, as presented in the Net Deferred Income Tax Liability Components table.

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December 31, 2013							
(in millions)	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana
Deferred credits and other liabilities	\$ 245	\$ 56	\$ 136	\$ 9	\$ 96	\$ (13)	\$ 9
Capital lease obligations	59	11	—	—	—	—	(2)
Pension, postretirement and other employee benefits	649	18	341	119	145	23	54
Progress Energy merger purchase accounting adjustments ^(a)	1,184	—	—	—	—	—	—
Tax credits and NOL carryforwards	4,307	488	1,965	396	365	165	521
Other	265	15	116	39	43	20	14
Valuation allowance	(192)	—	(40)	(1)	—	—	—
Total deferred income tax assets	6,517	588	2,518	562	649	195	596
Investments and other assets	(1,396)	(999)	(209)	(160)	(49)	(17)	(7)
Accelerated depreciation rates	(12,615)	(4,400)	(3,663)	(2,528)	(1,160)	(1,937)	(1,591)
Regulatory assets and deferred debits	(3,185)	(609)	(1,389)	(202)	(1,159)	(168)	(117)
Total deferred income tax liabilities	(17,196)	(6,008)	(5,261)	(2,890)	(2,368)	(2,122)	(1,715)
Net deferred income tax liabilities	\$ (10,679)	\$ (5,420)	\$ (2,743)	\$ (2,328)	\$ (1,719)	\$ (1,927)	\$ (1,119)

(a) Primarily related to capital lease obligations and debt fair value adjustments.

Classification of Deferred Tax Assets (Liabilities) in the Consolidated Balance Sheets

December 31, 2014							
(in millions)	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana
Current Assets: Other	\$ 1,593	\$ 3	\$ 558	\$ 106	\$ 340	\$ 60	\$ 206
Investments and Other Assets: Other	29	—	—	—	—	—	—
Current Liabilities: Other	—	(5)	—	—	—	—	—
Deferred Credits and Other Liabilities: Other	(13,423)	(5,812)	(4,759)	(2,908)	(2,452)	(1,765)	(1,591)
Net deferred income tax liabilities	\$ (11,801)	\$ (5,814)	\$ (4,201)	\$ (2,802)	\$ (2,112)	\$ (1,705)	\$ (1,385)

December 31, 2013							
(in millions)	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana
Current Assets: Other	\$ 1,373	\$ 286	\$ 540	\$ 229	\$ 110	\$ 85	\$ 52
Investments and Other Assets: Other	45	—	—	—	—	—	—
Deferred Credits and Other Liabilities: Other	(12,097)	(5,706)	(3,283)	(2,557)	(1,829)	(2,012)	(1,171)
Net deferred income tax liabilities	\$ (10,679)	\$ (5,420)	\$ (2,743)	\$ (2,328)	\$ (1,719)	\$ (1,927)	\$ (1,119)

PART II

DUKE ENERGY CORPORATION - DUKE ENERGY CAROLINAS, LLC - PROGRESS ENERGY, INC. –
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Combined Notes To Consolidated Financial Statements – (Continued)

UNRECOGNIZED TAX BENEFITS

The following tables present changes to unrecognized tax benefits.

(in millions)	Year Ended December 31, 2014					
	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Indiana
Unrecognized tax benefits — January 1	\$ 230	\$ 171	\$ 32	\$ 22	\$ 8	\$ 1
Unrecognized tax benefits increases (decreases)						
Gross increases — tax positions in prior periods	—	—	1	1	—	—
Gross decreases — tax positions in prior periods	(2)	—	—	—	—	—
Decreases due to settlements	(15)	(11)	(1)	—	—	—
Total changes	(17)	(11)	—	1	—	—
Unrecognized tax benefits — December 31	\$ 213	\$ 160	\$ 32	\$ 23	\$ 8	\$ 1

	Year Ended December 31, 2013							
(in millions)	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana	
Unrecognized tax benefits — January 1	\$ 540	\$ 271	\$ 131	\$ 67	\$ 44	\$ 36	\$ 32	
Unrecognized tax benefits (decreases) increases								
Gross decreases — tax positions in prior periods	(231)	(100)	(86)	(45)	(37)	(36)	(31)	
Decreases due to settlements	(66)	—	—	—	—	—	—	
Reduction due to lapse of statute of limitations	(13)	—	(13)	—	1	—	—	
Total changes	(310)	(100)	(99)	(45)	(36)	(36)	(31)	
Unrecognized tax benefits — December 31	\$ 230	\$ 171	\$ 32	\$ 22	\$ 8	\$ —	\$ 1	

	Year Ended December 31, 2012							
(in millions)	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana	
Unrecognized tax benefits — January 1	\$ 385	\$ 260	\$ 173	\$ 73	\$ 80	\$ 32	\$ 24	
Acquisitions	128	—	—	—	—	—	—	
Unrecognized tax benefits increases (decreases)								
Gross increases — tax positions in prior periods	29	12	23	10	12	2	6	
Gross decreases — tax positions in prior periods	(4)	—	(72)	(19)	(52)	—	—	
Gross increases — current period tax positions	28	15	8	4	4	4	4	
Gross decreases — current period tax positions	(9)	(5)	(1)	(1)	—	(2)	(2)	
Decreases due to settlements	(13)	(11)	—	—	—	—	—	
Reduction due to lapse of statute of limitations	(4)	—	—	—	—	—	—	
Total changes	155	11	(42)	(6)	(36)	4	8	
Unrecognized tax benefits — December 31	\$ 540	\$ 271	\$ 131	\$ 67	\$ 44	\$ 36	\$ 32	

PART II

DUKE ENERGY CORPORATION - DUKE ENERGY CAROLINAS, LLC - PROGRESS ENERGY, INC. –
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Combined Notes To Consolidated Financial Statements – (Continued)

The following table includes additional information regarding the Duke Energy Registrants' unrecognized tax benefits. It is reasonably possible that Duke Energy and Progress Energy will reflect an approximate \$28 million reduction, Duke Energy Progress will reflect an approximate \$17 million reduction, and Duke Energy Florida will reflect an approximate \$7 million reduction in unrecognized tax benefits within the next 12 months due to the expected lapse of the statute of limitations. All other Duke Energy Registrants do not anticipate a material increase or decrease in unrecognized tax benefits within the next 12 months.

(in millions)	December 31, 2014					
	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Indiana
Amount that if recognized, would affect the effective tax rate or regulatory liability ^(a)	\$ 121	\$ 112	\$ 3	\$ 2	\$ 2	\$ 2
Amount that if recognized, would be recorded as a component of discontinued operations	8	—	—	—	—	—

(a) Duke Energy, Duke Energy Carolinas, Progress Energy, Duke Energy Progress, Duke Energy Florida and Duke Energy Indiana are unable to estimate the specific amounts that would affect the effective tax rate versus the regulatory liability.

OTHER TAX MATTERS

The following tables include interest recognized in the Consolidated Statements of Operations and the Consolidated Balance Sheets.

(in millions)	Year Ended December 31, 2014						
	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana
Net interest income recognized related to income taxes	\$ 6	\$ —	\$ 3	\$ —	\$ 1	\$ 4	\$ 4
Net interest expense recognized related to income taxes	—	1	—	1	—	—	—
Interest receivable related to income taxes	—	—	—	—	—	—	2
Interest payable related to income taxes	13	13	5	3	5	—	—

(in millions)	Year Ended December 31, 2013						
	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana
Net interest income recognized related to income taxes	\$ 2	\$ 2	6	7	—	4	\$ 1
Interest payable related to income taxes	27	8	10	2	7	—	—

(in millions)	Year Ended December 31, 2012						
	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana
Net interest income recognized related to income taxes	\$ 10	\$ 9	\$ —	\$ —	\$ —	—	2
Net interest expense recognized related to income taxes	—	—	2	—	2	—	—
Interest receivable related to income taxes	—	7	—	—	—	—	—
Interest payable related to income taxes	7	—	17	8	9	3	1

Duke Energy and its subsidiaries are no longer subject to U.S. federal examination for years before 2008. The years 2008 through 2011 are in Appeals. The IRS is currently auditing the federal income tax returns for years 2012 and 2013. With few exceptions, Duke Energy and its subsidiaries are no longer subject to state, local or non-U.S. income tax examinations by tax authorities for years before 2004.

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Combined Notes To Consolidated Financial Statements – (Continued)

23. OTHER INCOME AND EXPENSES, NET

The components of Other income and expenses, net on the Consolidated Statements of Operations are as follows.

(in millions)	Year Ended December 31, 2014						
	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana
Interest income	\$ 57	\$ 4	\$ 3	\$ —	\$ 2	\$ 8	\$ 6
Foreign exchange gains	3	—	—	—	—	—	—
AFUDC equity	135	91	26	25	—	4	14
Deferred returns	89	71	17	17	—	—	—
Other income (expense)	67	6	31	9	18	(2)	2
Other income and expense, net	\$ 351	\$ 172	\$ 77	\$ 51	\$ 20	\$ 10	\$ 22

(in millions)	Year Ended December 31, 2013						
	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana
Interest income	\$ 26	\$ 1	\$ 7	\$ 1	\$ 3	\$ 5	\$ 6
Foreign exchange losses	(18)	—	—	—	—	—	—
AFUDC equity	157	91	50	42	8	1	15
Deferred returns	39	32	7	7	—	—	—
Other income (expense)	58	(4)	30	7	19	(4)	(3)
Other income and expense, net	\$ 262	\$ 120	\$ 94	\$ 57	\$ 30	\$ 2	\$ 18

(in millions)	Year Ended December 31, 2012						
	Duke Energy	Duke Energy Carolinas	Progress Energy	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana
Interest income	\$ 50	\$ 11	\$ 2	\$ 1	\$ 1	\$ —	\$ 7
Foreign exchange gains	4	—	—	—	—	—	—
AFUDC equity	300	154	106	69	37	6	84
Deferred returns	24	24	—	—	—	—	—
Other income (expense)	19	(4)	22	9	1	2	(1)
Other income and expense, net	\$ 397	\$ 185	\$ 130	\$ 79	\$ 39	\$ 8	\$ 90

24. SUBSEQUENT EVENTS

For information on subsequent events related to acquisitions, dispositions and sales of other assets, regulatory matters, commitments and contingencies, and debt and credit facilities, see Notes 2, 4, 5 and 6.

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DUKE ENERGY CORPORATION - DUKE ENERGY CAROLINAS, LLC - PROGRESS ENERGY, INC. –
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Combined Notes To Consolidated Financial Statements – (Continued)

25. QUARTERLY FINANCIAL DATA (UNAUDITED)**DUKE ENERGY**

Quarterly EPS amounts are meant to be stand-alone calculations and are not always additive to the full-year amount due to rounding and the weighting of share issuances.

(in millions, except per share data)	First Quarter ^(a)	Second Quarter ^(a)	Third Quarter ^(a)	Fourth Quarter ^(a)	Total
2014					
Operating revenues	\$ 6,263	\$ 5,708	\$ 6,395	\$ 5,559	\$ 23,925
Operating income	1,362	1,289	1,619	988	5,258
Income from continuing operations	750	725	891	99	2,465
(Loss) income from discontinued operations, net of tax	(843)	(112)	378	1	(576)
Net loss (income)	(93)	613	1,269	100	1,889
Net loss (income) attributable to Duke Energy Corporation	(97)	609	1,274	97	1,883
Earnings per share:					
Income from continuing operations attributable to Duke Energy Corporation common shareholders					
Basic	\$ 1.05	\$ 1.02	\$ 1.25	\$ 0.14	\$ 3.46
Diluted	\$ 1.05	\$ 1.02	\$ 1.25	\$ 0.14	\$ 3.46
(Loss) income from discontinued operations attributable to Duke Energy Corporation common shareholders					
Basic	\$ (1.19)	\$ (0.16)	\$ 0.55	\$ —	\$ (0.80)
Diluted	\$ (1.19)	\$ (0.16)	\$ 0.55	\$ —	\$ (0.80)
Net (loss) income attributable to Duke Energy Corporation common shareholders					
Basic	\$ (0.14)	\$ 0.86	\$ 1.80	\$ 0.14	\$ 2.66
Diluted	\$ (0.14)	\$ 0.86	\$ 1.80	\$ 0.14	\$ 2.66
2013					
Operating revenues	\$ 5,536	\$ 5,393	\$ 6,217	\$ 5,610	\$ 22,756
Operating income	1,259	742	1,660	1,193	4,854
Income from continuing operations	663	292	946	689	2,590
(Loss) income from discontinued operations, net of tax	(29)	50	62	3	86
Net income	634	342	1,008	692	2,676
Net income attributable to Duke Energy Corporation	634	339	1,004	688	2,665
Earnings per share:					
Income from continuing operations attributable to Duke Energy Corporation common shareholders					
Basic	\$ 0.93	\$ 0.40	\$ 1.33	\$ 0.96	\$ 3.64
Diluted	\$ 0.93	\$ 0.40	\$ 1.33	\$ 0.96	\$ 3.63
(Loss) income from discontinued operations attributable to Duke Energy Corporation common shareholders					
Basic	\$ (0.04)	\$ 0.08	\$ 0.09	\$ 0.01	\$ 0.13
Diluted	\$ (0.04)	\$ 0.08	\$ 0.09	\$ 0.01	\$ 0.13
Net income attributable to Duke Energy Corporation common shareholders					
Basic	\$ 0.89	\$ 0.48	\$ 1.42	\$ 0.97	\$ 3.77
Diluted	\$ 0.89	\$ 0.48	\$ 1.42	\$ 0.97	\$ 3.76

(a) Operating results reflect reclassifications due to the impact of discontinued operations (see Note 2 for further information).

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Combined Notes To Consolidated Financial Statements – (Continued)

The following table includes unusual or infrequently occurring items in each quarter during the two most recently completed fiscal years. All amounts discussed below are pretax unless otherwise noted.

(in millions)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
2014					
Costs to achieve Progress Energy merger (see Note 2)	\$ (55)	\$ (61)	\$ (56)	\$ (33)	\$ (205)
Midwest Generation Impairment (see Note 2)	(1,287)	—	477	(39)	(849)
Coal ash Plea Agreements Reserve (see Note 5)	—	—	—	(102)	(102)
International Tax Adjustment (see Note 22)	—	—	—	(373)	(373)
Asset Impairment (see Note 11)	(94)	—	—	—	(94)
Total	\$ (1,436)	\$ (61)	\$ 421	\$ (547)	\$ (1,623)
2013^(a)					
Costs to achieve Progress Energy merger (see Note 2)	\$ (55)	\$ (82)	\$ (88)	\$ (72)	\$ (297)
Crystal River Unit 3 charges (see Note 4)	—	(295)	—	(57)	(352)
Harris and Levy nuclear development charges (see Note 4)	—	(87)	—	—	(87)
Gain on sale of DukeNet (see Note 12)	—	—	—	105	105
Total	\$ (55)	\$ (464)	\$ (88)	\$ (24)	\$ (631)

(a) Revised retail rates became effective in January for Duke Energy Florida, May for Duke Energy Ohio, June for Duke Energy Progress and September for Duke Energy Carolinas (see Note 4 for further information).

DUKE ENERGY CAROLINAS

(in millions)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
2014					
Operating revenues	\$ 2,000	\$ 1,755	\$ 1,938	\$ 1,658	\$ 7,351
Operating income	509	438	630	318	1,895
Net income	286	270	377	139	1,072
2013					
Operating revenues	\$ 1,729	\$ 1,591	\$ 1,919	\$ 1,715	\$ 6,954
Operating income	434	351	604	420	1,809
Net income	244	181	342	209	976

The following table includes unusual or infrequently occurring items in each quarter during the two most recently completed fiscal years. All amounts discussed below are pretax unless otherwise noted.

(in millions)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
2014					
Costs to achieve Progress Energy merger (see Note 2)	\$ (29)	\$ (38)	\$ (25)	\$ (17)	\$ (109)
Coal ash Plea Agreements Reserve (see Note 5)	—	—	—	(72)	(72)
Total	(29)	(38)	(25)	(89)	(181)
2013^(a)					
Costs to achieve Progress Energy merger (see Note 2)	\$ (22)	\$ (35)	\$ (34)	\$ (29)	\$ (120)

(a) Revised retail rates became effective in September in both North Carolina and South Carolina (see Note 4 for further information).

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Combined Notes To Consolidated Financial Statements – (Continued)

PROGRESS ENERGY

(in millions)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
2014					
Operating revenues	\$ 2,541	\$ 2,421	\$ 2,863	\$ 2,341	\$ 10,166
Operating income	477	488	665	388	2,018
Income from continuing operations	204	207	330	139	880
Net income	203	202	330	139	874
Net income attributable to Parent	202	202	329	136	869
2013					
Operating revenues	\$ 2,186	\$ 2,281	\$ 2,766	\$ 2,300	\$ 9,533
Operating income	430	114	671	403	1,618
Income (loss) from continuing operations	154	(13)	328	190	659
Net income (loss)	154	(17)	342	196	675
Net income (loss) attributable to Parent	153	(17)	341	195	672

The following table includes unusual or infrequently occurring items in each quarter during the two most recently completed fiscal years. All amounts discussed below are pretax unless otherwise noted.

(in millions)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
2014					
Costs to achieve the merger with Duke Energy (see Note 2)	\$ (19)	\$ (12)	\$ (21)	\$ (13)	\$ (65)
Coal ash Plea Agreements Reserve (see Note 5)	—	—	—	(30)	(30)
Total	(19)	(12)	(21)	(43)	(95)
2013^(a)					
Costs to achieve the merger with Duke Energy (see Note 2)	\$ (19)	\$ (33)	\$ (42)	\$ (28)	\$ (122)
Crystal River Unit 3 charges (see Note 4)	—	(295)	—	(57)	(352)
Harris and Levy nuclear development charges (see Note 4)	—	(87)	—	—	(87)
Total	\$ (19)	\$ (415)	\$ (42)	\$ (85)	\$ (561)

(a) Revised retail rates became effective in January in Florida and June in North Carolina (see Note 4 for further information).

DUKE ENERGY PROGRESS

(in millions)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
2014					
Operating revenues	\$ 1,422	\$ 1,191	\$ 1,367	\$ 1,196	\$ 5,176
Operating income	258	212	285	180	935
Net income	133	101	157	76	467
2013					

STATE OF SOUTH CAROLINA
DEPARTMENT OF REVENUE
OFFICE OF THE GENERAL COUNSEL

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April 26, 2019

Maria M. Todorova, Esquire
Eric S. Tresh, Esquire
Eversheds Sutherland (US), LLP
999 Peachtree Street, N.E., Suite 2300
Atlanta, GA 30309-3996

Re: Department Determination
Duke Energy Corporation & Affiliates
Corporate Income Tax – 1996 through 2014
Our File Number: 180317

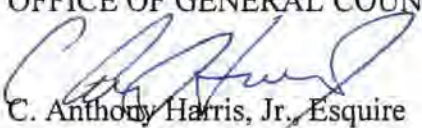
Dear Counsel:

Enclosed is the South Carolina Department of Revenue's Determination in the above-referenced matter. If you disagree with the Determination, you may request a contested case hearing before an Administrative Law Judge. If you choose to pursue such remedy, you must do so within thirty (30) days of the date of this letter. If you fail to respond within this time limitation, you will lose your right to appeal the Department Determination and your protest will be ended. Should you desire a contested case hearing, you must complete the enclosed request form and mail it, along with a \$500.00 filing fee, to the Administrative Law Court at the address stated on the form's instruction sheet.

The Administrative Law Court rules require that you also send me a copy of your request. My address is as follows: PO Box 12265, Columbia, SC 29211-9979.

Sincerely,

OFFICE OF GENERAL COUNSEL FOR LITIGATION


C. Anthony Harris, Jr., Esquire
Counsel for Litigation
Charles.Harris@dor.sc.gov
803-898-5278

CAH/gjm

Enclosures

DEPARTMENT DETERMINATION

Taxpayer:

Duke Energy Corp.
DEC41A
550 South Tryon Street
Charlotte, NC 28202

Periods Involved:

Corporate Income Tax – Tax Period 1996 - 2014

Amount in Dispute:

\$19,850,727

Matter in Dispute:

Is the Taxpayer limited to a \$5,000,000 investment tax credit on a lifetime basis under S.C. Code Ann. § 12-14-60(A)(1), (D)(1) and (G) (2014) ?

Determination:

The Taxpayer is limited to a \$5,000,000 investment tax credit on a lifetime basis under § 12-14-60(A)(1), (D)(1) and (G).

Relevant Facts:

1. The Taxpayer is a utility company providing electrical power to South Carolina citizens and, as such, is entitled to claim certain investment tax credit under Chapter 14 of Title 12 of the S.C. Code of Laws.
2. The South Carolina Department of Revenue (Department) audited the Taxpayer's corporate income tax returns filed from 1996 through 2014 (the audit period). The Taxpayer filed returns for each year of the audit period and claimed investment tax credit totaling \$24,850,727, of which \$5,000,000 was allowed by the Department. The Department's audit showed that \$4,298,806 of tax credit was used by the Taxpayer through December 31, 2014, and that the Taxpayer had a carry-forward balance of \$701,195.

3. The following is a compilation of the audit results:¹

Tax Credit Per Return		Tax Credit Allowed by DOR	Tax Credit Used by Taxpayer	Tax Credit Disallowed	Tax Credit Carry Forward Per Taxpayer Per Department	
1996	208,415	208,415	208,415	-0-	-0-	-0-
1997	332,120	332,120	332,120	-0-	-0-	-0-
1998	382,454	382,454	382,454	-0-	-0-	-0-
1999	194,718	194,718	194,718	-0-	-0-	-0-
2000	450,347	450,347	450,347	-0-	-0-	-0-
2001	156,034	156,034	156,034	-0-	-0-	-0-
2002	346,795	346,795	346,795	-0-	-0-	-0-
2003	290,036	290,036	290,036	-0-	-0-	-0-
2004 ²	640,665	640,665	-0-	-0-	640,665	640,665
2005	210,450	210,450	-0-	-0-	851,115	851,115
2006	180,785	180,785	-0-	-0-	1,031,900	1,031,900
2007	438,966	438,966	-0-	-0-	1,470,866	1,470,866
2008	387,240	387,240	-0-	-0-	1,858,106	1,858,106
2009	436,294	436,294	-0-	-0-	2,294,400	2,294,400
2010	501,741	344,681	-0-	157,060	2,796,141	2,639,081
2011	4,832,741	-0-	-0-	4,832,741	7,628,882	2,639,081
2012	4,951,427	-0-	-0-	4,951,427	12,580,309	2,639,081
2013	4,953,682	-0-	-0-	4,953,682	17,533,991	2,639,081
2014	4,955,817	-0-	1,937,887	4,955,817	20,551,921	701,194
	<u>24,850,727</u>	<u>5,000,000</u>	<u>4,298,806</u>	<u>19,850,727</u>		

4. The Department issued a Notice of Adjustment to the Taxpayer dated July 19, 2018, which reflected the findings of the audit and adjusted the total tax credit allowed, including the carry-forward balance, as set forth above.

¹The audit reflecting the investment tax credit was part of a larger audit involving the Taxpayer and which dealt with a number of tax-related matters. Following the decision in Duke Energy Corporation v. S.C. Dep't of Revenue, 415 S.C. 351, 782 S.E. 2d 590 (2016), the Department and Taxpayer resolved all issues, with the exception of the investment tax credit addressed in this Determination. This information is provided as an explanation for the length of the audit period set forth herein. The Department reserves the right to make adjustments to the audit referenced in this Determination as may be necessary based on discovery or other information which becomes available to the Department.

²Duke claimed a loss on its income tax returns for the years 2004 through 2013, which is the reason none of the credit was used during those years. Duke used \$1,937,887.00 in tax credit in 2014, leaving unused carry-forward credit of \$701,195.00 per the audit report.

5. The Taxpayer timely protested the Department's Notice of Adjustment by letter dated October 16, 2018.
6. As the issue of the tax credit had been discussed with the Taxpayer as part of several other tax matters involving the Taxpayer, the Taxpayer requested that a conference with the Appeals Division of the Department be bypassed and that the matter be sent directly to the Office of General Counsel for Litigation for the issuance of this Determination.

Analysis

- I. **The Taxpayer is not entitled to carry forward \$19,850,727 in investment tax credit, as the clear and unambiguous language of §§ 12-14-60(A)(1),(D)(1) and (G) limits the tax credit to \$5,000,000 on a lifetime basis.**

Chapter 14 of Title 12 of the South Carolina Code provides for investment tax credit for certain companies that place in service qualified manufacturing and productive equipment property. The Taxpayer is a company which qualifies for the tax credit.

Section 12-14-60(A)(1) provides "[t]here is allowed an investment tax credit against the tax imposed pursuant to Chapter 6 of this title for any taxable year in which the taxpayer places in service qualified manufacturing and productive equipment property." Any unused tax credit may be carried forward for ten years from the close of the tax year in which the credit was earned under § 12-14-60(D)(1). The lifetime limitation of \$5,000,000 is imposed by § 12-14-60(G) which reads "[t]he credit allowed by this section for investments made after June 30, 1998, *is limited to no more than five million dollars for an entity subject to the license tax as provided by Section 12-20-100.*" (emphasis added).

The cardinal rule employed by South Carolina courts in statutory construction is to first ascertain the plain meaning of the language in the statute. "It is axiomatic that statutory interpretation begins (and often ends) with the text of the statute in question." Smith v. Norman K. Tiffany, 419 S.C. 548, 556, 799 S.E. 2d. 479, 587 (2017). "The text of a statute as drafted by the legislature is considered the best evidence of the legislative intent or will." Hodges v. John S. Rainey, 341 S.C. 79, 85, 533 S.E.2d. 578, 581 (2000). "If a statute is clear and explicit in its language, then there is no need to resort to statutory interpretation or legislative intent to determine its meaning." Timmons v. S.C. Tricentennial Commission, 254 S.C. 378, 401, 175 S.E.2d. 805, 817 (1970).

The controlling statute is § 12-14-60 and the pertinent language of the applicable subsections defines the time period, duration and limitation for the allowable tax credit. Section 12-14-60(A)(1) provides the time period for which the credit may be taken (any taxable year in which the taxpayer places in service qualified equipment); § 12-14-60(D)(1) defines the duration over which the credit may be taken (the taxpayer may carry forward unused credit for a period of ten years from the close of the tax year in which the credit was earned); and § 12-14-60(G) sets forth the limitation on the total amount of credit a taxpayer may claim (the credit allowed by this section is limited to no more than \$5,000,000). The statute's language is plain and unambiguous, and conveys a clear and definite meaning, and no other meaning should be imposed. See SCANA Corp. v. S.C. Dep't of Rev., 384 S.C. 388, 391, 683 S.E.2d 468, 469 (2009) (construing S.C. Code Ann. § 12-14-60(D)). When the subsections are read together as a whole, the clear meaning of the language is that the statute provides a lifetime limit of \$5,000,000 in tax credit, which may be

used in a single tax year, earned over multiple tax years or carried forward if unused over a period of ten years.

If there is any resort to matters outside the plain text of the statute, the title to the statute in this instance is a clear indication of the legislative intent. Outside of the statute itself, the title is the text most closely related to the statute. The statute in question was first enacted in 1995 and has been amended on several occasions since. See 1995 S.C. Act No. 25 (Economic Impact Zone Community Development Act of 1995). In 1998 the statute was amended, and for the first time the General Assembly included language to specifically limit the credit for an entity subject to the license tax under S.C. Code Ann. § 12-20-100 (2014), to which the taxpayer, as a utility company, is subject. See 1998 S.C. Act No. 442. During the 1998 legislative session, the General Assembly first proposed legislation to limit the credit for utility companies to \$1,000,000; later that same session, the bill was amended to increase the credit to \$5,000,000. However, under both versions of the bill, the title clearly states that its purpose is “[t]o limit the *total credit* allowed a utility for investments made after June 30, 1998”. See 1998 S.C. Act No. 419; 1998 S.C. Act No. 442. (emphasis added). Our courts have held that the title is part of a statute and while a title may not be used to alter the text of a statute, it may be considered when construing legislative intent. Alyce B. McInnis v. Estate of E.C. McInnis, Jr., 348 S.C. 585, 560 S.E. 2d 632 (Ct. App. 2002); Nathaniel Garner v. William S. Houck, Jr., 312 S.C. 481; 435 S.E. 2d 847 (1993). “It is proper to consider the title or caption of an act in aid of construction to show the intent of the legislature.” Lindsay v. S. Farm Bureau Cas. Ins. Co., 258 S.C. 272, 277 188 S.E.2d 374, 376 (1972), citing Univ. of S. Carolina v. Elliott, 248 S.C. 218, 221, 149 S.E. 2d 433, 434 (1966). The plain and unambiguous language in the title to the 1998 amendment further evinces the legislature’s intent *to limit the total credit a taxpayer can claim after June 30, 1998 to \$5,000,000 on a lifetime basis*.

II. The credit at issue must be strictly construed against the Taxpayer.

Importantly, § 12-14-60 provides a tax credit, which is a legislatively-created special circumstance that lessens the overall tax burden of the Taxpayer. South Carolina courts have long held that any statute which lessens the tax burden, whether by exemption, deduction or tax credit, is a matter of legislative grace and should be strictly construed against the taxpayer. “[I]n order for a taxpayer to avail himself of a deduction in the calculation of a tax, the taxpayer must bring himself squarely within the terms of that statute authorizing such deduction.” Avco Corp. v. Robert C. Wasson, Chairman, et al., 267 S.C. 581, 230 S.E.2d 614 (1976).

In Matthews v. South Carolina Tax Commission, 267 S.C. 548, 230 S.E.2d.223(1976), the taxpayer sought to recover taxes paid under protest, citing a statute which allowed carry forward losses for taxpayers who had started a new business in the state. In ruling against the taxpayer, the Court held:

However, this case and Chronicle Publishers recognize a principle that applies in the present case: that a deduction is a matter of legislative grace; and that a statute allowing a deduction, if ambiguous, is construed strictly against the taxpayer. The language of section 65-259(12) does leave room for interpretation. What it takes to ‘establish a new business’ is admittedly not obvious. The present case is therefore one to which the above stated principle applies.

Matthews, at 548,557, 230 S.E.2d. at 223,232. This same reasoning was applied in denying tax credit claimed by the taxpayer in Centex v. South Carolina Department of Revenue, 406 S.C. 132, 750 S.E.2d. 65(2013), as the Court noted “[i]n conjunction with these rules of statutory construction, we must also be cognizant of our policy to strictly construe a tax credit against the taxpayer as it is a matter of legislative grace.” Centex at 140,750 S.E.2d. at 73.

Thus, the unambiguous language of § 12-14-60(G) must be strictly construed against the Taxpayer. Accordingly, the Department correctly concluded that the investment tax credit afforded under § 12-14-60(G) has a lifetime limit of \$5,000,000.

III. The Taxpayer’s arguments are unpersuasive.

In its protest letter, the Taxpayer raises two principal arguments against the Department’s Notice of Adjustment. Neither argument is persuasive.

First, the Taxpayer argues the Department inappropriately changed its form related to the tax credit under the statute. The form in this case is known as SC SCH. TC-11. On July 24, 2014, the Department revised Form TC-11 to ensure the language of the form more clearly reflected the lifetime limitation of the credit afforded under § 12-14-60(G) and to better assist taxpayers in the computation of the credit. The Taxpayer contends that the change to the form is tantamount to the passage of an unauthorized regulation and violates the South Carolina Administrative Procedures Act (APA).

Under S.C. Code Ann. § 1-23-10(4) (2014) of the APA, a regulation is defined as “each agency statement of general public applicability that implements or prescribes law or policy or practice requirements of any agency.” The issuance of a form, or revision of a form, to assist a taxpayer is not a regulation. Furthermore, § 1-23-10(4) also provides “[p]olicy or guidance issued by an agency other than in a regulation does not have the force or effect of law.” Therefore, the issue raised by the Taxpayer regarding the form is not dispositive of the underlying question of whether § 12-14-60(G) provides a lifetime or annual limitation on the available tax credit.

The Department was created to administer and enforce the revenue laws of this State including statutory law, case law and regulations. S.C. Code Ann. § 12-4-109 (2014). As such, the Department may issue advisory opinions, some of which are binding on the Department but not the taxpayer. Forms and instructions are not part of the revenue laws of the state, and they are not advisory opinions or regulations, but merely tools to assist taxpayers in complying with the revenue laws of the State. As such, forms and instructions do not carry the force of law, nor do they carry any precedential value, and they are not binding on the Department. Indeed, the Department oversees and issues dozens of forms to assist taxpayers with a myriad of tax matters, and to require regulatory action to issue or revise a form, as suggested by the Taxpayer, is both unduly cumbersome and unrealistic. To the extent the Taxpayer argues that the use of any form by the Department has established a precedent against the Department’s current position, there is ample case law which supports the proposition that state and federal agencies are not bound by their own forms, instructions or other interpretations in the administration of the law and, therefore, are not estopped by any inconsistencies contained therein. Anonymous Taxpayers v. S. C. Dep’t of Rev., Docket No. 00-ALJ-17-0681-CC, (J. Matthews, September 2019), 2001 WL 1185428 (S.C. Admin. Law Judge Div.); Texaco, Inc. v. Wasson, 269 S.C. 255, 237 S.E. 2d 75 (1977);

Colonial Life & Accident Ins. Co. v. S.C. Tax Comm'n., 248 S.C. 334, 149 S.E. 2d 777(1966); Adler v. U.S. [64-1 USTC P 9388], 330 F. 2d 91(9th Cir. 1964).

Moreover, to the extent the Taxpayer's argument is that the Department is estopped from enforcing the lifetime limitation imposed by § 12-14-60(G) because an alleged ambiguity in the Department's forms, South Carolina courts have routinely held that the doctrine of estoppel cannot be applied against a state agency that is seeking to exercise its police powers as provided by law. See, e.g., Heyward v. S.C. Tax Comm'n., 240 S.C. 347, 351, 126 S.E.2d 15, 17 (1962) ("[T]he doctrine of estoppel will not be applied to deprive the government of the due exercise of its police power, or to effect public revenues or property rights, or to frustrate the purpose of its laws or thwart its public policy."); see also Ahrens v. State, 392 S.C. 340, 348, 709 S.E.2d 54, 58 (2011) (finding that state agency could not be estopped based on forms issued by the agency).

Second, the Taxpayer relies on an un-enacted amendment to the statute introduced during the 2017-2018 Regular General Assembly Session to support its interpretation of the statute. The proposed amendment would have placed the word "annually" after the phrase "no more than five million dollars" found in § 12-14-60(G). The taxpayer cites to Dale C. Stuckey v State Budget & Control Board, 339 S.C. 397, 401, 529 S.E.2d 706, 708 (2000) for the proposition that "[a] subsequent statutory amendment may be interpreted as clarifying original legislative intent." However, in Stuckey the court was addressing a statute with a subsequent amendment which *had in fact passed the legislature* and was law. In this instance, the amendment cited by the taxpayer *did not pass the legislature* and, therefore, is not law. To the extent any of this is relevant to the meaning of the current statute, it is to show the legislature did not include the word "annually" in the 1998 version of the bill which was passed, and likewise it chose not to pass the 2017-2018 bill which did include the word.

Moreover, even if the proposed legislation had been enacted, the inclusion of the word "annually" in § 12-14-60(G) would not have been a simple clarification, but instead would have changed the current limitation completely. The legislature is well aware of how to use the word "annual" as it relates to tax credit, as it has chosen to utilize this language in other statutes. See, e.g., S.C. Code Ann. § 12-6-3420(B)(2)-(3) (2014) (providing tax credit for construction and infrastructure projects and limiting the credit to "ten thousand dollars *annually*; and any unused credit, may be carried forward three years") (emphasis added). However, the legislature chose not to include "annual" in § 12-14-60, so a subsequent decision to amend the statute to insert "annual" would have represented a wholesale change, not merely a clarification.

Conclusion:

For the foregoing reasons, the Taxpayer has not met its burden of proving that it is entitled to an annual \$5,000,000 tax credit under the statute, where the plain and unambiguous language of § 12-14-60(A)(1), (D)(1) and (G), when read together as a whole, limit the tax credit to \$5,000,000 on a lifetime basis. Accordingly, the Department correctly adjusted the Taxpayer's returns to limit any tax credit under § 12-14-60 to no more than \$5,000,000 lifetime after June 30, 1998.

April 26, 2019

Filing and Assignment of a Contested Case with the Administrative Law Court

Complete the Request for Contested Case Hearing and Certificate of Service form in its entirety. File the original by mailing it or hand delivering it to the Administrative Law Court, along with a copy of the decision from the agency and the appropriate filing fee. Be sure to serve a copy of the Request on the agency which you are appealing as well as any other known parties or protestants. Your case will be deemed filed with the Administrative Law Court upon receipt of your request and filing fee, and will normally be assigned to an administrative law judge within a week of filing. You should receive a Notice of Assignment within a few days of your case being assigned. The Notice of Assignment will have the case caption, docket number, date of filing and the name of the administrative law judge assigned to your case. Once your case has been assigned, all filings and questions regarding your case should be directed to the assigned judge.

Clerk's Office
South Carolina Administrative Law Court
1205 Pendleton Street, Suite 224
Columbia, SC 29201

South Carolina Department of Revenue
Office of General Counsel, Tax and
Regulatory Services
Columbia, SC 29211-9979

South Carolina Administrative Law Court (SC ALC)
Request for Contested Case Hearing FORM
Mail to: 1205 Pendleton St., Suite 224, Columbia, SC 29201

Last Name: _____ First: _____ Middle: ☐ Mr. ☐ Miss ☐ Mrs. ☐ Ms. Docket No. (To Be Completed by ALC) _____
Mailing Address: _____ City: _____ State and Zip: _____
Home Number: _____ Work Number: _____ Cell Number: _____ *E-Mail Address: _____

*By providing your e-mail address, you consent to receive court orders and notices via electronic transmission

REPRESENTATION

Are you representing yourself? ☐ Yes ☐ No

Are you represented by an Attorney? ☐ Yes ☐ No

Name of Attorney: _____

Attorney Mailing Address: _____

City, State and Zip: _____

Attorney Work Number and Cell Number: _____

Attorney E-Mail Address: _____

CASE INFORMATION

Name of Agency that Issued the Decision:

(Example – Dept. of Revenue, Dept. of Insurance, DHEC)

In order to have your case processed, **you must attach the agency decision.** Is it attached? ☐ Yes ☐ No If no, please explain: _____

Date the decision was issued: _____

Date the decision was received: _____

Please provide a brief statement regarding why the hearing is being requested and the relief sought: _____

Payment via ☐ Check ☐ Money Order ☐ Cash for \$ _____ submitted today to the Administrative Law Court via _____

(applicable **filing fee pursuant to** ALC Rule 71) is being ☐ U.S. Postal Service ☐ Hand-delivery

X _____
Your Signature or Signature of Attorney

Date

PROOF OF SERVICE (MUST BE COMPLETED)

Your Name: _____

Date: _____

City: _____

State: _____

I hereby certify that on the date and place listed above, I served a copy of the foregoing Request for Contested Case Hearing **on all other parties** to this matter by depositing the same in the United States Mail, postage paid, and addressed as follows (use the reverse side for any additional names):

Name and/or Agency Name

Address

City, State and Zip

Name and/or Agency Name

Address

City, State and Zip

X _____
Your Signature or Signature of Attorney

Date

Attention: All cases filed in the Administrative Law Court are subject to the Rules of Procedure found at the Court's website www.scalc.net or from the Clerk of Court. Failure to follow these rules may result in dismissal of your case.



STATE OF SOUTH CAROLINA
DEPARTMENT OF REVENUE

300A Outlet Pointe Blvd., Columbia, South Carolina 29210
P.O. Box 125, Columbia, South Carolina 29214

July 19, 2018

Cooper Monroe
Duke Energy Corp
DEC41A
550 South Tryon St.
Charlotte, NC 28202

RE: Notice of Adjustment
Investment Tax Credit (SC Code Title 12, Chapter 14)

Dear Cooper,

The Department has completed its audit of Duke Energy Corporation's Investment Tax Credit carryforward for tax year 2014. In review of the returns filed from 1996 through 2014 the Department has determined the following:

Total Credit Claimed Per Returns	Credit Allowed By Department	Amount Disallowed
\$ 24,850,727	\$5,000,000	\$19,850,727

Per SC Code Section 12-14-60(g) which states:

"The credit allowed by this section for investments made after June 30, 1998, is limited to no more than five million dollars for an entity subject to the license tax as provided in Section 12-20-100."

Pursuant to the statute, this credit is limited to a \$5,000,000 lifetime cap. The Department's audit shows that \$4,298,806 has been utilized through 12/31/2014, and that Duke Energy has a carry-forward balance of \$701,195. Attached is a worksheet outlining the amounts earned and utilized during the review period. Should you disagree with the Department's proposed adjustment, you may file a written protest within ninety (90) days of the date of this letter. Should you have any questions concerning the adjustments you may contact my office at (803) 898-5619, or by email at Tim.Donovan@dor.sc.gov.



STATE OF SOUTH CAROLINA
DEPARTMENT OF REVENUE

300A Outlet Pointe Blvd., Columbia, South Carolina 29210
P.O. Box 125, Columbia, South Carolina 29214

Yours very truly,

SC Department of Revenue

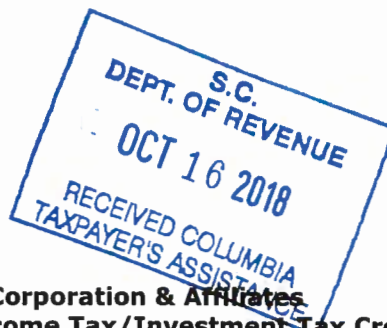
A handwritten signature in blue ink, appearing to read "Tim Donovan", is written over the printed name.

Tim Donovan
Manager, Foreign Audit/Nexus

October 16, 2018

Via Courier

South Carolina Department of Revenue
Attn: Mr. Donald Martin
Audit Administrator
300A Outlet Pointe Blvd.
Columbia, South Carolina 29210



Re: Protest – Duke Energy Corporation & Affiliates
Tax Type: Corporate Income Tax/Investment Tax Credit
File #: 21057418-1
Taxable Periods: 12/31/2014 (Corporate Income Tax)
12/31/1996-12/31/2014 (Tax Credit)

Dear Mr. Martin:

Duke Energy Corporation ("DEC") and its affiliates (collectively with "DEC," "Duke Energy") hereby submit this Protest in response to the South Carolina Department of Revenue's ("Department") Proposed Notice of Adjustment ("Notice") for the tax year ending December 31, 2014 ("Income Tax Period"). DEC contests the Department's adjustments to Duke Energy's computation of investment tax credits under S.C. Code Ann. § 12-14-60 for years December 31, 1996 through December 31, 2014 ("Tax Credit Periods," and collectively with the "Income Tax Period" referred to as the "Tax Periods"). A copy of the Notice dated July 19, 2018 is attached as Exhibit A. The Department's Investment Credit Detail dated July 12, 2018 is attached as Exhibit B. A completed Form C-245, which is incorporated into and made a part of this Protest, is attached as Exhibit C. A duly executed power of attorney authorizing Eversheds-Sutherland's representation of Duke Energy in this matter is attached as Exhibit D.

For the reasons stated below, Duke Energy respectfully requests that the Department withdraw the Notice. Duke Energy further requests an in-person conference and reserves the right to raise additional arguments and submit further supporting information regarding this Protest.

I. FACTS

A. Duke Energy's operations.

During the Tax Periods, Duke Energy was a multistate, integrated electric power and energy service provider with operations in South Carolina. Duke Energy operates primarily through its direct and indirect, wholly-owned subsidiaries. During the Tax Periods, DEC was the parent corporation of the Duke Energy group of subsidiaries, some of which are disregarded entities for federal and South Carolina corporate income tax purposes.

Duke Energy owns several power generating facilities in South Carolina. It invests substantial capital in these locations and places in service significant amounts of qualified manufacturing and productive equipment property throughout South Carolina. As a result of its

investments in capital equipment throughout the State, Duke Energy generated investment tax credits pursuant to S.C. Code Ann. § 12-14-60.

B. Duke Energy's South Carolina corporate net income Tax returns and investment tax credits.

Duke Energy timely filed all of its South Carolina corporate income tax returns attaching a properly completed Form SC Sch.TC 11, Capital Investment Credit, that showed the amount of qualified investments made in the State and the corresponding amount of investment tax credit claimed by Duke Energy during each Tax Period. During the Tax Periods, Duke Energy was entitled to \$24,850,727 of investment tax credits as seen in Exhibit B.

C. The Department's Proposed Adjustments.

In the Notice, the Department disallowed \$19,850,727 of Duke Energy's investment tax credit carryforward. The Notice observes that the total credit carryforward claimed on Duke Energy's tax returns is \$24,850,727, but claims that under S.C. Code Ann. § 12-14-60(G), the amount of capital investment tax credits that can be claimed by Duke Energy is capped at \$5,000,000. As a result, the Notice contends, since Duke Energy previously used \$4,298,806 of tax credits, its credit carryforward balance is \$701,195.

II. REASONS FOR THE APPEAL

Duke Energy objects to the adjustments contained in the Notice for the following reasons:

- A. The Notice is in direct conflict with the plain language of the investment tax credit statute, S.C. Code Ann. § 12-14-60.
- B. The Notice conflicts with legislative history.
- C. The Notice is in direct conflict with the Department's longstanding practice.
- D. The Notice and the Department's actions violate the South Carolina rule making process.
- E. All other adverse adjustments or determinations in the Notice are invalid.

III. DISCUSSION

A. The Notice is in direct conflict with the plain language of the investment tax credit statute, S.C. Code Ann. § 12-14-60.

1. Words in a statute must be given their plain meaning.

In its Notice, the Department ignores the plain language of the statute and inserts additional words into its text to justify its desire to limit the amount of the credit. "The cardinal rule of statutory construction is to ascertain and effectuate the intent of the legislature." *Media Gen. Comm'n's, Inc. v. S.C. Dep't of Rev.*, 388 S.C. 138, 147 (2010), quoting *Charleston Cnty. Sch. Dist. v. St. Budget & Control Bd.*, 313 S.C. 1, 5 (1993)) (internal quotations omitted). "The first inquiry is whether the statute's meaning is clear on its face." *Peake v. S.C. Dep't of Motor Vehicles*, 375 S.C. 589 (S.C. Ct. App 2007). "Under the plain meaning rule, it is not the province of the court to change the meaning of a clear and unambiguous statute." *S.C. Energy Users Comm. v. S.C. Pub. Serv. Comm'n*, 388 S.C. 486, 491 (2010). "Words in a statute must be given their plain and ordinary meaning without resorting to subtle or forced construction to limit or expand the statute's application." *Epstein v. Coastal Timber Co.*, 393 S.C. 276, 285

(2011). "Where the language of a statute is plain and unambiguous ... the court has no right to look for or impose other meaning." *Clarendon Cty. V. TYKAT Inc.*, 394 S.C. 21, 25 (2011).

Subsection (A) of S.C. Code Ann. § 12-14-60 authorizes the investment tax credit and provides as follows:

There is allowed an investment tax credit against the tax imposed pursuant to Chapter 6 of this title for any taxable year in which the taxpayer places in service qualified manufacturing and productive equipment. (Emphasis added).

Under the plain language of subsection (A), a taxpayer is allowed to claim investment tax credit for any taxable year in which the taxpayer makes a qualified investment. Thus, the credit is calculated on a year-by-year basis.

For taxpayers subject to the South Carolina license tax imposed under S.C. Code Ann. § 12-20-100, like Duke Energy, Subsection (G) of S.C. Code Ann. § 12-14-60 places a limitation on the amount of credit authorized under subsection (A):

The credit allowed by this section for investments made after June 30, 1998, is limited to no more than five million dollars for an entity subject to the license tax as provided in Section 12-20-100. (Emphasis added.)

"The statute must be read as a whole and sections which are part of the same general statutory law must be construed together and each one given effect." *S.C. Ports Auth. V. Jasper Cty.*, 368 S.C. 388, 398 (2006). Subsection A provides that the credit is "allowed ... for any taxable year" and under the plain language of Subsection G, "[t]he credit allowed by this section," i.e., "for any taxable year," "is limited to no more than five million dollars." S.C. Code Ann. §§ 12-14-60(A), (G). Accordingly, when read together (as they must be), subsections (A) and (G) allow Duke Energy to claim an investment tax credit on an annual basis limited to five million dollars per year. Neither Section 12-14-60(G) nor any other provision contains any language that would suggest – let alone require – that the five-million-dollar limitation is applied on a lifetime basis.

2. The plain language of S.C. Code Ann. § 12-14-60 shows that the legislature did not intend for Subsection (G) to apply a lifetime limitation.

"The legislative intent should be derived primarily from the plain language of the statute." *Peake*, 375 S.C. at 589. "Once the legislature has made [a] choice, there is no room for the courts to impose a different judgment based upon their own notions of public policy." *S.C. Farm Bureau Mut. Ins. Co. v. Mumford*, 299 S.C. 14, 19 (S.C. Ct. App. 1989). The plain language of S.C. Code Ann. § 12-14-60 shows that the Legislature intended to allow taxpayers like Duke Energy an annual tax credit up to five million dollars.

That intent is further supported by the Legislature's own actions in enacting other tax credit statutes. For example, S.C. Code Ann. § 12-6-3530(B) provides that the total amount of community development tax credit allowed pursuant to the statute may not exceed "in the aggregate five million dollars" for "all calendar years." (Emphasis added.) Also, former S.C. Code Ann. § 12-6-3510 allowed a tax credit for motion picture and advertisement production companies and provided that "a taxpayer's total credit in all years ... may not exceed fifteen thousand dollars." (Emphasis added.) Therefore, the South Carolina Legislature knows how to enact a lifetime limitation on tax credits when it intends to do so. Similarly, it could have imposed a lifetime cap when it enacted Section 12-14-60(G) but it chose not to; rather, it imposed an annual limitation as demonstrated by the plain language of the investment tax credit statute.

B. The Notice conflicts with legislative history.

The investment tax credit statute was originally enacted in 1995 without containing any limitation on the amount of tax credit that can be claimed by a taxpayer. It was then amended twice in 1998, first to include a one million dollar limitation and then to include the five million dollar limitation at issue here. S.C. Gen. Assemb. H. 4853. Reg. Sess. 1997-1998 (1998). From introduction, to amendment, to final enactment, neither the text of the bill nor related legislative reports and journals contained any indication that the Legislature intended for the limitation to apply on a lifetime basis.

Moreover, recent legislative history reaffirms that the original intent of the investment tax credit statute was to create an annual limitation. Just last year, the South Carolina Senate proposed a bill clarifying that this limitation is, and has always been, applied annually. Specifically, during the 122nd session, Senate Bill 0428 was introduced. S.C. Gen. Assemb. S. 0428, Reg. Sess. 2017-2018 (2017). This bill intended to amend S.C. Code Ann. § 12-14-60(G) to provide that:

The credit allowed by this section for investments made after June 30, 1998 is limited to no more than five million dollars annually for an entity subject to the license tax as provided in S.C. Code Ann. § 12-2-100. (Emphasis in original.)

This bill passed the Senate unanimously but was not voted on in the House. Nevertheless, in considering Senate Bill 0428, the South Carolina Revenue and Fiscal Affairs Office published a Statement of Estimated Fiscal Impact dated March 20, 2017, attached hereto as Exhibit E. It found that “[t]his clarifying amendment does not alter current practices by the Department of Revenue, and therefore, would not affect state General Fund income tax revenue in FY 2017-18.” Exhibit E, Section 2 (emphasis added). “A subsequent statutory amendment may be interpreted as clarifying original legislative intent.” See *Stuckey v. State Budget & Control Bd.*, 339 S.C. 397, 401 (2000). Senate Bill 0428’s proposed addition of the word “annually” to the statute was not a change but was a clarification of the existing investment tax credit statute and the Department’s own practice of applying the statute. Accordingly, to the extent there is doubt – and there is none – as to the meaning of the plain text of S.C. Code Ann. § 12-14-60(G) as an annual limitation on the amount of investment tax credit that can be claimed by Duke Energy, this recent legislative history removes that doubt.

C. The Notice is in direct conflict with the Department’s own longstanding practice.

For nearly fifteen years the Department applied S.C. Code Ann. § 12-14-60(G) as an annual limitation. Prior to July 2014, its own tax credit form, Form SC Sch.TC-11, instructed taxpayers to calculate their investment tax credit and apply the five million dollar limit on an annual basis. Specifically, the form prescribed the following manner in computing the annual tax credit limitation for taxpayers subject to Section 12-2-100:

- Lines one through five are used to calculate the current year credit generation;
- Line six is the total of lines one through five and is thus the total credit generated in that year;
- Line seven provides that the maximum credit per year is \$5,000,000;
- Line eight requires taxpayers to state the amount of unused carryover credits from prior years;
- Line nine requires the taxpayer to add line eight (unused credits from prior years) to the lesser of lines 6 or 7; line nine is thus the sum of the prior year credit carryover plus an additional credit for the current year up to \$5,000,000. See Form SC Sch.TC-11, revised August 8, 2011, attached as Exhibit F (emphasis added).

Therefore, for nearly fifteen years, the Department itself understood that S.C. Code Ann. § 12-14-60(G) is an annual limitation and required Duke Energy and other similar taxpayers to

apply that annual limitation by instructing them that "the maximum credit per year is \$5,000,000." (Form SC Sch. TC-11, revised August 8, 2011, Exhibit F (emphasis added))

On July 24, 2014, the Department abruptly, and without following the South Carolina rulemaking or regulatory process or without providing notice to taxpayers, changed course. It promulgated a new Form SC Sch.TC-11 and a new worksheet for taxpayers subject to the license tax like Duke Energy. The worksheet purports to place a \$5,000,000 lifetime limitation on the amount of investment tax credit claimed by a taxpayer. The Department changed Form SC Sch.TC-11 despite the fact that there was no change in law and despite its own long held interpretation and practice of applying S.C. Code Ann. § 12-14-60(G) as an annual limitation, which taxpayers have for years relied on in making significant investments into the South Carolina economy and infrastructure.

Nevertheless, the Department's unilateral move to change its Form SC Sch.TC-11, and therefore its long-standing practice, cannot and did not change the plain meaning of the S.C. Code Ann. § 12-14-60(G) and the Legislature's original intent to establish an annual limitation. Indeed, as discussed above, three years after the Department's purported changes, the original intent of S.C. Code Ann. § 12-14-60(G) was once again affirmed by legislative actions, as evidenced by the proposed "clarifying amendment" that "... does not alter any current practices by the Department" Exhibit E Section 2 (emphasis added). Accordingly, not only is the Department's Notice disingenuous – as it is in direct conflict with the Department's long-standing practice – but it is also invalid under the plain language of the controlling statute.

D. The Notice and the Department's actions violate the South Carolina rule making process.

Even if the Department's new policy fell within the limits of its rulemaking authority – which it does not – it nevertheless violates the South Carolina Administrative Procedures Act ("APA"). For nearly two decades, the Department's longstanding policy was entirely consistent with the plain text of S.C. Code Ann. § 12-14-60(G). Suddenly, the Department changed its policy absent any changes in the law and without formally adopting any rules. The Department cannot promulgate rules that directly contradict the unambiguous language of S.C. Code Ann. § 12-14-60 and without following the mandatory rulemaking process required under the APA.

Under the APA, "a regulation is defined as an agency statement of general public applicability that implements or prescribes law or policy or practice requirements of an agency." S.C. Code Ann. § 1-23-10(4). S.C. Code Ann. § 1-23-110 to 160 "...specifically requires an agency to: provide public notice of a drafting period where public comments can be accepted; conduct a public hearing on the proposed regulation; possibly prepare reports about the regulation's impact on the economy, environment, and public health; and submit the regulation to the Legislature for review, modification, and approval or rejection." *See also Joseph v. S.C. Dep't of Labor, Licensing & Reg.*, 417 S.C. 436, 454 (2016). These requirements are meant to prevent the implementation of a new policy without any notice or forewarning to taxpayers. Because the Department failed to satisfy the requirements of the APA, its new policy, and the Notice, amount to invalid "administrative overreach that attempts to end run the legislative process." *Joseph*, 417 S.C. at 454.

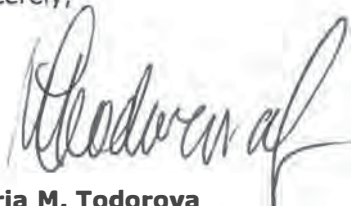
E. All other adverse determinations and adjustments in the Notice are invalid.

In addition to the above reasons for this appeal, Duke Energy objects to any other adverse determinations and adjustments of the Department to Duke Energy's investment tax credit computations and reserves the right to raise additional grounds for appeal in support of such determinations and adjustments.

IV. CONCLUSION

The Department erred by incorrectly applying the five million dollar annual tax credit limitation set forth in S.C. Code Ann. § 12-14-60(G) and by reducing the amount of investment tax credit carryforward available to Duke Energy. Accordingly, the Notice is invalid and should be withdrawn in its entirety. Duke Energy reserved the right to present additional information and raise further grounds for its appeal of the Department's Notice prior to, during, or after a conference regarding this matter.

Sincerely,



Maria M. Todorova
Eric S. Tresh

Enclosures

cc:

Cooper Monroe, Duke Energy Corporation
Stephen De May, Duke Energy Corporation

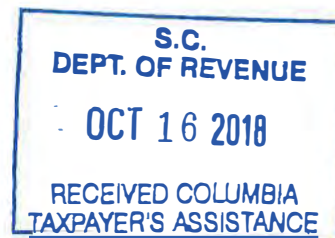


STATE OF SOUTH CAROLINA
DEPARTMENT OF REVENUE

300A Outlet Pointe Blvd., Columbia, South Carolina 29210
P.O. Box 125, Columbia, South Carolina 29214

July 19, 2018

Cooper Monroe
Duke Energy Corp
DEC41A
550 South Tryon St.
Charlotte, NC 28202



RE: Notice of Adjustment
Investment Tax Credit (SC Code Title 12, Chapter 14)

Dear Cooper,

The Department has completed its audit of Duke Energy Corporation's Investment Tax Credit carryforward for tax year 2014. In review of the returns filed from 1996 through 2014 the Department has determined the following:

Total Credit Claimed Per Returns	Credit Allowed By Department	Amount Disallowed
\$ 24,850,727	\$5,000,000	\$19,850,727

Per SC Code Section 12-14-60(g) which states:

"The credit allowed by this section for investments made after June 30, 1998, is limited to no more than five million dollars for an entity subject to the license tax as provided in Section 12-20-100."

Pursuant to the statute, this credit is limited to a \$5,000,000 lifetime cap. The Department's audit shows that \$4,298,806 has been utilized through 12/31/2014, and that Duke Energy has a carry-forward balance of \$701,195. Attached is a worksheet outlining the amounts earned and utilized during the review period. Should you disagree with the Department's proposed adjustment, you may file a written protest within ninety (90) days of the date of this letter. Should you have any questions concerning the adjustments you may contact my office at (803) 898-5619, or by email at Tim.Donovan@dor.sc.gov.



STATE OF SOUTH CAROLINA
DEPARTMENT OF REVENUE

300A Outlet Pointe Blvd., Columbia, South Carolina 29210
P.O. Box 125, Columbia, South Carolina 29214

Yours very truly,

SC Department of Revenue

A handwritten signature in blue ink, appearing to read "Tim Donovan", is positioned above the printed name.

Tim Donovan

Manager, Foreign Audit/Nexus

**SOUTH CAROLINA DEPARTMENT OF REVENUE
CAPITAL INVESTMENT CREDIT DETAIL**

TAXPAYER: Duke Energy Corporation & Affiliates
FILE #: 21057418-1
PERIOD: 12/31/2014

SCHEDULE: B
AUDITOR: Golebiowski
DATE: 7/12/2018

	PER RETURN	ALLOWED BY DOR	USED	DISALLOWED	CARRY FORWARD PER TP	PER DOR
1996	208,415	208,415	208,415	-	-	-
1997	332,120	332,120	332,120	-	-	-
1998	382,454	382,454	382,454	-	-	-
1999	194,718	194,718	194,718	-	-	-
2000	450,347	450,347	450,347	-	-	-
2001	156,034	156,034	156,034	-	-	-
2002	346,795	346,795	346,795	-	-	-
2003	290,036	290,036	290,036	-	-	-
2004	640,665	640,665	-	-	640,665	640,665
2005	210,450	210,450	-	-	851,115	851,115
2006	180,785	180,785	-	-	1,031,900	1,031,900
2007	438,966	438,966	-	-	1,470,866	1,470,866
2008	387,240	387,240	-	-	1,858,106	1,858,106
2009	436,294	436,294	-	-	2,294,400	2,294,400
2010	501,741	344,681	-	157,060	2,796,141	2,639,081
2011	4,832,741	-	-	4,832,741	7,628,882	2,639,081
2012	4,951,427	-	-	4,951,427	12,580,309	2,639,081
2013	4,953,682	-	-	4,953,682	17,533,991	2,639,081
2014	4,955,817	-	1,937,887	4,955,817	20,551,921	701,194
	<u>24,850,727</u>	<u>5,000,000</u>	<u>4,298,806</u>	<u>19,850,727</u>		

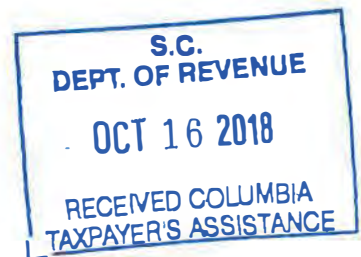


Exhibit C

1350

dor.sc.gov



STATE OF SOUTH CAROLINA
DEPARTMENT OF REVENUE
Application for Appeal and/or
Protest Pursuant to Revenue Procedures Act
SC Code Ann. §12-60-10, et seq.

C-245
(Rev. 8/17/18)
6177

Use this form to state why you disagree with the notice you received. Call the telephone number on the notice for questions concerning this matter. Return this document to the address of the South Carolina Department of Revenue (SCDOR) as shown on the notice or document with which you disagree.

Do not submit this form if:

- You are appealing the seizure of your state refund for a debt such as a Hospital Bill, Child Support, Student Loan, etc. Contact the claimant agency to which the refund was applied.
- You are unable to pay the proposed amount. Call the telephone number on the notice or document you received for payment information.

Section I: Taxpayer Identification

Taxpayer Name(s): Duke Energy Corporation

(Please type or print)

Mailing Address: 550 South Tyron Street

City: Charlotte

State: NC

Zip Code: 28202

Telephone: _____

Period(s) Covered: 12/31/1996 - 12/31/2014

Type(s) of Tax(es) or matter. Check all that apply:

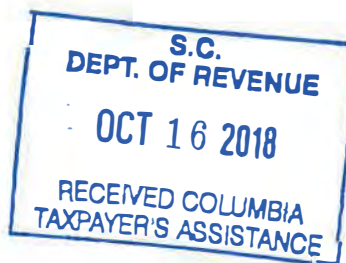
- | | | |
|---|---|---|
| ☒ Corporate Income Tax | ☐ Employer Withholding Tax | ☐ Individual Income Tax |
| ☐ Liquor by the Drink Tax | ☐ Motor Fuel Tax | ☐ Partnership Income Tax |
| ☐ Regulatory Violation | ☐ Sales and Use Tax | ☐ Tobacco Tax |
| ☒ Other (Specify) <u>Investment Credits</u> | | |

Identification Number (Social Security Number, License Number, File Number, etc.): EIN 56-0205520

File Number: 21057418-1

Section II: South Carolina Department of Revenue (SCDOR) Document to be Attached

Attach a copy of the SCDOR document or notice you received which led to the filing of this protest.



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Section III: Reason for Protest

State all the reasons you disagree, including a statement of facts supporting your position and the law or other authority upon which you rely. (If the amount of proposed assessment is less than \$2,500 you need not provide your legal authority unless you are a partnership, "S" corporation, an exempt organization, or an employee plan, and the proposed tax is imposed by Chapters 6, 11, or 13 of Title 12.) The law or other authority supporting your position must be furnished on all regulatory violations. Add additional sheets if necessary.

See Attached

Section IV: Signatures

If you are appealing a notice issued on a joint Income Tax Return, both taxpayers must sign. If the protest is for a corporation, it must include the corporation's name followed by the signature and title of the corporate officer authorized to sign.

I declare that this return and all attachments are true, correct and complete to the best of my knowledge and belief.

Taxpayer's Signature _____ Date _____

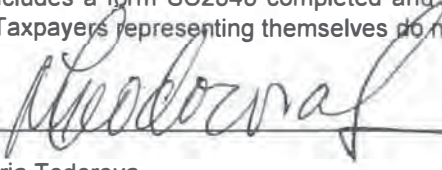
Taxpayer's Signature _____ Date _____

Business Entity Name (if applicable) Duke Energy Corporation

By _____ Title _____
Signature of Owner/Partner/Officer/LLC Member

Print Name _____ Date _____

Representative: You may appeal on behalf of another taxpayer if you meet the requirements of SC Code § 12-60-90(C) and if the application for appeal includes a form SC2848 completed and signed by the taxpayer. Form SC2848 can be downloaded at dor.sc.gov/forms. Taxpayers representing themselves do not need to submit a form SC2848.

Representative's Signature 

Representative's Printed Name Maria Todorova

Telephone 4 0 4 8 5 3 8 2 1 4 Date 10/16/18

Social Security Privacy Act Disclosure

It is mandatory that you provide your social security number on this tax form. 42 U.S.C 405(c)(2)(C)(i) permits a state to use an individual's social security number as means of identification in administration of any tax. SC Regulation 117-201 mandates that any person required to make a return to the South Carolina Department of Revenue shall provide identifying numbers, as prescribed, for securing proper identification. Your social security number is used for identification purposes.

The Family Privacy Protection Act

Under the Family Privacy Protection Act, the collection of personal information from citizens by the South Carolina Department of Revenue (SCDOR) is limited to the information necessary for the SCDOR to fulfill its statutory duties. In most instances, once this information is collected by the SCDOR, it is protected by law from public disclosure. In those situations where public disclosure is not prohibited, the Family Privacy Protection Act prevents such information from being used by third parties for commercial solicitation purposes.

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dor.sc.gov



STATE OF SOUTH CAROLINA
DEPARTMENT OF REVENUE
**POWER OF ATTORNEY AND
DECLARATION OF REPRESENTATIVE**

SC2848
(Rev. 2/2/18)
3307

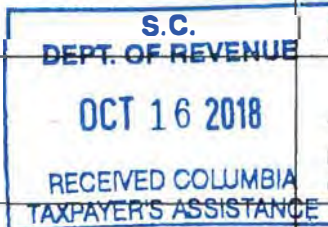
Part I Power of Attorney**1 Taxpayer Information** (Note: Taxpayer(s) must sign and date this form on page 2, line 8.)

* Taxpayer name(s) and address (Type or print.) Duke Energy Corporation 550 South Tyron Street Charlotte NC 28202	* Social Security number(s)	* Employer identification number
		56-0205520
		Plan number (if applicable)
	* Daytime telephone number (980) 373-5223	Email Address

hereby appoint(s) the following representative(s) as attorney(s) - in fact:

2 Representative(s) (Type or print.)

* Name and address of specific individual Maria M. Todorova Eversheds Sutherland 999 Peachtree Street NE, Suite 2300 Atlanta GA 30309	* Telephone No. (404) 853-8214 Fax No. _____ Check if new: Address ☐ Telephone No. ☐
Name and address of specific individual Chris R. Lee Eversheds Sutherland 999 Peachtree Street NE, Suite 2300 Atlanta GA 30309	Telephone No. (404) 853-8055 Fax No. _____ Check if new: Address ☐ Telephone No. ☐
Name and address of specific individual Eric S. Tresh Eversheds Sutherland 999 Peachtree Street NE, Suite 2300 Atlanta GA 30309	Telephone No. (404) 853-8579 Fax No. _____ Check if new: Address ☐ Telephone No. ☐



to represent the taxpayer(s) before the SC Department of Revenue for the following tax matters:

3 Tax Matters - A general reference to "All years," "All periods," or "All taxes" is not acceptable.

* Type of Tax (Individual, Corporate, Withholding, Sales, etc.)	* Tax Form Number (SC1040, WH1605, ST-3, etc.)	* Year(s) or Period(s) (See Line 3 instructions)
Corporate Income Tax Credits	SC 1120	1996-2018
Investment Tax Credits	TC 11	1996-2018

- 4 Acts Authorized** - A representative is an individual authorized to receive and inspect confidential tax information and to perform any and all acts on behalf of the taxpayer with respect to the tax matters described in line 3, including the authority to sign any agreements, consents or other documents. You may not use a Power of Attorney form to authorize a representative to receive refund checks. You may authorize a representative to sign a return ONLY as set forth in South Carolina Code Section 12-2-75.

List any specific additions to or deletions from the acts otherwise authorized in this power of attorney: _____

- 5 Receipt of Refund Checks** - If you want to authorize a representative named in line 2 to receive, **BUT NOT TO ENDORSE OR CASH** refund checks, initial here _____ and list the name of that representative below.

Name of representative to receive refund check(s) ► _____

33071028

- 6 **Retention/Revocation of Prior Power(s) of Attorney** - The filing of this power of attorney automatically revokes all earlier power(s) of attorney on file with the South Carolina Department of Revenue for the same tax matters for years or periods covered by this document .

If you do not want to revoke a prior power of attorney, check here ☐

YOU MUST ATTACH A COPY OF ANY POWER OF ATTORNEY YOU WANT TO REMAIN IN EFFECT.

- 7 **Signature of Taxpayer(s)** - If a tax matter concerns a joint return, both taxpayers must sign if joint representation is requested; otherwise, see the instructions for SC2848 concerning signature of taxpayer(s). If signed by a corporate officer, partner, guardian, tax matters partner/person, LLC members, executor, receiver, personal representative, or trustee on behalf of the taxpayer, I certify that I have the authority to execute this form on behalf of the taxpayer.

The Department will not accept a Power of Attorney that is not signed.

* 2 Cooper Moore, III 10/16/18 Director
Signature Date Title (if applicable)

* T. COOPER MOORE, III
Print Name

Signature Date Title (if applicable)

Print Name

NOTICES AND COMMUNICATIONS

All Notices and Communications will be sent to the taxpayer only. However, if you are unable to forward a copy to your named representative, you may contact our office for assistance.

Part II Declaration of Representative

I declare that:

- I am authorized to represent the taxpayer(s) identified in Part I for the tax matter(s) specified; and
- I am one of the following:
 - a Attorney - a member in good standing of the bar of the highest court of the jurisdiction shown below.
 - b Certified Public Accountant - duly qualified to practice as a certified public accountant in the jurisdiction shown below.
 - c Enrolled Agent - enrolled as an agent under the Requirements of the US Treasury Department Circular No. 230.
 - d Officer - a bona fide officer of the taxpayer organization.
 - e Full-Time Employee - a full-time employee of the taxpayer.
 - f Family Member - a member of the taxpayer's immediate family (i.e., spouse, parent, child, brother, or sister).
 - g Return Preparer.
 - h Other, please explain. _____

▶ The Department will not accept a Declaration of Representative that is not signed.

I declare that this return and all attachments are true, correct and complete to the best of my knowledge and belief. To wilfully furnish a false or fraudulent statement to the Department is a crime.

* Designation - Insert above letter (a-h)	* Jurisdiction (state)	* Signature	* Date
A	GA	<u>Chris Lee</u>	<u>10/16/18</u>
A	GA	<u>Chris Lee</u>	<u>10/16/18</u>
A	GA, NY	<u>SSB</u>	<u>10/16/18</u>

* indicates required field.

33072026



SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE
STATEMENT OF ESTIMATED FISCAL IMPACT
 (803)734-0640 • RFA.SC.GOV/IMPACTS

Bill Number: S.0428 Amended by Senate Finance on March 14, 2017
Author: Reese
Subject: Sales and gross receipts
Requestor: Senate
RFA Analyst(s): Martin
Impact Date: March 20, 2017

Estimate of Fiscal Impact

	FY 2017-18	FY 2018-19
State Expenditure		
General Fund	\$0	\$0
Other and Federal	\$0	\$0
Full-Time Equivalent Position(s)	0.00	0.00
State Revenue		
General Fund	\$0	\$0
Other and Federal	\$0	\$0
Local Expenditure	\$0	\$0
Local Revenue	\$0	\$0

Fiscal Impact Summary

This bill, as amended, would not affect state General Fund corporate income tax revenue in FY2017-18.

Explanation of Fiscal Impact

Amended by the Senate Finance Committee on March 14, 2017

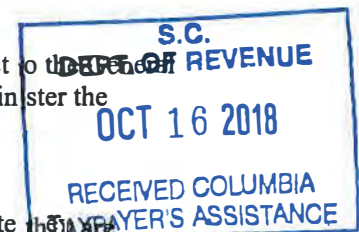
State Expenditure

The Department of Revenue indicates that there will be no expenditure impact to the General Fund, Federal Funds, or Other Funds from this bill. The Department can administer the legislative changes with existing resources.

State Revenue

Section 1. When a corporate taxpayer conducts business in more than one state the taxpayer is statutorily required to account for the amount of business attributable to each state. Generally, income is apportioned among the states on a formula basis. The apportionment method becomes clouded when the taxpayer is a service provider rather than a manufacturer.

Pursuant to Sections 12-6-2290 and 12-6-2295, taxpayers whose principal business is not manufacturing or dealing in tangible personal property must apportion income using a gross receipts factor. The gross receipts factor is defined as "a fraction in which the numerator is gross receipts from within this State during the taxable year and the denominator is total gross receipts from everywhere during the taxable year."



Two prominent satellite subscription television service providers, DirecTV, Inc. and Dish DBS Corp., filed amended corporate income tax returns seeking large corporate income tax refunds based upon their reinterpretation of the apportionment of corporate income tax attributable to South Carolina. Both companies are multistate taxpayers that offer direct broadcast satellite video services through subscription fees and leases of equipment for access to hundreds of television programming channels throughout the United States. The satellite providers argued that little or no subscription revenue from South Carolina should be included in the numerator of the gross receipts ratio because the majority of the income-producing activity occurs outside of South Carolina.

DirecTV, Inc. and Dish DBS Corp. filed suit against the Department of Revenue and the case was heard by an administrative law court judge. At issue was the interpretation and delineation of the phrases “income-producing activity” and “costs of performing the service”. The satellite providers argued that the costs of performing the service should be sourced to their headquarters that are not in South Carolina thereby reducing their tax liability sourced to South Carolina. The Department of Revenue argued that the income-producing activity of charging subscription fees to South Carolina subscribers was the appropriate measure to assess the satellite provider’s corporate tax liability.

This bill would clarify the apportionment language in Section 12-6-2295 for satellite companies with regard to their assessment of corporate income tax revenue. This bill would amend Section 12-6-2295(A) to amend the items to include in the terms “sales” and “gross receipts” to mean the receipts from the provision of direct broadcast satellite service attributable to this State in pro rata proportion of the costs of performing the service. This bill further defines the term “direct broadcast satellite service” to mean the distribution of broadcasting or programming or services by satellite directly to the subscriber’s premises without the use of ground receiving or distribution equipment, except at the subscriber’s premises or in the uplink process to the satellite.

The administrative law court case was decided in the favor of the defendant, the South Carolina Department of Revenue. A table summarizing the judgments in each case is provided below.

South Carolina Administrative Law Court Petitioner's Order

Category	DIRECTV, Inc.	Dish DBC, Inc.		
Tax & license fees	\$6,646,168	\$544,286	\$90,551	\$634,837
Interest	\$653,425	\$399,496	\$32,196	\$431,692
Penalties	<u>\$1,661,541</u>	<u>\$276,307</u>	<u>\$21,846</u>	<u>\$298,153</u>
Total	<u>\$8,961,134</u> a:/	<u>\$1,220,089</u> b:/	<u>\$144,593</u> c:/	<u>\$1,364,682</u>

Notes: a:/ Income tax returns for 2009, 2010, and 2011.
b:/ Income tax returns for 2004 through 2010.
c:/ Income tax returns for 2006 through 2011.

The judgment ordered DirecTV to pay \$8,961,134 in taxes, license fees, interest, and penalties for the tax years 2009 through 2011 to the Department of Revenue. Dish DBC Corp. was ordered to pay \$1,364,682 in taxes, license fees, interest, and penalties for tax years 2004 through 2011. Although a decision was reached at the administrative law court level, the case may still be

appealed with the outcome of that decision being uncertain. It has been the long-standing policy of the Revenue and Fiscal Affairs Office and the Board of Economic Advisors to not comment on impending litigation until a final decision is reached. As such, even though the state has not received a portion of the corporate income tax revenue for satellite services provided, the appropriate amount of tax revenue will be collected in accordance with existing statutes upon settlement of the legal action. The state did not lose any corporate income tax revenue, it is delayed. The state will receive the corporate income tax revenue owed, but in a time period other than the period in which the tax revenue was earned. After such time, the state will receive the proper corporate income tax revenue amounts from satellite subscription television service providers going forward. This bill, therefore, will not affect state corporate income tax revenue in FY2017-18, and each fiscal year thereafter.

Section 2. This amended section would amend Section 12-14-60(G) to limit the total dollar amount of an investment tax credit allowed by a taxpayer to no more than \$5,000,000 “annually” for a single taxpayer subject to the corporate license tax. This clarifying amendment does not alter any current practices by the Department of Revenue, and therefore, would not affect state General Fund income tax revenue in FY 2017-18, and later fiscal years.

Section 3. This act takes effect upon approval by the Governor and shall apply to all open tax excluding assessments under judicial review as of the date of the Governor’s approval.

Local Expenditure

N/A

Local Revenue

N/A

Updated to Correct a Typographical Error

Amended by the Senate Sales and Income Tax Subcommittee on March 8, 2017

State Expenditure

The Department of Revenue indicates that there will be no expenditure impact to the General Fund, Federal Funds, or Other Funds from this bill. The Department can administer the legislative changes with existing resources.

State Revenue

Section 1. This section was amended to provide a definition of “service provider” to mean an owner operator of a satellite receiver and related hardware refurbishment and repair facility in this State with an annual payroll of at least twenty-five million dollars and which directly employs at least eight hundred employees. Dish DBS, Corp. currently leases a pay-tv and broadband service and remanufacturing center in Spartanburg, South Carolina. This facility meets the above criteria. DirecTV, which was acquired by AT&T in July 2015, does not operate a refurbishment and repair facility in South Carolina. This amendment specifically clarifies that the satellite service provider, Dish DBS, Corp., must apportion gross receipts among the states they conduct business using a gross receipts formula pursuant to Section 12-6-2295. This amended section is prospective and excludes assessments under judicial review. This amended section is not expected to affect state General Fund corporate income tax revenue in FY 2017-18, and each fiscal year thereafter.

When a corporate taxpayer conducts business in more than one state they are statutorily required to account for the amount of business attributable to each state. Generally, income is apportioned among the states on a formula basis. The apportionment method becomes clouded when the taxpayer is a service provider rather than a manufacturer.

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Notes: a./ Income tax returns for 2009, 2010, and 2011.
b./ Income tax returns for 2004 through 2010.
c./ Income tax returns for 2006 through 2011.

The judgment ordered DirecTV to pay \$8,961,134 in taxes, license fees, interest, and penalties for the tax years 2009 through 2011 to the Department of Revenue. Dish DBC Corp. was ordered to pay \$1,364,682 in taxes, license fees, interest, and penalties for tax years 2004 through 2011. Although a decision was reached at the administrative law court level, the case may still be appealed with the outcome of that decision being uncertain. It has been the long-standing policy of the Revenue and Fiscal Affairs Office and the Board of Economic Advisors to not comment on impending litigation until a final decision is reached. As such, even though the state has not received a portion of the corporate income tax revenue for satellite services provided, the appropriate amount of tax revenue will be collected in accordance with existing statutes upon settlement of the legal action. The state did not lose any corporate income tax revenue, it is delayed. The state will receive the corporate income tax revenue owed, but in a time period other than the period in which the tax revenue was earned. After such time, the state will receive the proper corporate income tax revenue amounts from satellite subscription television service providers going forward. This bill, therefore, will not affect state corporate income tax revenue in FY2017-18 and later fiscal years.

Section 2. This amended section would amend Section 12-14-60(G) to limit the total dollar amount of an investment tax credit allowed by a taxpayer to no more than \$5,000,000 “annually” for a single taxpayer subject to the corporate license tax. This clarifying amendment does not alter any current practices by the Department of Revenue, and therefore, would not affect state General Fund income tax revenue in FY 2017-18.

Section 3. This act takes effect upon approval by the Governor and shall apply to all open tax excluding assessments under judicial review as of the date of the Governor’s approval.

Local Expenditure

N/A

Local Revenue

N/A

Introduced on February 16, 2017

State Expenditure

The Department of Revenue indicates that there will be no expenditure impact to the General Fund, Federal Funds, or Other Funds from this bill. The Department can administer the legislative changes with existing resources.

State Revenue

Section 1. When a corporate taxpayer conducts business in more than one state they are statutorily required to account for the amount of business attributable to each state. Generally, income is apportioned among the states on a formula basis. The apportionment method becomes clouded when the taxpayer is a service provider rather than a manufacturer.

Pursuant to Sections 12-6-2290 and 12-6-2295, taxpayers whose principal business is not manufacturing or dealing in tangible personal property must apportion income using a gross receipts factor. The gross receipts factor is defined as “a fraction in which the numerator is gross receipts from within this State during the taxable year and the denominator is total gross receipts from everywhere during the taxable year.”

Two prominent satellite subscription television service providers, DirecTV, Inc. and Dish DBS Corp., filed amended corporate income tax returns seeking large corporate income tax refunds based upon their reinterpretation of the apportionment of corporate income tax attributable to South Carolina. Both companies are multistate taxpayers that offer direct broadcast satellite video services through subscription fees and leases of equipment for access to hundreds of television programming channels throughout the United States. The satellite providers argued that little or no subscription revenue from South Carolina should be included in the numerator of the gross receipts ratio because the majority of the income-producing activity occurs outside of South Carolina.

DirecTV, Inc. and Dish DBS Corp. filed suit against the Department of Revenue and the case was heard by an administrative law court judge. At issue was the interpretation and delineation of the phrases “income-producing activity” and “costs of performing the service”. The satellite providers argued that the costs of performing the service should be sourced to their headquarters that are not in South Carolina thereby reducing their tax liability sourced to South Carolina. The Department of Revenue argued that the income-producing activity of charging subscription fees to South Carolina subscribers was the appropriate measure to assess the satellite provider’s corporate tax liability.

This bill would clarify the apportionment language in Section 12-6-2295 for satellite companies with regard to their assessment of corporate income tax revenue. This bill would amend Section 12-6-2295(A) to amend the items to include in the terms “sales” and “gross receipts” to mean the receipts from the provision of direct broadcast satellite service attributable to this State in pro rata proportion of the costs of performing the service. This bill further defines the term “direct broadcast satellite service” to mean the distribution of broadcasting or programming or services by satellite directly to the subscriber’s premises without the use of ground receiving or distribution equipment, except at the subscriber’s premises or in the uplink process to the satellite.

The administrative law court case was decided in the favor of the defendant, the South Carolina Department of Revenue. A table summarizing the judgments in each case is provided below.

South Carolina Administrative Law Court Petitioner's Order

Category	DIRECTV, Inc.	Dish DBC, Inc.		
Tax & license fees	\$6,646,168	\$544,286	\$90,551	\$634,837
Interest	\$653,425	\$399,496	\$32,196	\$431,692
Penalties	<u>\$1,661,541</u>	<u>\$276,307</u>	<u>\$21,846</u>	<u>\$298,153</u>
Total	<u>\$8,961,134</u> a./	<u>\$1,220,089</u> b./	<u>\$144,593</u> c./	<u>\$1,364,682</u>

Notes: a./ Income tax returns for 2009, 2010, and 2011.
b./ Income tax returns for 2004 through 2010
c./ Income tax returns for 2006 through 2011.

The judgment ordered DirecTV to pay \$8,961,134 in taxes, license fees, interest, and penalties for the tax years 2009 through 2011 to the Department of Revenue. Dish DBC Corp. was ordered to pay \$1,364,682 in taxes, license fees, interest, and penalties for tax years 2004 through 2011. Although a decision was reached at the administrative law court level, the case may still be appealed with the outcome of that decision being uncertain. It has been the long-standing policy of the Revenue and Fiscal Affairs Office and the Board of Economic Advisors to not comment on impending litigation until a final decision is reached. As such, even though the state has not received a portion of the corporate income tax revenue for satellite services provided, the appropriate amount of tax revenue will be collected in accordance with existing statutes upon settlement of the legal action. The state did not lose any corporate income tax revenue, it is delayed. The state will receive the corporate income tax revenue owed, but in a time period other than the period in which the tax revenue was earned. After such time, the state will receive the proper corporate income tax revenue amounts from satellite subscription television service providers going forward. This bill, therefore, will not affect state corporate income tax revenue in FY2017-18 and later fiscal years.

Section 2. This act takes effect upon approval by the Governor and shall apply to all open tax periods and in tax assessments under administrative or judicial review.

Local Expenditure

N/A

Local Revenue

N/A

Frank A. Ramo

Exhibit F

1350

STATE OF SOUTH CAROLINA
DEPARTMENT OF REVENUE

CAPITAL INVESTMENT CREDIT

Attach to your Income Tax Return

SC SCH.TC 11

(Rev. 8/8/11)
3348

20

Name as Shown on Tax Return

County

FEIN

IMPORTANT: Use 2010 version of this form to claim credit for qualifying investments made in an Economic Impact Zone before January 1, 2011. Prior year forms are available at www.sctax.org.

Purpose: Use this form to claim the capital investment credit for qualified investments made in this State on or after January 1, 2011. This schedule must be completed and filed with the income tax return in order to claim a capital investment credit for the cost basis of qualified manufacturing and productive equipment property.

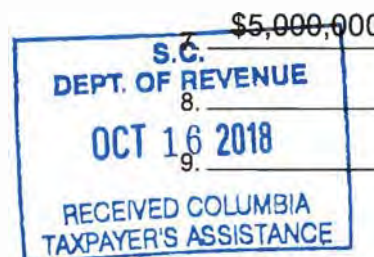
Read the definitions on the reverse side carefully before completing this schedule.

Enter qualified manufacturing and productive equipment property on the schedule below.

NOTE: Qualified property is property used as an integral part of manufacturing or production or used as an integral part of extracting or furnishing transportation, communications, electrical energy, gas, water or sewage disposal services in this State. Credit cannot be taken on property transferred from somewhere else unless the original use of such property commences with the taxpayer inside the State on or after January 1, 2011 or in an Economic Impact Zone before January 1, 2011. Recapture of the credit will be required if the taxpayer disposes of or removes the property from this State before the useful life of the property.

	(1) Basis	(2) Credit Percentage	(3) Credit Amount (column 1 x column 2)
1. Three-year Property	_____	0.5%	1. _____
2. Five-year Property	_____	1.0%	2. _____
3. Seven-year Property	_____	1.5%	3. _____
4. Ten-year Property	_____	2.0%	4. _____
5. Fifteen-year Property or greater	_____	2.5%	5. _____
6. Total of lines 1 through 5			6. _____
7. Maximum Credit (Form SC1120U filers)			7. \$5,000,000
8. Carryover of unused credits from 1997 and later			8. _____
9. Credit - Total of lines 6 and 8			9. _____

Caution: SC1120U filers add the lesser of lines 6 or 7 to line 8



GENERAL INSTRUCTIONS

IMPORTANT: Use 2010 version of this form to claim credit for qualifying investments made in an Economic Impact Zone before January 1, 2011. Prior year forms are available at www.sctax.org.

Credit amount

Effective January 1, 2011, a capital investment credit against income tax is allowed for any tax year in which the taxpayer places qualified manufacturing and productive equipment property in service in this State. The amount of the credit allowed by this section is equal to the aggregate of:

- 0.5% of total aggregate bases for all 3-year property that qualifies;
- 1.0% of total aggregate bases for all 5-year property that qualifies;
- 1.5% of total aggregate bases for all 7-year property that qualifies;
- 2.0% of total aggregate bases for all 10-year property that qualifies;
- 2.5% of total aggregate bases for all 15-year or greater property that qualifies.

33481029

Whether property is 3-year property, 5-year property, 7-year property, 10-year property or 15-year property is determined based on the applicable recovery period for such property under Section 168(e) of the Internal Revenue Code (IRC).

Qualified property

"Qualified manufacturing and productive equipment property" means any property:

- (a) which is used as an integral part of manufacturing or production, or used as an integral part of extraction of or furnishing transportation, communications, electrical energy, gas, water, or sewage disposal services in the economic impact zone;
- (b) which is tangible property to which IRC Section 168 applies;
- (c) which is Section 1245 property (as defined in IRC Section 1245(a)(3)); and
- (d)(i) the construction, reconstruction, or erection of which is completed by the taxpayer in this State; or
(ii) which is acquired by the taxpayer if the original use of such property commences with the taxpayer inside this State.

In the case of any computer software which is used to control or monitor a manufacturing or production process inside this State and with respect to which depreciation (or amortization in lieu of depreciation) is allowable, the software must be treated as qualified manufacturing and productive equipment property.

This credit does not apply to any property to which the other tax credits would apply unless the taxpayer elects to waive the application of the other credits to the property.

Credit carryover

Unused credit allowed pursuant to this section may be carried forward for 10 years from the close of the tax year in which the credit was earned.

In the case of credit unused within the initial 10-year period, a taxpayer may continue to carry forward unused credits for use in any subsequent tax years if the taxpayer:

- (a) is engaged in this State in an activity or activities listed under the North American Industry Classification System Manual (NAICS) Section 31, 32, or 33;
- (b)(i) is employing 1,000 or more full-time workers in this State and having a total capital investment in this State of not less than \$500 million; or
(ii) is employing 850 or more full-time workers in this State and having a total capital investment in this State of not less than \$750 million; and
- (c) made a total capital investment of not less than \$50 million in the previous five years.

Limitations

Credits carried forward beyond the initial 10-year period may not reduce a taxpayer's state income tax liability in any subsequent tax year by more than 25%.

An entity subject to the license tax provided in Section 12-20-100 is limited to \$5 million dollars in credit for investments made after June 30, 1998.

Recapture

If during any tax year and before the end of applicable recovery period for such property as determined under IRC Section 168(e), the taxpayer disposes of or removes from this State qualified manufacturing and productive equipment property, then the income tax due by the taxpayer for the current tax year must be increased by an amount of any credit claimed in prior years with respect to such property determined by assuming the credit is earned ratably over the useful life of the property and recapturing pro rata the unearned portion of the credit. Complete TC-11R.

Reduction in basis

For South Carolina income tax purposes, the basis of the qualified manufacturing and productive equipment property must be reduced by the amount of any credit claimed with respect to the property. A taxpayer required to recapture the capital investment credit may increase the basis of the property by the amount of any basis reduction attributable with claiming the investment tax credit in prior years. The basis must be increased in the year in which the credit is recaptured.

Social Security Privacy Act Disclosure

It is mandatory that you provide your social security number on this tax form if you are an individual taking this credit. 42 U.S.C 405(c)(2)(C)(i) permits a state to use an individual's social security number as means of identification in administration of any tax. SC Regulation 117-201 mandates that any person required to make a return to the SC Department of Revenue shall provide identifying numbers, as prescribed, for securing proper identification. Your social security number is used for identification purposes.

The Family Privacy Protection Act

Under the Family Privacy Protection Act, the collection of personal information from citizens by the Department of Revenue is limited to the information necessary for the Department to fulfill its statutory duties. In most instances, once this information is collected by the Department, it is protected by law from public disclosure. In those situations where public disclosure is not prohibited, the Family Privacy Protection Act prevents such information from being used by third parties for commercial solicitation purposes.

**STATE OF SOUTH CAROLINA
ADMINISTRATIVE LAW COURT**

DUKE ENERGY CORPORATION,

Petitioner,

v.

**SOUTH CAROLINA DEPARTMENT
OF REVENUE,**

Respondent.

)
)
)
) **REQUEST FOR**
) **CONTESTED CASE HEARING**
)
) **DOCKET NO:** _____
) (to be assigned by ALC)
)
)
)

STATEMENT OF THE CASE

Petitioner Duke Energy Corporation and Affiliates ("Petitioner") files this Statement of the Case as part of its Request for Contested Hearing pursuant to S.C. Code Ann. § 12-60-460 against Respondent South Carolina Department of Revenue ("Respondent"). Petitioner contests Respondent's Determination dated April 26, 2019 ("Determination," attached hereto as Exhibit A), which denies Petitioner's investment tax credit under S.C. Code Ann. § 12-14-60 for the corporate income tax years ended December 31, 1996 through and including December 31, 2014 ("Years at Issue"), and shows the Administrative Law Court the following:

I. PARTIES AND JURISDICTION

Petitioner is, and was during the Years at Issue, an electric power and energy services provider that generates, distributes, and transmits electricity in South Carolina. Respondent is an administrative agency of the State of South Carolina.

This is an action brought by Petitioner pursuant to S.C. Code Ann. § 12-60-460 and § 12-60-450(E)(3) to contest Respondent's Determination denying Petitioner's investment tax credit under S.C. Code Ann. § 12-14-60 in the total amount of \$19,850,727 for the Years at Issue. Jurisdiction over the subject matter is conferred upon this Court pursuant to S.C. Code Ann. § 12-60-450(E)(3) and § 1-23-310 *et seq.*

II. BRIEF STATEMENT OF THE FACTS

As part of its electric service operations, Petitioner owned several power generating facilities in South Carolina. Petitioner invested substantial capital in these locations and placed in

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SC ADMIN LAW COURT

service significant amounts of qualified manufacturing and productive equipment property throughout South Carolina. Petitioner's investment qualified for the investment tax credit pursuant to S.C. Code Ann. § 12-14-60. As a result, in timely filing its South Carolina corporate income tax returns for the Years at Issue, Petitioner submitted a properly completed Form SC Sch. TC 11, Capital Investment Credit, which showed the amount of qualified capital investments made in the State and corresponding amount of investment tax credit for each of the Years at Issue. Petitioner's investment tax credit is summarized in column A of Table 1 below.

Respondent conducted an audit of Petitioner for the tax Years at Issue. On July 19, 2018, Respondent issued a Notice of Adjustment disallowing \$19,850,727 of Petitioner's investment tax credit related to tax years ended December 31, 2010 through and including December 31, 2014, as summarized in Column B of Table 1 below. Petitioner timely filed its protest of the Notice of Adjustment on October 16, 2018. On April 26, 2019, Respondent issued its Determination affirming its adjustments to Petitioner's investment tax credits.

Table 1	A	B
	Investment Credit	
	Per Tax Return	Per Determination
1996	208,415	208,415
1997	332,120	332,120
1998	382,454	382,454
1999	194,718	194,718
2000	450,347	450,347
2001	156,034	156,034
2002	346,795	346,795
2003	290,036	290,036
2004	640,665	640,665
2005	210,450	210,450
2006	180,785	180,785
2007	438,966	438,966
2008	387,240	387,240
2009	436,294	436,294
2010	501,741	344,681
2011	4,832,741	
2012	4,951,427	
2013	4,953,682	
2014	4,955,817	
	24,850,727	5,000,000

In the Determination, Respondent erroneously concluded that the total amount of investment tax credit that could be claimed by an electric utility like Petitioner was limited to \$5 million for all tax years combined.

III. ISSUES IN THE CASE

A. Respondent's Determination is wrong because it conflicts with the plain language of S.C. Code Ann. § 12-14-60.

Subsection (A) of S.C. Code Ann. § 12-14-60 authorizes the investment tax credit and provides that "[t]here is allowed an investment tax credit against the tax imposed pursuant to Chapter 6 of this title for any taxable year in which the taxpayer places in service qualified manufacturing and productive equipment." (Emphasis added). Accordingly, under the plain language of subsection (A), a taxpayer is allowed to claim investment tax credit for any taxable year in which the taxpayer makes a qualified investment. Based on this language, Petitioner was entitled an investment tax credit for each year it made such investments.

For taxpayers subject to the South Carolina license tax imposed under S.C. Code Ann. § 12-20-100, like Petitioner, S.C. Code Ann. § 12-14-60(G) places a limitation on the amount of tax credit authorized under subsection (A): "The credit allowed by this section for investments made after June 30, 1998, is limited to no more than five million dollars for an entity subject to the license tax as provided in Section 12-20-100." (Hereinafter referred to as the "Credit Limitation.")

"The statute must be read as a whole and sections which are part of the same general statutory law must be construed together and each one given effect." *S.C. Ports Auth. v. Jasper Cty.*, 368 S.C. 388, 398 (2006). Subsection (A) provides that the credit is "allowed ... for any taxable year" and under the plain language of Subsection (G), "[t]he credit allowed by this section," i.e., "for any taxable year," "is limited to no more than five million dollars." S.C. Code Ann. §§ 12-14-60(A), (G). In other words, under subsection (A), the credit is allowed and calculated on a year-by-year basis. Subsection (G) merely limits this year-by-year credit to five million dollars annually. Accordingly, when read together (as they must be), subsections (A) and (G) allow Petitioner to claim an investment tax credit on an annual basis limited to five million dollars per tax year. Neither Section 12-14-60(G) nor any other provision limits the amount of the investment tax credit for companies making capital investments in South Carolina to five million for the lifetime of the company.

The plain language of S.C. Code Ann. § 12-14-60, therefore, shows that the Legislature intended to allow taxpayers like Petitioner an annual tax credit up to \$5 million. That intent is further supported by the Legislature's own actions in enacting other tax credit statutes. For example, S.C. Code Ann. § 12-6-3530(B) provides that the total amount of community development tax credit allowed pursuant to the statute may not exceed "in the aggregate five million dollars" for "all calendar years." (Emphasis added.) Similarly, former S.C. Code Ann. § 12-6-3510 allowed a tax credit for motion picture and advertisement production companies and provided that "a taxpayer's total credit in all years ... may not exceed fifteen thousand dollars." (Emphasis added.) Therefore, the Legislature is well aware of how to enact a lifetime limitation on tax credits when it intends to do so. It could have imposed such a lifetime cap when it enacted Section 12-14-60(G) but it chose not to; rather, it imposed an annual limitation as demonstrated by the plain language of the investment tax credit statute.

Further, for nearly fifteen years, Respondent interpreted the plain and unambiguous language of the statute correctly and applied the Credit Limitation annually. As discussed further herein, Respondent's own credit calculation form specifically applied the Credit Limitation annually. Moreover, Respondent's own audit adjustment schedules issued to Petitioner applied the limitation annually and in prior audits of Petitioner, Respondent allowed credit generation and actual credit use in excess of \$5,000,000. Thus, Respondent's Determination is not only unsupported by the plain language of the statute but it conflicts with Respondent's longstanding interpretation of the statute.

B. Respondent's Determination is wrong because it conflicts with the Legislature's intent to encourage capital investment in South Carolina.

The cardinal rule of statutory interpretation is to ascertain and effectuate the intent of the legislature. *CFRE, LLC v. Greenville Cty. Assessor*, 395 S.C. 67, 74 (2011). The best evidence of legislative intent is the text of the statute but in some cases legislative history may be probative in determining the Legislature's intent. *Palmetto Co. v. McMahon*, 395 S.C. 1, 5 (2011).

The investment tax credit statute was enacted in 1995 without containing any limitation on the amount of credit a taxpayer can claim. Subsequently, the South Carolina Legislature amended the statute first to include a \$1 million annual limitation and then to increase that limitation to \$5 million. See S.C. Gen. Assemb. H. 4853, Reg. Sess. 1997-1998 (1998).

In 2017, the South Carolina Senate unanimously passed an amendment to the Credit Limitation. See, e.g., S.C. Gen. Assemb. S. 0428, Reg. Sess. 2017-2018 (2017), attached as Exhibit B. The bill was not voted on in the South Carolina House. The bill would have amended the statute to provide that "[t]he credit allowed by this section for investments made after June 30, 1998 is limited to no more than five million dollars annually for an entity subject to the license tax as provided in S.C. Code Ann. 12-2-100. (Emphasis in original).

In considering the bill, the South Carolina Legislature's Revenue and Fiscal Affairs Office evaluated the estimated expenditure costs and revenue impact of the bill in accordance with Title 2, Chapter 7 of the South Carolina Code. The Revenue and Fiscal Affairs Office published its findings in a Statement of Estimated Fiscal Impact dated March 20, 2017. See, e.g., South Carolina Revenue and Fiscal Affairs Office, Statement of Estimated Fiscal Impact, pg. 5, S. 0428 (March 20, 2017) ("Fiscal Impact Statement"), attached as Exhibit C. The Fiscal Impact Statement explained that "[t]his clarifying amendment [to the Credit limitation] does not alter current practices by the Department of Revenue, and therefore would not affect state General Fund income tax revenue in FY 2017-2018." (Emphasis added). The Revenue and Fiscal Affairs Office therefore confirmed the Legislature's intent and Respondent's longstanding practice of applying the Credit Limitation on an annual basis.

"A subsequent statutory amendment may be interpreted as clarifying original legislative intent." See *Stuckey v. State Budget & Control Bd.*, 339 S.C. 397, 401 (2000). Senate Bill 0428's proposed addition of the word "annually" to the statute was not a change but was a clarification of the existing investment tax credit statute as evidenced by the zero impact on the State's General Fund income tax revenue as well as Respondent's own practice of applying the Credit Limitation

on an annual basis. Accordingly, to the extent there is doubt – and there is none – as to the meaning of the plain text of S.C. Code Ann. § 12-14-60(G) as an annual limitation on the amount of investment tax credit that can be claimed by Petitioner, this recent legislative history removes that doubt.

In an effort to justify its erroneous reading of the pertinent statute, Respondent claims that the appearance of the phrase “total credit” in the title of the bill that enacted the Credit Limitation in 1998 evidences a purported legislative intent to limit the investment tax credit a taxpayer can claim to \$5 million on a lifetime basis. *See* Determination at 4. Respondent is wrong for three reasons. First, Respondent removes that phrase out of context. As discussed above, S.C. Code Ann. § 12-14-60(A) authorizes the investment tax credit “for any taxable year in which the taxpayer places in service qualified manufacturing and productive equipment.” Therefore, the “total credit” allowed “for any taxable year” under subsection (A) is limited to \$5 million under subsection (G).

Second, the South Carolina Supreme Court has opined that “[a]lthough the title and headings are part of the statute, they may not be construed to limit the plain meaning of the text.” *See, e.g., Garner v. Houck*, 312 S.C. 481, 486 (1993). The Court has further reasoned that “[f]or interpretive purposes, the title of a statute and heading of a section are of use only when they shed light on some ambiguous word or phrase and as tools available for resolution of doubt, but they cannot undo or limit what the text makes plain.” *Id.* As explained above, the plain language of the pertinent statute creates an annual limitation of \$5 million, which Respondent itself applied on an annual basis for more than fifteen years. Finally, as previously discussed, the Legislature’s intent to create the Credit Limitation as an annual cap on the amount of investment tax credit claimed by an electric utility was recently confirmed by the Legislature’s Revenue and Fiscal Affairs Office, a fact Respondent ignores entirely in its Determination.

C. Respondent’s Determination is wrong because it is in direct conflict with Respondent’s own longstanding practice of applying the Credit Limitation annually.

For more than fifteen years, Respondent correctly applied the Credit Limitation in S.C. Code Ann. § 12-14-60(G) as an annual limitation. This meant that a taxpayer could claim up to \$5 million in tax credit for each year that it continued to invest in South Carolina.

First, Respondent’s application of the Credit Limitation as an annual limitation is evidenced by Respondent’s prior audits of Petitioner. Specifically, in an Audit Report dated November 20, 2013, issued by Respondent to Petitioner for tax periods December 31, 2008 through December 31, 2011 (“Audit Report”), Respondent listed a maximum amount of “credits earned in current years” in the amount of \$5 million for each year. *See* Audit Report, attached hereto as Exhibit D. For example, for the 2011 tax year, where Petitioner’s total actual credit was \$6,130,395, Respondent’s allowed Petitioner to claim a credit in the amount of \$5,000,000 for that tax year alone, despite the fact that in the 2008, 2009 and 2010 tax years Petitioner claimed investment tax credits in the amount of \$1,275,728. Thus, Respondent agreed Petitioner was entitled to investment tax credit up to \$5 million for each tax year.

Furthermore, prior to July 2014, Respondent's own investment tax credit form, Form SC Sch. TC-11, expressly instructed taxpayers to calculate their investment tax credit by applying the \$5 million limitation on an annual basis. See Form SC Sch. TC-11, revised August 8, 2011, attached as Exhibit E. Specifically, line 7 of that form provided that the maximum credit is \$5 million. On line 8 of the form, the taxpayer listed its unused investment credits from 1997 and later. Then on line 9 of the form, Respondent instructed taxpayers to add line eight (unused prior year credit carryforward) to the lesser of, line 6 (current year calculated credit generation), or line 7 (\$5 million maximum credit). As a result, where the actual annual credit calculated on lines 1 through 5 of the form and totaled on line 6 exceeded \$5 million, the taxpayer would use \$5 million as its maximum credit generation for that year and would add \$5 million to its prior year unused credits. Because the form allowed current year credit as the lesser of the calculated amount or \$5 million, Respondent's form instructed taxpayers to apply the \$5 million limitation to the investment tax credit annually. Therefore, for more than fifteen years, Respondent understood that S.C. Code Ann. § 12-14-60(G) is an annual limitation and required Petitioner and other similar taxpayers to apply that annual limitation by instructing them that "the maximum credit per year is \$5,000,000." See Form SC Sch. TC-11, revised August 8, 2011, Exhibit E (emphasis added).

Without any notice or change in the law, Respondent abruptly changed course. On or about July 24, 2014, Respondent promulgated a new Form SC Sch. TC 11 that purports to instruct electric utilities like Petitioner to calculate the Credit Limitation on a lifetime basis. Nevertheless, Respondent's change to its Form SC Sch. TC-11, and therefore its longstanding practice, cannot and did not change the plain meaning of the S.C. Code Ann. § 12-14-60(G) and the Legislature's original intent to establish an annual limitation. Indeed, as discussed above, three years after Respondent's purported changes, the original intent of S.C. Code Ann. § 12-14-60(G) was once again affirmed by legislative actions, as evidenced by the proposed "clarifying amendment" that "... does not alter any current practices by the Department" or "would not affect state General Fund income tax revenue" See Fiscal Impact Statement, Exhibit C Section 2 (emphasis added). Accordingly, not only is the Determination in direct conflict with Respondent's long-standing practice, it is also invalid under the plain language of the controlling statute.

D. Respondent's Determination is wrong because it conflicts with South Carolina's rule-making procedures and laws.

It bears repeating that for more than fifteen years after the enactment of the investment tax credit statute, Respondent instructed taxpayers to apply the Credit Limitation on an annual basis, as evidenced by Form SC Sch. TC-11 and the Legislature's Revenue and Fiscal Affairs Office. However, sometime on or around July 24, 2014, Respondent abruptly revised its credit form to require the computation of the Credit Limitation on a lifetime basis. Respondent made this change without providing public notice, without permitting public comment, without conducting a public hearing, without preparing reports on the impact of the change, and without following any rulemaking procedures pursuant to S.C. Code Ann. §§ 1-23-110 to 160. Therefore, Respondent's Determination is invalid because it raises significant due process concerns and violates South Carolina's rule-making laws such that it constitutes invalid "administrative overreach that attempts to end run the legislative process." *Joseph v. S.C. Dep't of Labor, Licensing & Reg.*, 417 S.C. 436, 454 (2016).

E. Respondent's Determination is wrong because it violates the South Carolina Taxpayers' Bill of Rights.

The South Carolina Taxpayers' Bill of Rights provides that "[t]he department shall publish brief but comprehensive statements in simple and nontechnical language which explain procedures, remedies, and the rights and obligations of the department and taxpayers. ..." S.C. Code Ann. § 12-58-60. As a result, a taxpayer has the right to "receive forms ... in plain, easy-to-understand language." See Business Tax Guide 2017 Edition (S.C. Dep't of Rev. July 1, 2017). Respondent's Form SC Sch. TC-11 that was in effect for over fifteen years plainly instructed Petitioner to compute the Credit Limitation on an annual basis. Petitioner justifiably relied on Respondent's representations reflected in Form SC Sch. TC-11.

In the Determination, Respondent attempts to ignore its own form when it alleges that it is "not binding on the Department." See Determination at 5. Such an allegation is in direct conflict with Respondent's obligations under the Taxpayers' Bill of Rights. As a result, the Determination is invalid.

F. Respondent is estopped from issuing the Determination.

Petitioner invested substantial capital in the state of South Carolina and significantly contributed to the economy and infrastructure in this State. In making the decision to invest in South Carolina, Petitioner relied, in part, on Respondent's fifteen-year interpretation of S.C. Code Ann. § 12-14-60(G) as an annual limitation. Now, in an effort to achieve its desired result as reflected in the Determination, Respondent wants to change its longstanding practice retroactively and seeks to apply the Credit Limitation on a lifetime basis, not an annual basis as it has done in the past.

Even assuming, *arguendo*, that Respondent's new interpretation of S.C. Code Ann. § 12-14-60(G) were valid – which it is not – Respondent should be estopped from retroactively applying that interpretation. In South Carolina, "[c]ourts apply the doctrine of equitable estoppel when one party, by his actions, conduct, words or silence which amounts to a representation, or a concealment of material facts, causes another to alter his position to his prejudice or injury." *State Acc. Funds v. South Carolina Second Injury Fund*, 388 S.C. 67, 76-77 (2010). Such misrepresentation need not be intentional and reasonable reliance is sufficient. *Dillon County School Dist. No. Two v. Lewis Sheet Metal Works, Inc.*, 286 S.C. 207, 218 (1985), *overruled on other grounds*, *Atlas Food Systems & Servcs., Inc. v. Crne Nat'l Vendors Div. of Unidynamics Corp.*, 319 S.C. 556 (1995). Respondent represented for many years that the limitation in S.C. Code Ann. § 12-14-60(G) applied annually and it was reasonable for Petitioner to rely on such representation given that Respondent's credit forms instructed Petitioner to apply the limitation on an annual basis. Accordingly, Respondent is estopped from changing its interpretation of S.C. Code Ann. § 12-14-60(G).

a. Respondent's Determination is wrong because Respondent would be unjustly enriched by changing its interpretation retroactively.

Unjust enrichment is an equitable doctrine, akin to restitution, which contemplates that a person who has been unjustly enriched at the expense of another must make restitution to the other.

Barrett v. Miller, 283 S.C. 262 (S.C. Ct. App. 1984). To recover on a theory of restitution, the plaintiff must show: (1) that he conferred a nongratuitous benefit on the defendant; (2) that the defendant realized some value from the benefit; and (3) that it would be inequitable for the defendant to retain the benefit without paying the plaintiff its value. *JASDIP Properties SC, LLC v. Estate of Richardson*, 395 S.C. 633, 640 (2011).

Petitioner conferred significant benefits on Respondent and the State of South Carolina by making significant investments in the State. South Carolina realized value from this investment as evidenced by its willingness to provide investment tax credits. Petitioner reasonably relied on the Respondent's representations to pay for the benefit. Given Respondent's long held practice of calculating the Credit Limitation annually, and not as a lifetime cap, the Respondent understood that Petitioner expected to receive annual tax credits from its nearly two decades of investment in South Carolina. Accordingly, Respondent would be unjustly enriched by applying its new interpretation of the tax credit limitation.

IV. RELIEF REQUESTED

Petitioner respectfully requests that the Administrative Law Court: (1) determine that Respondent's Determination is erroneous and illegal; (2) reverse Respondent's Determination and enter judgment providing that Petitioner is entitled to \$24,850,727 of investment tax credits for the Years at Issue; and (3) award such other and further relief as may be just and proper. Petitioner reserves the opportunity to present further information and to raise additional issues or arguments prior to or at a trial or hearing before this Court.

Respectfully submitted this 24th day of May, 2019.



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Attorneys for Petitioner Duke Energy Corporation

CERTIFICATE OF SERVICE

This is to certify that I have this day served the foregoing **PETITION FOR A CONTESTED CASE HEARING** by depositing same in the United States Certified Mail, in a properly addressed envelope with adequate postage thereon, upon the following:

Clerk's Office
South Carolina Administrative Law Court
1205 Pendleton St., Suite 224
Columbia, SC 29201

C. Anthony Harris, Jr. Esquire
Office of General Counsel for Litigation
PO Box 12265
Columbia, SC 29211-9979

This 24th day of May, 2019.


Chris Lee

Attorney for Petitioner Duke Energy

FILED
MAY 24 2019

SC ADMIN LAW COURT

Exhibit A

STATE OF SOUTH CAROLINA
DEPARTMENT OF REVENUE
OFFICE OF THE GENERAL COUNSEL

Physical Address:

300A Outlet Pointe Blvd.
Columbia, SC 29210



Mailing Address:

PO Box 12265
Columbia, SC 29211-9979

April 26, 2019

Maria M. Todorova, Esquire
Eric S. Tresh, Esquire
Eversheds Sutherland (US), LLP
999 Peachtree Street, N.E., Suite 2300
Atlanta, GA 30309-3996

Re: Department Determination
Duke Energy Corporation & Affiliates
Corporate Income Tax – 1996 through 2014
Our File Number: 180317

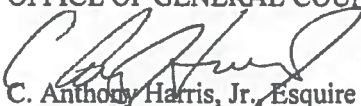
Dear Counsel:

Enclosed is the South Carolina Department of Revenue's Determination in the above-referenced matter. If you disagree with the Determination, you may request a contested case hearing before an Administrative Law Judge. If you choose to pursue such remedy, you must do so within thirty (30) days of the date of this letter. If you fail to respond within this time limitation, you will lose your right to appeal the Department Determination and your protest will be ended. Should you desire a contested case hearing, you must complete the enclosed request form and mail it, along with a \$500.00 filing fee, to the Administrative Law Court at the address stated on the form's instruction sheet.

The Administrative Law Court rules require that you also send me a copy of your request. My address is as follows: PO Box 12265, Columbia, SC 29211-9979.

Sincerely,

OFFICE OF GENERAL COUNSEL FOR LITIGATION


C. Anthony Harris, Jr., Esquire
Counsel for Litigation
Charles.Harris@dor.sc.gov
803-898-5278

CAH/gjm

Enclosures

DEPARTMENT DETERMINATION

Taxpayer:

Duke Energy Corp.
DEC41A
550 South Tryon Street
Charlotte, NC 28202

Periods Involved:

Corporate Income Tax – Tax Period 1996 - 2014

Amount in Dispute:

\$19,850,727

Matter in Dispute:

Is the Taxpayer limited to a \$5,000,000 investment tax credit on a lifetime basis under S.C. Code Ann. § 12-14-60(A)(1), (D)(1) and (G) (2014) ?

Determination:

The Taxpayer is limited to a \$5,000,000 investment tax credit on a lifetime basis under § 12-14-60(A)(1), (D)(1) and (G).

Relevant Facts:

1. The Taxpayer is a utility company providing electrical power to South Carolina citizens and, as such, is entitled to claim certain investment tax credit under Chapter 14 of Title 12 of the S.C. Code of Laws.
2. The South Carolina Department of Revenue (Department) audited the Taxpayer's corporate income tax returns filed from 1996 through 2014 (the audit period). The Taxpayer filed returns for each year of the audit period and claimed investment tax credit totaling \$24,850,727, of which \$5,000,000 was allowed by the Department. The Department's audit showed that \$4,298,806 of tax credit was used by the Taxpayer through December 31, 2014, and that the Taxpayer had a carry-forward balance of \$701,195.

3. The following is a compilation of the audit results:¹

Tax Credit Per Return		Tax Credit Allowed by DOR	Tax Credit Used by Taxpayer	Tax Credit Disallowed	Tax Credit Carry Forward Per Taxpayer	Tax Credit Carry Forward Per Department
1996	208,415	208,415	208,415	-0-	-0-	-0-
1997	332,120	332,120	332,120	-0-	-0-	-0-
1998	382,454	382,454	382,454	-0-	-0-	-0-
1999	194,718	194,718	194,718	-0-	-0-	-0-
2000	450,347	450,347	450,347	-0-	-0-	-0-
2001	156,034	156,034	156,034	-0-	-0-	-0-
2002	346,795	346,795	346,795	-0-	-0-	-0-
2003	290,036	290,036	290,036	-0-	-0-	-0-
2004 ²	640,665	640,665	-0-	-0-	640,665	640,665
2005	210,450	210,450	-0-	-0-	851,115	851,115
2006	180,785	180,785	-0-	-0-	1,031,900	1,031,900
2007	438,966	438,966	-0-	-0-	1,470,866	1,470,866
2008	387,240	387,240	-0-	-0-	1,858,106	1,858,106
2009	436,294	436,294	-0-	-0-	2,294,400	2,294,400
2010	501,741	344,681	-0-	157,060	2,796,141	2,639,081
2011	4,832,741	-0-	-0-	4,832,741	7,628,882	2,639,081
2012	4,951,427	-0-	-0-	4,951,427	12,580,309	2,639,081
2013	4,953,682	-0-	-0-	4,953,682	17,533,991	2,639,081
2014	4,955,817	-0-	1,937,887	4,955,817	20,551,921	701,194
	24,850,727	5,000,000	4,298,806	19,850,727		

4. The Department issued a Notice of Adjustment to the Taxpayer dated July 19, 2018, which reflected the findings of the audit and adjusted the total tax credit allowed, including the carry-forward balance, as set forth above.

¹The audit reflecting the investment tax credit was part of a larger audit involving the Taxpayer and which dealt with a number of tax-related matters. Following the decision in Duke Energy Corporation v. S.C. Dep't of Revenue, 415 S.C. 351, 782 S.E. 2d 590 (2016), the Department and Taxpayer resolved all issues, with the exception of the investment tax credit addressed in this Determination. This information is provided as an explanation for the length of the audit period set forth herein. The Department reserves the right to make adjustments to the audit referenced in this Determination as may be necessary based on discovery or other information which becomes available to the Department.

²Duke claimed a loss on its income tax returns for the years 2004 through 2013, which is the reason none of the credit was used during those years. Duke used \$1,937,887.00 in tax credit in 2014, leaving unused carry-forward credit of \$701,195.00 per the audit report.

5. The Taxpayer timely protested the Department's Notice of Adjustment by letter dated October 16, 2018.
6. As the issue of the tax credit had been discussed with the Taxpayer as part of several other tax matters involving the Taxpayer, the Taxpayer requested that a conference with the Appeals Division of the Department be bypassed and that the matter be sent directly to the Office of General Counsel for Litigation for the issuance of this Determination.

Analysis

- I. **The Taxpayer is not entitled to carry forward \$19,850,727 in investment tax credit, as the clear and unambiguous language of §§ 12-14-60(A)(1), (D)(1) and (G) limits the tax credit to \$5,000,000 on a lifetime basis.**

Chapter 14 of Title 12 of the South Carolina Code provides for investment tax credit for certain companies that place in service qualified manufacturing and productive equipment property. The Taxpayer is a company which qualifies for the tax credit.

Section 12-14-60(A)(1) provides "[t]here is allowed an investment tax credit against the tax imposed pursuant to Chapter 6 of this title for any taxable year in which the taxpayer places in service qualified manufacturing and productive equipment property." Any unused tax credit may be carried forward for ten years from the close of the tax year in which the credit was earned under § 12-14-60(D)(1). The lifetime limitation of \$5,000,000 is imposed by § 12-14-60(G) which reads "[t]he credit allowed by this section for investments made after June 30, 1998, *is limited to no more than five million dollars for an entity subject to the license tax as provided by Section 12-20-100.*" (emphasis added).

The cardinal rule employed by South Carolina courts in statutory construction is to first ascertain the plain meaning of the language in the statute. "It is axiomatic that statutory interpretation begins (and often ends) with the text of the statute in question." Smith v. Norman K. Tiffany, 419 S.C. 548, 556, 799 S.E. 2d. 479, 587 (2017). "The text of a statute as drafted by the legislature is considered the best evidence of the legislative intent or will." Hodges v. John S. Rainey, 341 S.C. 79, 85, 533 S.E.2d. 578, 581 (2000). "If a statute is clear and explicit in its language, then there is no need to resort to statutory interpretation or legislative intent to determine its meaning." Timmons v. S.C. Tricentennial Commission, 254 S.C. 378, 401, 175 S.E.2d. 805, 817 (1970).

The controlling statute is § 12-14-60 and the pertinent language of the applicable subsections defines the time period, duration and limitation for the allowable tax credit. Section 12-14-60(A)(1) provides the time period for which the credit may be taken (any taxable year in which the taxpayer places in service qualified equipment); § 12-14-60(D)(1) defines the duration over which the credit may be taken (the taxpayer may carry forward unused credit for a period of ten years from the close of the tax year in which the credit was earned); and § 12-14-60(G) sets forth the limitation on the total amount of credit a taxpayer may claim (the credit allowed by this section is limited to no more than \$5,000,000). The statute's language is plain and unambiguous, and conveys a clear and definite meaning, and no other meaning should be imposed. See SCANA Corp. v. S.C. Dep't of Rev., 384 S.C. 388, 391, 683 S.E.2d 468, 469 (2009) (construing S.C. Code Ann. § 12-14-60(D)). When the subsections are read together as a whole, the clear meaning of the language is that the statute provides a lifetime limit of \$5,000,000 in tax credit, which may be

used in a single tax year, earned over multiple tax years or carried forward if unused over a period of ten years.

If there is any resort to matters outside the plain text of the statute, the title to the statute in this instance is a clear indication of the legislative intent. Outside of the statute itself, the title is the text most closely related to the statute. The statute in question was first enacted in 1995 and has been amended on several occasions since. See 1995 S.C. Act No. 25 (Economic Impact Zone Community Development Act of 1995). In 1998 the statute was amended, and for the first time the General Assembly included language to specifically limit the credit for an entity subject to the license tax under S.C. Code Ann. § 12-20-100 (2014), to which the taxpayer, as a utility company, is subject. See 1998 S.C. Act No. 442. During the 1998 legislative session, the General Assembly first proposed legislation to limit the credit for utility companies to \$1,000,000; later that same session, the bill was amended to increase the credit to \$5,000,000. However, under both versions of the bill, the title clearly states that its purpose is “[t]o limit the *total credit* allowed a utility for investments made after June 30, 1998”. See 1998 S.C. Act No. 419; 1998 S.C. Act No. 442. (emphasis added). Our courts have held that the title is part of a statute and while a title may not be used to alter the text of a statute, it may be considered when construing legislative intent. Alyce B. McInnis v. Estate of E.C. McInnis, Jr., 348 S.C. 585, 560 S.E. 2d 632 (Ct. App. 2002); Nathaniel Garner v. William S. Houck, Jr., 312 S.C. 481; 435 S.E. 2d 847 (1993). “It is proper to consider the title or caption of an act in aid of construction to show the intent of the legislature.” Lindsay v. S. Farm Bureau Cas. Ins. Co., 258 S.C. 272, 277 188 S.E.2d 374, 376 (1972), citing Univ. of S. Carolina v. Elliott, 248 S.C. 218, 221, 149 S.E. 2d 433, 434 (1966). The plain and unambiguous language in the title to the 1998 amendment further evinces the legislature’s intent *to limit the total credit a taxpayer can claim after June 30, 1998 to \$5,000,000 on a lifetime basis*.

II. The credit at issue must be strictly construed against the Taxpayer.

Importantly, § 12-14-60 provides a tax credit, which is a legislatively-created special circumstance that lessens the overall tax burden of the Taxpayer. South Carolina courts have long held that any statute which lessens the tax burden, whether by exemption, deduction or tax credit, is a matter of legislative grace and should be strictly construed against the taxpayer. “[I]n order for a taxpayer to avail himself of a deduction in the calculation of a tax, the taxpayer must bring himself squarely within the terms of that statute authorizing such deduction.” Avco Corp. v. Robert C. Wasson, Chairman, et al., 267 S.C. 581, 230 S.E.2d 614 (1976).

In Matthews v. South Carolina Tax Commission, 267 S.C. 548, 230 S.E.2d 223 (1976), the taxpayer sought to recover taxes paid under protest, citing a statute which allowed carry forward losses for taxpayers who had started a new business in the state. In ruling against the taxpayer, the Court held:

However, this case and Chronicle Publishers recognize a principle that applies in the present case: that a deduction is a matter of legislative grace; and that a statute allowing a deduction, if ambiguous, is construed strictly against the taxpayer. The language of section 65-259(12) does leave room for interpretation. What it takes to ‘establish a new business’ is admittedly not obvious. The present case is therefore one to which the above stated principle applies.

Matthews, at 548,557, 230 S.E.2d. at 223,232. This same reasoning was applied in denying tax credit claimed by the taxpayer in Centex v. South Carolina Department of Revenue, 406 S.C. 132, 750 S.E.2d. 65(2013), as the Court noted “[i]n conjunction with these rules of statutory construction, we must also be cognizant of our policy to strictly construe a tax credit against the taxpayer as it is a matter of legislative grace.” Centex at 140,750 S.E.2d. at 73.

Thus, the unambiguous language of § 12-14-60(G) must be strictly construed against the Taxpayer. Accordingly, the Department correctly concluded that the investment tax credit afforded under § 12-14-60(G) has a lifetime limit of \$5,000,000.

III. The Taxpayer’s arguments are unpersuasive.

In its protest letter, the Taxpayer raises two principal arguments against the Department’s Notice of Adjustment. Neither argument is persuasive.

First, the Taxpayer argues the Department inappropriately changed its form related to the tax credit under the statute. The form in this case is known as SC SCH. TC-11. On July 24, 2014, the Department revised Form TC-11 to ensure the language of the form more clearly reflected the lifetime limitation of the credit afforded under § 12-14-60(G) and to better assist taxpayers in the computation of the credit. The Taxpayer contends that the change to the form is tantamount to the passage of an unauthorized regulation and violates the South Carolina Administrative Procedures Act (APA).

Under S.C. Code Ann. § 1-23-10(4) (2014) of the APA, a regulation is defined as “each agency statement of general public applicability that implements or prescribes law or policy or practice requirements of any agency.” The issuance of a form, or revision of a form, to assist a taxpayer is not a regulation. Furthermore, § 1-23-10(4) also provides “[p]olicy or guidance issued by an agency other than in a regulation does not have the force or effect of law.” Therefore, the issue raised by the Taxpayer regarding the form is not dispositive of the underlying question of whether § 12-14-60(G) provides a lifetime or annual limitation on the available tax credit.

The Department was created to administer and enforce the revenue laws of this State including statutory law, case law and regulations. S.C. Code Ann. § 12-4-109 (2014). As such, the Department may issue advisory opinions, some of which are binding on the Department but not the taxpayer. Forms and instructions are not part of the revenue laws of the state, and they are not advisory opinions or regulations, but merely tools to assist taxpayers in complying with the revenue laws of the State. As such, forms and instructions do not carry the force of law, nor do they carry any precedential value, and they are not binding on the Department. Indeed, the Department oversees and issues dozens of forms to assist taxpayers with a myriad of tax matters, and to require regulatory action to issue or revise a form, as suggested by the Taxpayer, is both unduly cumbersome and unrealistic. To the extent the Taxpayer argues that the use of any form by the Department has established a precedent against the Department’s current position, there is ample case law which supports the proposition that state and federal agencies are not bound by their own forms, instructions or other interpretations in the administration of the law and, therefore, are not estopped by any inconsistencies contained therein. Anonymous Taxpayers v. S. C. Dep’t of Rev., Docket No. 00-ALJ-17-0681-CC, (J. Matthews, September 2019), 2001 WL 1185428 (S.C. Admin. Law Judge Div.); Texaco, Inc. v. Wasson, 269 S.C. 255, 237 S.E. 2d 75 (1977);

Colonial Life & Accident Ins. Co. v. S.C. Tax Comm'n., 248 S.C. 334, 149 S.E. 2d 777(1966); Adler v. U.S. [64-1 USTC P 9388], 330 F. 2d 91(9th Cir. 1964).

Moreover, to the extent the Taxpayer's argument is that the Department is estopped from enforcing the lifetime limitation imposed by § 12-14-60(G) because an alleged ambiguity in the Department's forms, South Carolina courts have routinely held that the doctrine of estoppel cannot be applied against a state agency that is seeking to exercise its police powers as provided by law. See, e.g., Heyward v. S.C. Tax Comm'n., 240 S.C. 347, 351, 126 S.E.2d 15, 17 (1962) ("[T]he doctrine of estoppel will not be applied to deprive the government of the due exercise of its police power, or to effect public revenues or property rights, or to frustrate the purpose of its laws or thwart its public policy."); see also Ahrens v. State, 392 S.C. 340, 348, 709 S.E.2d 54, 58 (2011) (finding that state agency could not be estopped based on forms issued by the agency).

Second, the Taxpayer relies on an un-enacted amendment to the statute introduced during the 2017-2018 Regular General Assembly Session to support its interpretation of the statute. The proposed amendment would have placed the word "annually" after the phrase "no more than five million dollars" found in § 12-14-60(G). The taxpayer cites to Dale C. Stuckey v State Budget & Control Board, 339 S.C. 397, 401, 529 S.E.2d 706, 708 (2000) for the proposition that "[a] subsequent statutory amendment may be interpreted as clarifying original legislative intent." However, in Stuckey the court was addressing a statute with a subsequent amendment which *had in fact passed the legislature* and was law. In this instance, the amendment cited by the taxpayer *did not pass the legislature* and, therefore, is not law. To the extent any of this is relevant to the meaning of the current statute, it is to show the legislature did not include the word "annually" in the 1998 version of the bill which was passed, and likewise it chose not to pass the 2017-2018 bill which did include the word.

Moreover, even if the proposed legislation had been enacted, the inclusion of the word "annually" in § 12-14-60(G) would not have been a simple clarification, but instead would have changed the current limitation completely. The legislature is well aware of how to use the word "annual" as it relates to tax credit, as it has chosen to utilize this language in other statutes. See, e.g., S.C. Code Ann. § 12-6-3420(B)(2)-(3) (2014) (providing tax credit for construction and infrastructure projects and limiting the credit to "ten thousand dollars *annually*; and any unused credit, may be carried forward three years") (emphasis added). However, the legislature chose not to include "annual" in § 12-14-60, so a subsequent decision to amend the statute to insert "annual" would have represented a wholesale change, not merely a clarification.

Conclusion:

For the foregoing reasons, the Taxpayer has not met its burden of proving that it is entitled to an annual \$5,000,000 tax credit under the statute, where the plain and unambiguous language of § 12-14-60(A)(1), (D)(1) and (G), when read together as a whole, limit the tax credit to \$5,000,000 on a lifetime basis. Accordingly, the Department correctly adjusted the Taxpayer's returns to limit any tax credit under § 12-14-60 to no more than \$5,000,000 lifetime after June 30, 1998.

April 26, 2019

Filing and Assignment of a Contested Case with the Administrative Law Court

Complete the Request for Contested Case Hearing and Certificate of Service form in its entirety. File the original by mailing it or hand delivering it to the Administrative Law Court, along with a copy of the decision from the agency and the appropriate filing fee. Be sure to serve a copy of the Request on the agency which you are appealing as well as any other known parties or protestants. Your case will be deemed filed with the Administrative Law Court upon receipt of your request and filing fee, and will normally be assigned to an administrative law judge within a week of filing. You should receive a Notice of Assignment within a few days of your case being assigned. The Notice of Assignment will have the case caption, docket number, date of filing and the name of the administrative law judge assigned to your case. Once your case has been assigned, all filings and questions regarding your case should be directed to the assigned judge.

Clerk's Office
South Carolina Administrative Law Court
1205 Pendleton Street, Suite 224
Columbia, SC 29201

South Carolina Department of Revenue
Office of General Counsel, Tax and
Regulatory Services
Columbia, SC 29211-9979

Exhibit B

South Carolina Legislature

12 14 60 found 1 time.

S 428

Session 122 (2017-2018)

S 0428 General Bill, By Reese

A BILL TO AMEND SECTION 12-6-2295(A) OF THE 1976 CODE, RELATING TO ITEMS INCLUDED AND EXCLUDED FROM TERMS "SALES" AND "GROSS RECEIPTS", TO PROVIDE THAT RECEIPTS FROM THE PROVISION OF DIRECT BROADCAST SATELLITE SERVICE ARE ATTRIBUTABLE TO THIS STATE IN PRO RATA PROPORTION OF THE COSTS OF PERFORMING THE SERVICE.

02/16/17 Senate Introduced and read first time (Senate Journal-page 4)

02/16/17 Senate Referred to Committee on Finance
(Senate Journal-page 4)

03/15/17 Senate Committee report: Favorable with amendment
Finance (Senate Journal-page 7)

03/16/17 Scrivener's error corrected

03/21/17 Senate Committee Amendment Adopted (Senate Journal-page 16)

03/21/17 Senate Read second time (Senate Journal-page 16)

03/21/17 Senate Roll call Ayes-37 Nays-0 (Senate Journal-page 16)

03/22/17 Senate Read third time and sent to House
(Senate Journal-page 15)

03/22/17 House Introduced and read first time (House Journal-page 82)

03/22/17 House Referred to Committee on Labor, Commerce and
Industry (House Journal-page 82)

VERSIONS OF THIS BILL

2/16/2017

3/15/2017

3/16/2017

3/21/2017

S. 428

~~Indicates Matter Stricken~~

Indicates New Matter

COMMITTEE AMENDMENT ADOPTED

March 21, 2017

S. 428

Introduced by Senator Reese

S. Printed 3/21/17—S.

Read the first time February 16, 2017.

A BILL

TO AMEND SECTION 12-6-2295(A) OF THE 1976 CODE, RELATING TO ITEMS INCLUDED AND EXCLUDED FROM TERMS "SALES" AND "GROSS RECEIPTS", TO PROVIDE THAT RECEIPTS FROM THE PROVISION OF DIRECT BROADCAST SATELLITE SERVICE ARE ATTRIBUTABLE TO THIS STATE IN PRO RATA PROPORTION OF THE COSTS OF PERFORMING THE SERVICE.

Amend Title To Conform

Whereas, the provision of direct broadcast satellite service is a national business that produces income from activities undertaken both within and outside of this State; and

Whereas, South Carolina law and the Constitution of the United States require that the income direct broadcast satellite service providers be fairly apportioned in relation to the benefits and advantages provided by each State; and

Whereas, fair apportionment of business income, ease of income taxation compliance, and the predictability of income taxation promote commerce within this State; and

Whereas, the Department of Revenue has apportioned the income of direct broadcast satellite service providers for income taxation purposes based upon the location of its customers, in a manner contrary to the General Assembly's intent and existing law. Now, therefore,

Be it enacted by the General Assembly of the State of South Carolina:

SECTION 1. Section 12-6-2295(A) of the 1976 Code is amended to read:

"(A) The terms 'sales' as used in Section 12-6-2280 and 'gross receipts' as used in Section 12-6-2290 include, but are not limited to, the following items if they have not been separately allocated:

- (1) receipts from the sale or rental of property maintained for sale or rental to customers in the ordinary course of the taxpayer's trade or business including inventory;
- (2) receipts from the sale of accounts receivable acquired in the ordinary course of trade or business for services rendered or from the sale or rental of property maintained for sale or rental to customers in the ordinary course of the taxpayer's trade or business if the accounts receivable were created by the taxpayer or a related party. For purposes of this item, a related person includes a person that bears a relationship to the taxpayer as described in Section 267 of the Internal Revenue Code;
- (3) receipts from the use of intangible property in this State including, but not limited to, royalties from patents, copyrights, trademarks, and trade names;
- (4) net gain from the sale of property used in the trade or business. For purposes of this subsection, property used in the trade or business means property subject to the allowance for depreciation, real property used in the trade or business, and intangible property used in the trade or business which is:
 - (a) not property of a kind that properly would be includible in inventory of the business if on hand at the close of the taxable year; or
 - (b) held by the business primarily for sale to customers in the ordinary course of the trade or business;
- (5) receipts from services if the entire income-producing activity is within this State. If the income-producing activity is performed partly within and partly without this State, sales are attributable to this State to the extent the income-producing activity is performed within this State;
- (6) receipts from the sale of intangible property which are unable to be attributed to any particular state or states are excluded from the numerator and denominator of the factor;

(7) receipts from the provision of direct broadcast satellite service that are attributable to this State in proportion of the costs of performing the service, including the costs of acquiring programming distribution rights and constructing and maintaining distribution infrastructure, that the service provider incurs within this State. As used in this subsection, the term 'direct broadcast satellite service' means the distribution or broadcasting of programming or services by satellite directly to the subscriber's premises without the use of ground receiving or distribution equipment, except at the subscriber's premises or in the uplink process to the satellite."

SECTION 2. Section 12-14-60(G) of the 1976 Code is amended to read:

"(G) The credit allowed by this section for investments made after June 30, 1998, is limited to no more than five million dollars annually for an entity subject to the license tax as provided in Section 12-20-100."

SECTION 3. This act takes effect upon approval by the Governor and applies to all open tax periods excluding assessments under judicial review as of the date of the Governor's approval.

---XX---

Legislative Services Agency
<http://www.scstatehouse.gov>



SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE
STATEMENT OF ESTIMATED FISCAL IMPACT
 (803)734-0640 • RFA.SC.GOV/IMPACTS

Bill Number: S.0428 Amended by Senate Finance on March 14, 2017
Author: Reese
Subject: Sales and gross receipts
Requestor: Senate
RFA Analyst(s): Martin
Impact Date: March 20, 2017

Estimate of Fiscal Impact

	FY 2017-18	FY 2018-19
State Expenditure		
General Fund	\$0	\$0
Other and Federal	\$0	\$0
Full-Time Equivalent Position(s)	0.00	0.00
State Revenue		
General Fund	\$0	\$0
Other and Federal	\$0	\$0
Local Expenditure	\$0	\$0
Local Revenue	\$0	\$0

Fiscal Impact Summary

This bill, as amended, would not affect state General Fund corporate income tax revenue in FY2017-18.

Explanation of Fiscal Impact

Amended by the Senate Finance Committee on March 14, 2017

State Expenditure

The Department of Revenue indicates that there will be no expenditure impact to the General Fund, Federal Funds, or Other Funds from this bill. The Department can administer the legislative changes with existing resources.

State Revenue

Section 1. When a corporate taxpayer conducts business in more than one state they are statutorily required to account for the amount of business attributable to each state. Generally, income is apportioned among the states on a formula basis. The apportionment method becomes clouded when the taxpayer is a service provider rather than a manufacturer.

Pursuant to Sections 12-6-2290 and 12-6-2295, taxpayers whose principal business is not manufacturing or dealing in tangible personal property must apportion income using a gross receipts factor. The gross receipts factor is defined as "a fraction in which the numerator is gross receipts from within this State during the taxable year and the denominator is total gross receipts from everywhere during the taxable year."

Two prominent satellite subscription television service providers, DirecTV, Inc. and Dish DBS Corp., filed amended corporate income tax returns seeking large corporate income tax refunds based upon their reinterpretation of the apportionment of corporate income tax attributable to South Carolina. Both companies are multistate taxpayers that offer direct broadcast satellite video services through subscription fees and leases of equipment for access to hundreds of television programming channels throughout the United States. The satellite providers argued that little or no subscription revenue from South Carolina should be included in the numerator of the gross receipts ratio because the majority of the income-producing activity occurs outside of South Carolina.

DirecTV, Inc. and Dish DBS Corp. filed suit against the Department of Revenue and the case was heard by an administrative law court judge. At issue was the interpretation and delineation of the phrases "income-producing activity" and "costs of performing the service". The satellite providers argued that the costs of performing the service should be sourced to their headquarters that are not in South Carolina thereby reducing their tax liability sourced to South Carolina. The Department of Revenue argued that the income-producing activity of charging subscription fees to South Carolina subscribers was the appropriate measure to assess the satellite provider's corporate tax liability.

This bill would clarify the apportionment language in Section 12-6-2295 for satellite companies with regard to their assessment of corporate income tax revenue. This bill would amend Section 12-6-2295(A) to amend the items to include in the terms "sales" and "gross receipts" to mean the receipts from the provision of direct broadcast satellite service attributable to this State in pro rata proportion of the costs of performing the service. This bill further defines the term "direct broadcast satellite service" to mean the distribution of broadcasting or programming or services by satellite directly to the subscriber's premises without the use of ground receiving or distribution equipment, except at the subscriber's premises or in the uplink process to the satellite.

The administrative law court case was decided in the favor of the defendant, the South Carolina Department of Revenue. A table summarizing the judgments in each case is provided below.

South Carolina Administrative Law Court Petitioner's Order

Category	DIRECTV, Inc.	Dish DBC, Inc.		
Tax & license fees	\$6,646,168	\$544,286	\$90,551	\$634,837
Interest	\$653,425	\$399,496	\$32,196	\$431,692
Penalties	<u>\$1,661,541</u>	<u>\$276,307</u>	<u>\$21,846</u>	<u>\$298,153</u>
Total	<u>\$8,961,134</u> a/	<u>\$1,220,089</u> b/	<u>\$144,593</u> c/	<u>\$1,364,682</u>

Notes: a/ Income tax returns for 2009, 2010, and 2011
b/ Income tax returns for 2004 through 2010
c/ Income tax returns for 2006 through 2011.

The judgment ordered DirecTV to pay \$8,961,134 in taxes, license fees, interest, and penalties for the tax years 2009 through 2011 to the Department of Revenue. Dish DBC Corp. was ordered to pay \$1,364,682 in taxes, license fees, interest, and penalties for tax years 2004 through 2011. Although a decision was reached at the administrative law court level, the case may still be

appealed with the outcome of that decision being uncertain. It has been the long-standing policy of the Revenue and Fiscal Affairs Office and the Board of Economic Advisors to not comment on impending litigation until a final decision is reached. As such, even though the state has not received a portion of the corporate income tax revenue for satellite services provided, the appropriate amount of tax revenue will be collected in accordance with existing statutes upon settlement of the legal action. The state did not lose any corporate income tax revenue, it is delayed. The state will receive the corporate income tax revenue owed, but in a time period other than the period in which the tax revenue was earned. After such time, the state will receive the proper corporate income tax revenue amounts from satellite subscription television service providers going forward. This bill, therefore, will not affect state corporate income tax revenue in FY2017-18, and each fiscal year thereafter.

Section 2. This amended section would amend Section 12-14-60(G) to limit the total dollar amount of an investment tax credit allowed by a taxpayer to no more than \$5,000,000 “annually” for a single taxpayer subject to the corporate license tax. This clarifying amendment does not alter any current practices by the Department of Revenue, and therefore, would not affect state General Fund income tax revenue in FY 2017-18, and later fiscal years.

Section 3. This act takes effect upon approval by the Governor and shall apply to all open tax excluding assessments under judicial review as of the date of the Governor’s approval.

Local Expenditure

N/A

Local Revenue

N/A

Updated to Correct a Typographical Error

Amended by the Senate Sales and Income Tax Subcommittee on March 8, 2017

State Expenditure

The Department of Revenue indicates that there will be no expenditure impact to the General Fund, Federal Funds, or Other Funds from this bill. The Department can administer the legislative changes with existing resources.

State Revenue

Section 1. This section was amended to provide a definition of “service provider” to mean an owner operator of a satellite receiver and related hardware refurbishment and repair facility in this State with an annual payroll of at least twenty-five million dollars and which directly employs at least eight hundred employees. Dish DBS, Corp. currently leases a pay-tv and broadband service and remanufacturing center in Spartanburg, South Carolina. This facility meets the above criteria. DirecTV, which was acquired by AT&T in July 2015, does not operate a refurbishment and repair facility in South Carolina. This amendment specifically clarifies that the satellite service provider, Dish DBS, Corp., must apportion gross receipts among the states they conduct business using a gross receipts formula pursuant to Section 12-6-2295. This amended section is prospective and excludes assessments under judicial review. This amended section is not expected to affect state General Fund corporate income tax revenue in FY 2017-18, and each fiscal year thereafter.

When a corporate taxpayer conducts business in more than one state they are statutorily required to account for the amount of business attributable to each state. Generally, income is apportioned among the states on a formula basis. The apportionment method becomes clouded when the taxpayer is a service provider rather than a manufacturer.

Pursuant to Sections 12-6-2290 and 12-6-2295, taxpayers whose principal business is not manufacturing or dealing in tangible personal property must apportion income using a gross receipts factor. The gross receipts factor is defined as “a fraction in which the numerator is gross receipts from within this State during the taxable year and the denominator is total gross receipts from everywhere during the taxable year.”

Two prominent satellite subscription television service providers, DirecTV, Inc. and Dish DBS Corp., filed amended corporate income tax returns seeking large corporate income tax refunds based upon their reinterpretation of the apportionment of corporate income tax attributable to South Carolina. Both companies are multistate taxpayers that offer direct broadcast satellite video services through subscription fees and leases of equipment for access to hundreds of television programming channels throughout the United States. The satellite providers argued that little or no subscription revenue from South Carolina should be included in the numerator of the gross receipts ratio because the majority of the income-producing activity occurs outside of South Carolina.

DirecTV, Inc. and Dish DBS Corp. filed suit against the Department of Revenue and the case was heard by an administrative law court judge. At issue was the interpretation and delineation of the phrases “income-producing activity” and “costs of performing the service”. The satellite providers argued that the costs of performing the service should be sourced to their headquarters that are not in South Carolina thereby reducing their tax liability sourced to South Carolina. The Department of Revenue argued that the income-producing activity of charging subscription fees to South Carolina subscribers was the appropriate measure to assess the satellite provider’s corporate tax liability.

This bill would clarify the apportionment language in Section 12-6-2295 for satellite companies with regard to their assessment of corporate income tax revenue. This bill would amend Section 12-6-2295(A) to amend the items to include in the terms “sales” and “gross receipts” to mean the receipts from the provision of direct broadcast satellite service attributable to this State in pro rata proportion of the costs of performing the service. This bill further defines the term “direct broadcast satellite service” to mean the distribution of broadcasting or programming or services by satellite directly to the subscriber’s premises without the use of ground receiving or distribution equipment, except at the subscriber’s premises or in the uplink process to the satellite.

The administrative law court case was decided in the favor of the defendant, the South Carolina Department of Revenue. A table summarizing the judgments in each case is provided below.

South Carolina Administrative Law Court Petitioner's Order

Category	DIRECTV, Inc.	Dish DBC, Inc.		
Tax & license fees	\$6,646,168	\$544,286	\$90,551	\$634,837
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Total	<u>\$8,961,134</u> a./	<u>\$1,220,089</u> b./	<u>\$144,593</u> c./	<u>\$1,364,682</u>

Notes: a/ Income tax returns for 2009, 2010, and 2011.
b/ Income tax returns for 2004 through 2010.
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The judgment ordered DirecTV to pay \$8,961,134 in taxes, license fees, interest, and penalties for the tax years 2009 through 2011 to the Department of Revenue. Dish DBC Corp. was ordered to pay \$1,364,682 in taxes, license fees, interest, and penalties for tax years 2004 through 2011. Although a decision was reached at the administrative law court level, the case may still be appealed with the outcome of that decision being uncertain. It has been the long-standing policy of the Revenue and Fiscal Affairs Office and the Board of Economic Advisors to not comment on impending litigation until a final decision is reached. As such, even though the state has not received a portion of the corporate income tax revenue for satellite services provided, the appropriate amount of tax revenue will be collected in accordance with existing statutes upon settlement of the legal action. The state did not lose any corporate income tax revenue, it is delayed. The state will receive the corporate income tax revenue owed, but in a time period other than the period in which the tax revenue was earned. After such time, the state will receive the proper corporate income tax revenue amounts from satellite subscription television service providers going forward. This bill, therefore, will not affect state corporate income tax revenue in FY2017-18 and later fiscal years.

Section 2. This amended section would amend Section 12-14-60(G) to limit the total dollar amount of an investment tax credit allowed by a taxpayer to no more than \$5,000,000 "annually" for a single taxpayer subject to the corporate license tax. This clarifying amendment does not alter any current practices by the Department of Revenue, and therefore, would not affect state General Fund income tax revenue in FY 2017-18.

Section 3. This act takes effect upon approval by the Governor and shall apply to all open tax excluding assessments under judicial review as of the date of the Governor's approval.

Local Expenditure

N/A

Local Revenue

N/A

Introduced on February 16, 2017

State Expenditure

The Department of Revenue indicates that there will be no expenditure impact to the General Fund, Federal Funds, or Other Funds from this bill. The Department can administer the legislative changes with existing resources.

State Revenue

Section 1. When a corporate taxpayer conducts business in more than one state they are statutorily required to account for the amount of business attributable to each state. Generally, income is apportioned among the states on a formula basis. The apportionment method becomes clouded when the taxpayer is a service provider rather than a manufacturer.

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Section 2. This act takes effect upon approval by the Governor and shall apply to all open tax periods and in tax assessments under administrative or judicial review.

Local Expenditure

N/A

Local Revenue

N/A

Frank A. Ramey

Exhibit D

**SOUTH CAROLINA DEPARTMENT OF REVENUE
ECONOMIC IMPACT ZONE PROPERTY INVESTMENT CREDIT (1)**

AUDIT AMENDED 11/20/2013

TAXPAYER: Duke Energy Corporation & Affiliates
FILE #: 21057418-1
PERIOD: 12/31/2008 - 12/31/2011

SCHEDULE: C
AUDITOR: Sharpe
Golebowski
DATE: 11/19/13

Valuation Adjustment to EIZ Credit Carryforward Balance as of 12/31/2011:
Carryforward balance per 12/31/11 SC 1120 Filed 2,844,557
Adjusted 12/31/11 Carryforward balance -
Valuation Adjustment 2,844,557

	2008			2009			2010			2011		
	Basis(2)	Credit Percentage	Credit Amount	Basis(2)	Credit Percentage	Credit Amount	Basis(2)	Credit Percentage	Credit Amount	Basis(2)	Credit Percentage	Credit Amount
3 Year Property	-	1%	-	-	1%	-	-	1%	-	-	0.5%	-
5 Year Property	-	2%	-	-	2%	-	-	2%	-	-	1.0%	-
7 Year Property	-	3%	-	-	3%	-	-	3%	-	11,835,440	1.5%	177,532
10 Year Property	-	4%	-	-	4%	-	-	4%	-	-	2.0%	-
15 Year Property	8,921,524	5%	446,076	7,847,588	5%	382,380	9,418,817	5%	470,941	245,215,814	2.5%	6,130,395
Total Credit			<u>446,076</u>			<u>382,380</u>			<u>470,941</u>			<u>6,307,927</u>
Maximum Credits			<u>5,000,000</u>			<u>5,000,000</u>			<u>5,000,000</u>			<u>5,000,000</u>
Credits Earned in Current			<u>446,076</u>			<u>382,380</u>			<u>470,941</u>			<u>5,000,000</u>
Years												
Credits Recaptured			<u>(9,783)</u>			<u>(7,044)</u>			<u>(6,842)</u>			<u>(188,386)</u>
(Schedule C-1)												
Carryover of Unused Prior												
Year Credits			-			<u>436,293</u>			<u>811,629</u>			-
Credits Available to Current												
Year			<u>436,293</u>			<u>811,629</u>			<u>1,275,728</u>			<u>4,831,614</u>
Credits Used in Current Year						-			<u>(1,275,728)</u>			<u>(4,831,614)</u>
Credits Carried Forward			<u>\$ 436,293</u>			<u>\$ 811,629</u>			<u>\$ -</u>			<u>\$ -</u>

EXPLANATIONS:

(1) Renamed Capital Investment Credit for the year ended 12/31/2011

(2) The basis used to calculate the EIZ Credit above is based on the asset details provided by the taxpayer's representative. Although the assets detail balances did not differ materially from the TC-1's filed, there were some differences mainly due to nondepreciable assets being included in the property values when filed.

Exhibit E

1350



STATE OF SOUTH CAROLINA
DEPARTMENT OF REVENUE
CAPITAL INVESTMENT CREDIT

Attach to your Income Tax Return

SC SCH.TC 11

(Rev. 8/8/11)

3348

20

Name as Shown on Tax Return

County

FEIN

IMPORTANT: Use 2010 version of this form to claim credit for qualifying investments made in an Economic Impact Zone before January 1, 2011. Prior year forms are available at www.sctax.org.

Purpose: Use this form to claim the capital investment credit for qualified investments made in this State on or after January 1, 2011. This schedule must be completed and filed with the income tax return in order to claim a capital investment credit for the cost basis of qualified manufacturing and productive equipment property.

Read the definitions on the reverse side carefully before completing this schedule.

Enter qualified manufacturing and productive equipment property on the schedule below.

NOTE: Qualified property is property used as an integral part of manufacturing or production or used as an integral part of extracting or of furnishing transportation, communications, electrical energy, gas, water or sewage disposal services in this State. Credit cannot be taken on property transferred from somewhere else unless the original use of such property commences with the taxpayer inside the State on or after January 1, 2011 or in an Economic Impact Zone before January 1, 2011. Recapture of the credit will be required if the taxpayer disposes of or removes the property from this State before the useful life of the property.

	(1) Basis	(2) Credit Percentage	(3) Credit Amount (column 1 x column 2)
1. Three-year Property	_____	0.5%	1. _____
2. Five-year Property	_____	1.0%	2. _____
3. Seven-year Property	_____	1.5%	3. _____
4. Ten-year Property	_____	2.0%	4. _____
5. Fifteen-year Property or greater	_____	2.5%	5. _____
6. Total of lines 1 through 5			6. _____
7. Maximum Credit (Form SC1120U filers)			7. \$5,000,000
8. Carryover of unused credits from 1997 and later			8. _____
9. Credit - Total of lines 6 and 8			9. _____

Caution: SC1120U filers add the lesser of lines 6 or 7 to line 8

GENERAL INSTRUCTIONS

IMPORTANT: Use 2010 version of this form to claim credit for qualifying investments made in an Economic Impact Zone before January 1, 2011. Prior year forms are available at www.sctax.org.

Credit amount

Effective January 1, 2011, a capital investment credit against income tax is allowed for any tax year in which the taxpayer places qualified manufacturing and productive equipment property in service in this State. The amount of the credit allowed by this section is equal to the aggregate of:

- 0.5% of total aggregate bases for all 3-year property that qualifies;
- 1.0% of total aggregate bases for all 5-year property that qualifies;
- 1.5% of total aggregate bases for all 7-year property that qualifies;
- 2.0% of total aggregate bases for all 10-year property that qualifies;
- 2.5% of total aggregate bases for all 15-year or greater property that qualifies.

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Whether property is 3-year property, 5-year property, 7-year property, 10-year property or 15-year property is determined based on the applicable recovery period for such property under Section 168(e) of the Internal Revenue Code (IRC).

Qualified property

"Qualified manufacturing and productive equipment property" means any property:

- (a) which is used as an integral part of manufacturing or production, or used as an integral part of extraction of or furnishing transportation, communications, electrical energy, gas, water, or sewage disposal services in the economic impact zone;
- (b) which is tangible property to which IRC Section 168 applies;
- (c) which is Section 1245 property (as defined in IRC Section 1245(a)(3)); and
- (d)(i) the construction, reconstruction, or erection of which is completed by the taxpayer in this State; or
(ii) which is acquired by the taxpayer if the original use of such property commences with the taxpayer inside this State.

In the case of any computer software which is used to control or monitor a manufacturing or production process inside this State and with respect to which depreciation (or amortization in lieu of depreciation) is allowable, the software must be treated as qualified manufacturing and productive equipment property.

This credit does not apply to any property to which the other tax credits would apply unless the taxpayer elects to waive the application of the other credits to the property.

Credit carryover

Unused credit allowed pursuant to this section may be carried forward for 10 years from the close of the tax year in which the credit was earned.

In the case of credit unused within the initial 10-year period, a taxpayer may continue to carry forward unused credits for use in any subsequent tax years if the taxpayer:

- (a) is engaged in this State in an activity or activities listed under the North American Industry Classification System Manual (NAICS) Section 31, 32, or 33;
- (b)(i) is employing 1,000 or more full-time workers in this State and having a total capital investment in this State of not less than \$500 million; or
(ii) is employing 850 or more full-time workers in this State and having a total capital investment in this State of not less than \$750 million; and
- (c) made a total capital investment of not less than \$50 million in the previous five years.

Limitations

Credits carried forward beyond the initial 10-year period may not reduce a taxpayer's state income tax liability in any subsequent tax year by more than 25%.

An entity subject to the license tax provided in Section 12-20-100 is limited to \$5 million dollars in credit for investments made after June 30, 1998.

Recapture

If during any tax year and before the end of applicable recovery period for such property as determined under IRC Section 168(e), the taxpayer disposes of or removes from this State qualified manufacturing and productive equipment property, then the income tax due by the taxpayer for the current tax year must be increased by an amount of any credit claimed in prior years with respect to such property determined by assuming the credit is earned ratably over the useful life of the property and recapturing pro rata the unearned portion of the credit. Complete TC-11R.

Reduction in basis

For South Carolina income tax purposes, the basis of the qualified manufacturing and productive equipment property must be reduced by the amount of any credit claimed with respect to the property. A taxpayer required to recapture the capital investment credit may increase the basis of the property by the amount of any basis reduction attributable with claiming the investment tax credit in prior years. The basis must be increased in the year in which the credit is recaptured.

Social Security Privacy Act Disclosure

It is mandatory that you provide your social security number on this tax form if you are an individual taking this credit. 42 U.S.C 405(c)(2)(C)(i) permits a state to use an individual's social security number as means of identification in administration of any tax. SC Regulation 117-201 mandates that any person required to make a return to the SC Department of Revenue shall provide identifying numbers, as prescribed, for securing proper identification. Your social security number is used for identification purposes.

The Family Privacy Protection Act

Under the Family Privacy Protection Act, the collection of personal information from citizens by the Department of Revenue is limited to the information necessary for the Department to fulfill its statutory duties. In most instances, once this information is collected by the Department, it is protected by law from public disclosure. In those situations where public disclosure is not prohibited, the Family Privacy Protection Act prevents such information from being used by third parties for commercial solicitation purposes.

33482027



Business Tax Guide 2017 Edition

SOUTH CAROLINA DEPARTMENT OF REVENUE

HENRY MCMASTER, GOVERNOR
HARTLEY POWELL, DIRECTOR

DOR.SC.GOV

JULY 2017

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TAXPAYERS' BILL OF RIGHTS

The Taxpayers' Bill of Rights gives you certain rights when dealing with the South Carolina Department of Revenue.

1. You have the right to apply for assistance from the Taxpayer Rights' Advocate within the South Carolina Department of Revenue. The advocate or his designee is responsible for facilitating resolution of taxpayer complaints and problems.
2. You have the right to request and receive forms, instructions and other written materials in plain, easy-to-understand language.
3. You have the right to prompt, courteous service from us in all your dealings with the South Carolina Department of Revenue.
4. You have the right to request and receive written information guides, which explain in simple and nontechnical language, appeal procedures and your remedies as a taxpayer.
5. You have the right to receive notices which contain descriptions of the basis for and identification of amounts of any tax, interest and penalties due.

Under the provisions of Section 12-4-340 of the 1976 code of laws, any outstanding liabilities due and owing to the South Carolina Department of Revenue for more than six months may be assigned to a private collection agency for collecting actions.

For additional information about the Taxpayers' Bill of Rights, contact the Taxpayer Advocate either by phone (803-898-5444), email (TaxpayerAdvocate@dor.sc.gov), or by mail at Taxpayer Advocate, SCDOR, PO Box 125, Columbia, SC 29214.

NEW BUSINESS CHECKLIST

- ☐ **Will you sell or lease any goods or provide any services?**
 - You may need a retail license. (You may obtain this online at dor.sc.gov/mydorway.)
 - You should collect and report the sales tax on any sales you make.
 - Most services are not subject to sales tax. Check to see if this applies to your specific situation.

- ☐ **Will you have any employees?**
 - Register as a withholding agent with the SCDOR online through dor.sc.gov/mydorway and the IRS to withhold income taxes from your employees' wages.
 - Register to pay unemployment contributions with the Department of Employment and Workforce. This registration can be done online: scbos.sc.gov.
 - You may need to register with the Workers Compensation Commission. There may be other state, federal and local government agencies where you may need to register. Visit wcc.sc.gov for more information or to register.

- ☐ **Will you purchase any items for your business?**
 - If the items are to be used in your business and you did not pay sales tax at the time of purchase, you should pay use tax.
 - If you resell items with a markup, sales and use tax is due, even if you paid tax when you bought the items.

- ☐ **Does your business own equipment, furniture or fixtures?**
 - File a Business Personal Property Tax Return (PT-100) each year. "Personal property" refers to items other than real estate and inventory. File online at dor.sc.gov/mydorway.

- ☐ **Will you be selling beer, wine or liquor?**
 - You must obtain an alcoholic beverage license. (If you are a wholesaler of alcoholic beverages, tobacco, gasoline or soft drinks, special tax rules may apply to you.)

- ☐ **Does your business provide overnight accommodations?**
 - Register to collect and remit the accommodations tax on all your room rentals, vacation cottages or home rentals.

- ☐ **Is your business a place of amusement?**
 - Apply for an admissions tax license.

- ☐ **Will you own and operate coin devices, operated game machines or table games including "juke boxes," pool tables or foosball tables?**
 - Register games and owner with the SCDOR.

- ☐ **Do you sell tires, batteries, oil or appliances?**
 - Register to collect the solid waste excise tax on your sales.
- ☐ **Will your business incorporate?**
 - Register with the Secretary of State.
 - Register with the SCDOR.
- ☐ **Will you purchase a business from a previous owner?**
 - Check with the SCDOR to confirm that the former business has paid all its taxes. This is called a Certificate of Compliance.

We want your business to succeed!

Your new business is more likely to succeed if you avoid the following pitfalls. Some of the reasons new businesses fail are:

1. Failure to pay taxes in a timely manner
2. Filing \$0 on a Business Personal Property Tax Return when the business has depreciable assets reflected on the income return
3. Failure to file and pay Business Personal Property Tax
4. Failure to pay sales tax on marked-up items
5. Failure to pay use tax on items used in the business
6. Failure to advise the SCDOR of an address change
7. Failure to file \$0 returns to the SCDOR. Returns are required regardless of activity.

Here are some things you need to do to help your business succeed:

- Read this guide thoroughly– it contains very important information.
- Get assistance whenever you need it! See the list of contact information in the Government Assistance section of this guide.

A WORD ABOUT FORMS

For information on the electronic filing options, see page 12 of this manual.

You may obtain state forms using one of four methods:

1. **Online:** Visit the SCDOR's website. Go to Forms > Find a Form.
2. **Email:** Send the request to Forms@dor.sc.gov. Please include the following information:
 - Name and mailing address where you would like the form(s) to be sent
 - Form ID number and title of form
3. **Telephone:** Call the SCDOR (803-898-5320 or 800-768-3676) and leave a voice message containing the following information:
 - Name and mailing address where you would like the form(s) to be sent
 - Form ID number and title of form
4. **In Person:** Visit any of the six taxpayer service centers around the state.

For copies of **federal** forms, you may use one of three methods:

1. Visit the IRS website at irs.gov.
2. Using the IRS publication number, you may call 800-829-3676.
3. Visit the IRS office nearest you (*see p. 78*).

TAX WORKSHOPS & WEBINARS

The Office of Taxpayer Education at the SCDOR offers a variety of tax and business-related seminars, workshops, and webinars on a wide range of topics throughout the year. Businesses and associations can also request a speaker for your company or association meeting by filling out the Speaker Request Form on our website.

For additional details on all of our classes, visit our [website](#).

BUSINESS ORGANIZATION

There are many types of business entities including sole proprietorship, partnership, corporation, and limited liability company (LLC).

- **Sole Proprietorship:** A sole proprietorship is a business owned by an individual who is solely responsible for all aspects of the business. The owner is personally responsible for all debts of the business, even in excess of the amount invested in the business.
- **Partnership:** A partnership is a legal entity that is jointly owned by two or more entities. As in the sole proprietorship, the owners are personally responsible for all debts of the business, even those in excess of the amount invested in the business.
- **Corporation:** A corporation is a business formed and authorized by law to act as a single taxpayer, although constituted by one or more persons, and is legally endowed with rights and responsibilities. It is advisable to consult a lawyer when organizing a corporation to assure full compliance with state and federal laws.
- **Limited Liability Company (LLC):** A limited liability company is an unincorporated business association that provides its owners (members) limited liability and flexible management and financial alternatives. An LLC provides the limited personal liability of corporations. An LLC can elect to be taxed as a corporation. A multiple member LLC not taxed as a corporation is taxed as a partnership.
 - **Note on Single Member LLCs:** A single member LLC that does not elect to be taxed as a corporation for federal income tax purposes is said to be “disregarded” for state tax purposes, in the sense that it is not considered to be an entity separate from its owner. The revenue, expenses, income, assets, liabilities and equity of the disregarded entity will flow up to the owner from the LLC as if it were a division of the owner. Therefore, a single member who is a corporation reports income from the single member LLC as income from one of its divisions. For an individual member income from a single member LLC is most likely Schedule C income.

RECORDKEEPING

The best time to set up a recordkeeping system for a business is before you start the business. Experience clearly indicates that the use of an adequate recordkeeping system increases the chances of business survival.

The key to successful recordkeeping is a commitment to a system that is:

- Simple to use
- Accurate
- Consistent

- Reliable
- Easy to understand
- Designed to provide information on a timely basis

However, no matter how simple and easy the system is, it will not happen by magic. You must make it work. Practice the following rules, and recordkeeping will be less of a chore:

- Keep all records in one place
- Develop a regular schedule for recording information

Every business should have up-to-date records that provide:

- Complete and accurate tax information
- An accurate record of the financial performance of the business
- A basis for sound planning for the future
- A basis for discussion with partners, potential lenders and others

RECORDKEEPING TIPS

Keep the following tips in mind as you develop your recordkeeping system:

- Get a receipt for everything, even paper and pencils. **No receipt means NO deduction.**
- Post all expenses regularly to avoid end-of-the-month and end-of-the-year pile up.
- Simplify recordkeeping by maintaining accurate, yet uncomplicated books.
- Give a sales slip to each customer. This serves as their receipt and your record.
- Use petty cash with care. Write a voucher each time money is used. Careless use of petty cash can take a large bite out of your profits.
- Be sure to have a business checking account. Pay all bills and deposit business receipts into the account. You can even pay yourself out of this account. Keep all records for six years for tax purposes.
- **NEVER CONSIDER TAX MONIES AS YOUR BUSINESS OPERATING CASH.**

WHAT RECORDS TO KEEP

- **Income:** The money you receive from sales or services is income. Your records can help identify the source of income. Receipts can be identified using sales slips, cash register receipts, and invoices. It is helpful to categorize income as you receive it and to keep separate records of all sales tax collected.
- **Expenses:** All funds paid out should be recorded. Each expenditure should be identified according to its use and whether it is a capital or non-capital expenditure.
- **Accounts receivable:** You should keep a record of money owed to you and the reason. Most new businesses cannot afford to offer extensive credit. A system should also be developed to collect money owed to the business and to keep track of the age of the receivables.

- **Accounts payable:** A record of goods or services received on account or credit is called an accounts payable. You must pay for these goods and services. Consider them a cost of business.
- **Inventory:** Develop a system to record inventory. You will need to record the value of your beginning and ending inventory each year for tax purposes.
- **Depreciation of equipment and fixed assets:** Many businesses need equipment, fixtures, and facilities in order to function. The use of these items results in certain loss of value, and at some future date these items will need to be replaced. This is a cost of business operations and must be a part of a complete recordkeeping system.
- **Insurance records:** Most businesses need liability and property loss insurance. You will need to keep a record of each policy, dates effective, and annual premiums.
- **Payroll records:** If you have employees, recordkeeping is more involved. It is necessary to keep records of payroll payments including the rate of pay, federal and state withholding tax, unemployment tax, workers compensation, pension plans, etc.

ESTABLISHING GOOD BUSINESS PRACTICES & PROCEDURES

The suggestions listed here can help a new business owner simplify the recordkeeping process. If these guidelines are used before the transactions begin to occur; confusion, duplication, and lost tax benefits can be avoided.

- **Maintain separate business checking accounts, charge accounts and savings accounts.** This ensures that transactions are clearly identified as business, and a supporting document is created for each check written or deposit made. A checking account eliminates the need for cash payments which are difficult to track and support without records. A separate checking account is only effective in tracking expenditures if you resist writing checks payable to "Cash" or yourself.
- **Pay all bills by electronic funds transfer (EFT), credit card, or check.** This is your record of having paid bills and makes it easier to analyze expenditures.
- **Do NOT pay in cash.** Create a petty cash fund. For small expenses it is often practical to pay cash, retain the receipt, and reimburse yourself through a petty cash fund. Be sure to document the receipts and reconcile the fund on a regular basis.
- **Develop a filing system.** Keep records/supporting items in a tax return until the statute of limitations for that return expires (usually six years). If you depreciate or sell an asset, you should keep records that verify your purchase as long as they are needed to figure the basis of the original or replacement of the property. Keep your old tax returns. They help jog the memory in preparing subsequent years' returns. Start with something simple and modify or expand as needed.
- **Prepare income deposit and disbursement procedures.** Sketch out the steps you follow when receiving cash, recording, and depositing money. Don't keep cash or checks lying around which can invite theft or loss. Endorse all checks for deposit only as soon as you receive them. Decide on a routine for receiving bills or outstanding payables, checking

the accuracy of the invoice, paying, recording the expenditure and filing the documentation associated with the transaction. Set aside time on a monthly basis to review the accounts, balance the business checkbook, and total the income and expenditure accounts.

- **Keep an accurate auto mileage log.** Nearly all small business owners are eligible for a vehicle expense deduction.

RECORD RETENTION

It may seem premature to worry about record retention during the start-up of a business, but remember that once records are discarded, it is unlikely they can be replaced. Here are a few guidelines to ensure that you keep the appropriate records.

1. Records directly related to the preparation of tax returns should be kept a minimum of three years after the due date of the return. However, it is a better practice to keep such records for six years since the statute of limitations allows six years for audit under special circumstances.
2. Keep all tax returns as filed and amended indefinitely. Such returns are often important for carry-overs of tax credits and operating losses.
3. Records that are permanent should be kept in a fireproof file. Examples include cashbooks, fixed asset and depreciation schedules, general ledgers, journals and financial statements.
4. Canceled checks, bank statements, accounts payable and receivable records, inventory schedules, payroll records, sales and invoicing details should be kept for six years.

POSTAGE RATE INFORMATION

When mailing forms, be certain that the postage on your envelope is sufficient and your complete return address in the upper left corner. Also, please remember:

- Envelopes with insufficient postage will be returned to you by the post office and will not be considered timely filed if not received by the due date.
- If your envelope contains more than three pages, it may require additional postage; consider taking it to the post office to determine the proper postage.

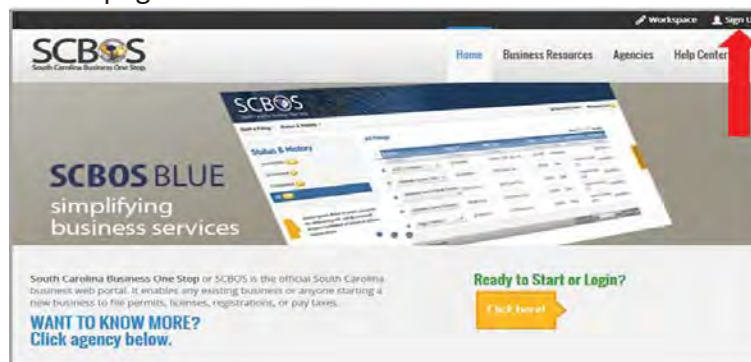
SOUTH CAROLINA BUSINESS ONE STOP

SCBOS.SC.GOV

South Carolina Business One Stop (SCBOS) was created ten years ago by the collaborative effort of multiple state agencies to enhance South Carolina's business climate. SCBOS is a web portal for business information regarding all phases of the business life cycle, from start-up through expansion. Users will find customer tutorials, webinar training, and many other resources.

SCBOS also serves as a host of multi-agency information that business owners and third party filers can utilize on a daily basis.

Creating a new user account on SCBOS is a simple, one-time process. Click "Sign Up" located in the top, right of the homepage.



SCBOS will guide you through the various steps of the filing or application. Even though most filings can be completed in a single session, you can "Save & Stop" at any time and return to it later. SCBOS communicates with agencies in real time which allows the user to pay for any associated fees that are due with one payment. SCBOS distributes the funds to the appropriate agencies.

HELP CENTER ADDITIONAL INFORMATION

The SCBOS Help Center assists with your questions via telephone, email, fax, and live chat, Monday – Wednesday and Friday, 8:30 a.m. to 4:45 p.m. and Thursday, 9:00 a.m. to 4:45 p.m. You may also visit the SCBOS Help Center page for further support options by clicking on the Help Center link at the top of many SCBOS screens.

ADDITIONAL INFORMATION

As of September 2015, businesses may register sole proprietorships and apply for retail sales licenses and withholding numbers through the SC Department of Revenue's (SCDOR) MyDORWAY system. Please contact SCDOR for questions regarding these applications.

ONLINE SERVICES

MYDORWAY

MyDORWAY is a taxpayer portal offering one convenient place to register your business, file tax returns, make payments, calculate penalties and interest and view related correspondence.

Why MYDORWAY?

- Accuracy: Automated calculations reduce errors and ensure information is complete.
- Convenience: File now and pay later.
- 24-7 Access: Register with SCDOR, pay and file online, from anywhere at any time.

Learn more about MyDORWAY at dor.sc.gov/mydorway.

ELECTRONIC FUNDS TRANSFER

Taxpayers can use touchtone, voice activated, or internet methods for Automated Clearing House (ACH) debit payments through a partnering vendor. ACH Credit payments are also accepted when initiated through the taxpayer's financial institution.

Make the following tax payments through this system:

- Withholding
- Corporate
- Other Miscellaneous Business Taxes

Advantages of participating in the EFT program include:

- Accurate timing of payment from your bank account
- Comprehensive audit trail for both the return and the payment

For information about registering for EFT, please call 803-896-1715 or email BusinessEFT@dor.sc.gov.

ELECTRONIC FUNDS TRANSFER (EFT)/E-FILE (XML)

The SCDOR has designed an Electronic Filing Program (EFT/XML) for the transmission of your payment and filing your tax return information for **sales, use, accommodations and local taxes**. This method requires taxpayers to use an approved, vendor software package. XML allows keying or importing of tax information. Electronic payments can be made by using the ACH (Automated Clearing House) debit or credit method.

If you are interested in filing and paying one tax through EFT/XML, you must file and pay all of

these taxes through EFT/XML. *For example, you cannot file and pay sales tax through this program and pay local taxes through a conventional process.*

Be aware that you must file both the return and the payment electronically; you cannot choose to do one part electronically and the other in a conventional method.

Advantages of participating in the EFT/XML program include:

- Eliminates paperwork – no more paper returns and checks
- Reduces return error potential due to no re-keying – no manual intervention
- Accurate timing of payment from your bank account
- Comprehensive audit trail for both the return and the payment

For information about registering for Sales EFT/XML, please call 1-803-896-1715 or email XML@dor.sc.gov.

FED/STATE CORPORATE EFILE

Taxpayers can file both federal and South Carolina corporate returns or just the state return electronically. South Carolina began offering Fed/State filing for corporate forms (SC1120/1120S) in September 2007. Corporate returns may be filed for the current year plus two years back. For example, in 2017 corporate returns will be filed for tax years 2016, 2015, and 2014. Amended returns are NOT eligible for electronic filing via the Fed/State method.

FED/STATE PARTNERSHIP EFILE

Taxpayers can file both federal and South Carolina partnership returns or just the state return electronically. South Carolina will begin offering Fed/State filing for Partnership (SC1065) in 2017. Partnership returns may be filed for the current year ONLY (tax year 2016). If the return is a balance due return, payment information may be submitted with the electronically filed return. Amended returns are NOT eligible for electronic filing via the Fed/State method.

FED/STATE FIDUCIARY EFILE

Taxpayers can file both federal and South Carolina fiduciary returns or just the state return electronically. South Carolina will begin offering Fed/State filing for Fiduciary (SC1041) in 2017. Fiduciary returns may be filed for the current year ONLY (tax year 2016). If the return is a balance due return, payment information may be submitted with the electronically filed return. Amended returns are NOT eligible for electronic filing via the Fed/State method.

INDIVIDUAL INCOME TAX ELECTRONIC FILING

South Carolina accepts electronically filed state income tax returns. Non-resident, refund, and

balance due returns are accepted electronically. Refunds may be deposited directly into your bank account.

Visit the SCDOR's website for more information on the programs to file your South Carolina tax returns shown below.

- **SCnetFile for Extensions**
 - File your free South Carolina request for extension of time to file (SC4868) through the SCDOR's website
 - **Zero or balance due extensions are accepted**
 - You can pay your balance due by credit card, electronic funds withdrawal, or bank draft
- **Online Filing**
 - Easy access to tax preparation software
 - Tailored to fit your state and federal tax returns
 - Some may qualify for free file options (for federal and state returns)
- **SC Fillable Forms**
 - Taxpayers may file their simple South Carolina state return electronically or by paper for FREE
 - Access the SC Fillable Forms software on SCDOR's website

SALES & USE TAX

THE BASICS

Sales tax is imposed on the sale of goods and certain services in South Carolina. *Use tax* is imposed on goods and certain services purchased out of state and brought into South Carolina or on which no sales tax has been paid.

The statewide sales and use tax rate is 6%. Counties may impose an additional local sales and use tax if voters in that county approve the tax. Generally, all retail sales of tangible personal property are subject to the state's sales or use tax.

SALES TAX

Sales tax is imposed on the gross proceed of the sale. The sales tax also applies to the fair market value of tangible personal property previously purchased by the retailer at wholesale (for resale), but used by the retailer or any other person withdrawing tangible personal property to be used and consumed by them. In addition to applying to items one normally thinks of as tangible personal property - furniture, appliances, clothing, etc. - the sales and use tax also applies to communications like local telephone services, cable television services, satellite programming services, faxing services and paging services, as well as laundry and dry-cleaning services, accommodations, and electricity.

An 11% sales tax applies to telephone services to 900 and 976 exchanges. The sales and use taxes imposed extend to gross proceeds accruing or proceeding from the business providing 900/976 telephone service and all revenues derived from this imposed tax must be credited to the general fund of the state.

USE TAX

Anyone who buys tangible personal property from out-of-state and brings it into South Carolina is responsible for paying a use tax at the rate of 6% plus any applicable local taxes on the sales price. However, a taxpayer is allowed a credit for sales or use tax due and paid to another state against the use tax due this state. Generally, think of this being applicable for transactions where delivery of the goods takes place outside of South Carolina but the goods are intended for use in South Carolina.

If the amount of the sales or use tax paid in the other state is less than the amount of tax due in this state, then the purchaser owes the difference to South Carolina.

Most taxpayers who are liable for state and local taxes administered and collected by the SCDOR must file Form ST-3 (State Sales & Use Tax Return) and ST-389 (Schedule for Local Taxes) (if applicable). The following forms are used depending on the taxpayer's business:

	State Form	Local Tax Form
General Form	ST-3	ST-389
Accommodations Tax	ST-388 & ST-3T	ST-389
Aviation Gasoline	ST-403	ST-389
Maximum Tax	ST-455	ST-389
Wireless Telecom Charges	ST-406	NA

Retailers who do not make deliveries into other counties and are located in a county that does not impose a local sales and use tax do not need to file the ST-389 with the state form.

ACCOMMODATIONS TAX

The rental of transient accommodations is subject to a statewide sales tax rate of 7% (2% accommodations tax imposed in addition to the 5% sales tax) and local taxes, if applicable. Additional guest charges are taxed at a rate of 6% plus local taxes (if applicable)—the 2% accommodations tax does not apply to additional guest charges.

If you rent out rooms or spaces at hotels, campgrounds, boarding houses, etc., the tax on accommodations applies. It also applies to rentals of your vacation home or second home.

Rentals of the same room to the same person for 90 continuous days are not subject to the tax. If you rent a room in your place of residence and the house has less than six bedrooms, the accommodations tax would not apply. If you rent transient accommodations for no more than one week each calendar quarter, a retail license is not required, but you still must report and pay the accommodations tax annually unless otherwise exempted under Code Section 12-36-920 (A). Additional guest charges such as telephone service, room service, rental of meeting rooms, etc. are subject to the 6% sales tax.

You are required to obtain a retail license and collect and pay the accommodations tax at the same time you file your sales tax return. Accommodations tax is reported on the ST-388 and ST-3T.

For additional information, see [SC Regulation 117-307](#).

CASUAL EXCISE TAX

South Carolina imposes a casual excise tax at a rate of 5% for the issuance of every title or other proof of ownership for boats, motors [the tax is 6% for a motor that is purchased alone (not

permanently attached to the boat)] and airplanes transferred between individuals. Motor vehicles and motorcycles are not subject to the casual excise tax. Generally, the maximum casual excise tax is \$500 – for additional information, see SC Revenue Ruling #08-8.

The payment of this tax is a prerequisite to the titling, licensing or registration for the above-mentioned items. Exempt from this tax are transfers between members of one's immediate family.

INFRASTRUCTURE MAINTENANCE FEE

South Carolina imposes an infrastructure maintenance fee on each vehicle, trailer, semi-trailer, or other item that must be registered under Chapter 3 of Title 56. The owner of each item must pay the infrastructure maintenance fee upon first registering the item with the SC Department of Motor Vehicles. The infrastructure maintenance fee is imposed at a rate of 5% of the gross proceeds of the sale or fair market value of the item, not to exceed \$500. The SC Department of Motor Vehicles may not issue a registration until the fee has been collected. For additional information, see SC Information Letter #17-10.

Transfers between members of one's immediate family are exempt from this infrastructure maintenance fee.

The infrastructure maintenance fee is imposed when a vehicle, trailer, semitrailer or other item required to be registered in this State is first registered out-of-state and is later registered in South Carolina by the same owner. The fee is \$250.

Sales that are subject to the new infrastructure maintenance fee are exempt from the state and local sales and use taxes.

\$500 MAXIMUM TAX

A maximum sales tax of \$500 is imposed on the sale or lease of motor vehicles, boats, aircrafts, motorcycles, trailers or semi-trailers pulled by a truck tractor, horse trailers, recreational vehicles, and certain self-propelled light construction equipment. Generally, sales or leases of motor vehicles, motorcycles, trailers, or semitrailers are subject to the infrastructure maintenance fee. Sales that are subject to the new infrastructure maintenance fee are exempt from the state and local sales and use taxes.

A maximum tax of \$300 applies to the sale of musical instruments and office equipment sold to religious organizations. Purchasers must submit form ST-382 Religious Organization Affidavit for Musical Instruments/Office Equipment, to the seller for items purchased by religious organizations.

Special rules apply to the sale of mobile homes. Consult one of the SCDOR's Taxpayer Service Centers for assistance calculating the sales tax on mobile home sales.

SALES OF MOTOR VEHICLES TO NONRESIDENTS

Sales of new or used motor vehicles, trailers, semi-trailers, and pole trailers to residents of another state are taxed at the rate imposed by the purchaser's state of residence. The tax cannot exceed the \$500 maximum tax imposed by South Carolina.

For South Carolina sales tax purposes, sales to nonresidents of new or used motor vehicles, trailers, semi-trailers and pole trailers that are registered and licensed in the purchaser's state of residence, are taxed at the lesser of the:

1. Sales tax which would be imposed in the purchaser's state of residence, or
2. Tax would be imposed under Chapter 36 of the South Carolina Code of Laws.

However, no sales tax is due in South Carolina if a nonresident purchaser cannot receive credit in their resident state for sales tax paid to South Carolina. Form ST-385 Vehicle Affidavit for Nonresident must be completed on each vehicle sold to a nonresident.

MODULAR HOMES

The sale of modular homes regulated pursuant to Chapter 43 of Title 23 is exempt on 50% of the gross proceeds of the sale (as defined under code section 12-36-2120 (34)), whether on-frame or off-frame. Furthermore, the provisions of Code Section 12-36-2110 (maximum tax section) do not apply to the sale of modular homes.

After allowing for the exemption, the manufacturer must collect the tax and remit it to the SCDOR. The tax is imposed on the remaining balance at the applicable state and local sales and use tax rate.

LOCAL SALES & USE TAXES

South Carolina counties may approve a local tax through a county referendum. If voters approve the referendum, the tax will typically become effective in that county on May 1 following the November election date. The local sales and use tax does NOT apply to the sale of items that are subject to the infrastructure maintenance fee or \$500 maximum sales and use tax.

The taxable sales subject to the local sales and use tax must be reported on form ST-389, which is attached to and made part of form ST-3. Counties with more than one local tax must report it in the designated section(s) on the ST-389.

LOCAL SALES & USE TAX BY TYPE

Local Option

The local option sales and use tax is authorized under Code Section 4-10-10 et. seq. This tax is a general sales and use tax on all sales at retail (with a few exceptions) taxable under the state sales and use tax law. This tax is intended to reduce the property tax burden on persons in the counties that impose this local tax and is collected and administered by the SCDOR on behalf of these counties.

Please note that the counties listed in the following charts only address the current local sales and use taxes approved by a referendum.

Effective Date	Counties
July 1, 1991	Charleston, Colleton, Hampton, Jasper, Marion, McCormick
May 1, 1992	Abbeville, Allendale, Bamberg, Edgefield, Lancaster, Marlboro, Saluda
May 1, 1994	Chester, Florence
May 1, 1995	Pickens
May 1, 1996	Dillon, Lee, and Sumter
May 1, 1997	Berkeley, Chesterfield, Clarendon, Darlington, Kershaw, Williamsburg
May 1, 1999	Barnwell, Laurens
May 1, 2005	Richland, Calhoun
May 1, 2006	Fairfield
May 1, 2009	Cherokee
May 1, 2017	Union

Transportation

The local transportation sales and use tax is authorized under Code Section 4-37-30 et. seq. This tax is a general sales and use tax on all sales at retail (with a few exceptions) taxable under the state sales and use tax law. This tax is imposed specifically to defray the debt service on bonds issued for various transportation projects in the counties that impose this type of local tax and are collected and administered by the SCDOR on behalf of these counties.

This local sales and use tax, not to exceed 1%, is used for transportation needs such as roads and bridges. This tax may be imposed in addition to the local option sales and use tax (Effective: June 13, 1997). The authorized counties with a local transportation tax imposed are:

Effective Date	Counties
May 1, 2005	Charleston (½%), Dorchester
May 1, 2009	Berkeley
May 1, 2013	Richland
May 1, 2017	Charleston (+½%), Jasper

Capital Projects

The local capital projects sales and use tax is authorized under Code Section 4-10-300 et. seq. This tax is a general sales and use tax on all sales at retail (with a few exceptions) taxable under the state sales and use tax law. This tax is imposed specifically to defray the debt service on bonds issued for various capital projects in the counties that impose this type of local tax and is collected and administered by the SCDOR on behalf of these counties.

This 1% local sales and use tax is used to fund specific capital projects such as roads, bridges, public facilities, recreation facilities, and water and sewer projects. This tax may be imposed in addition to all other sales and use taxes.

When the capital projects sales and use tax is imposed or re-imposed pursuant to a referendum on or after June 3, 2009, unprepared food items eligible for purchase with United States Department of Agriculture food coupons are exempt from the capital projects tax.

Note: Sales of unprepared foods in a county that imposed the capital projects tax pursuant to referendum before June 3, 2009 are subject to this local tax. The SCDOR will collect this tax.

As of the date of this publication, the authorized counties with a local capital projects tax imposed are:

Effective Date	Counties
May 1, 2009	Lancaster, Sumter
January 1, 2012	York
April 1, 2012	Newberry
January 1, 2013	Aiken
April 1, 2013	Orangeburg
May 1, 2013	Bamberg, Hampton, Lee, Marion
May 1, 2014	Florence
May 1, 2015	Colleton, Georgetown
October 1, 2015	Chester
May 1, 2017	Allendale, Barnwell, Greenwood, Horry, McCormick, Williamsburg

School District/Education Capital Improvement

The General Assembly has authorized certain school districts to impose a sales and use tax within the county. These taxes are generally imposed to pay debt service on general obligation bonds and/or the cost of capital improvements. *Note: Food is exempt from the school district tax but not the capital projects tax (unless the capital projects tax is imposed pursuant to a referendum approved on or after June 3, 2009), local option tax and transportation tax.*

This 1% local sales and use tax is used for schools. As of the date of this publication, the authorized counties with a local school district/education capital improvement tax imposed are:

Effective Date	Counties
September 1, 2000	Chesterfield
December 1, 2002	Jasper
June 1, 2004	Clarendon
October 1, 2008	Dillon
March 1, 2009	Horry
March 1, 2011	Charleston
March 1, 2012	Lexington
February 1, 2013	Marlboro
March 1, 2015	Aiken, Anderson, Cherokee
March 1, 2017	Darlington, Kershaw

Tourism Development

The local tourism development sales and use tax is authorized under Section 4-10-910 et. seq. This tax is a general sales and use tax on all sales at retail (with a few exceptions) taxable under the state sales and use tax law and may only be imposed by a municipality located in a county where revenue from the state accommodations tax is at least fourteen million dollars in a fiscal year. The tax is imposed specifically for tourism advertisement and promotion directed at non-South Carolina residents; however, in the third and subsequent years of this tax a portion of the tax may be used for certain property tax rollbacks. This tax is collected and administered by the SCDOR on behalf of these municipalities.

As of the date of this publication, the authorized municipality with a 1% tourism development tax imposed is:

Effective Date	Municipality
August 1, 2009	Myrtle Beach

EXCLUSIONS AND EXEMPTIONS

Generally, all retail sales are subject to the sales and use tax. However, there are a number of exemptions from the tax, most notably, certain items used in farming and manufacturing, medicines sold by prescription and sales to the federal government.

Exclusions

Items excluded from the sales and use tax primarily include sales of goods for resale.

Other excluded items include certain property used in the manufacturing process, materials used to ship manufactured goods for sale and items brought into the state that are for use outside the state.

Sales to individuals 85 years of age or older are exempt from 1% of the state sales tax rate on

the purchase of items for their personal use.

Exemptions

For discussion's sake the following exemptions can be divided into the following categories: Business, Government, Educational, Agricultural, General Public Good, and Alternative Energy.

These exemptions are not categorized as such in the law. These categories have been developed simply for discussion.

The following items are exempt from sales and use tax:

Business Exemptions

- Coal, coke or other fuel for manufacturers, transportation companies, electric power companies and processors
- Fuel used for test flights of aircraft by the manufacturer of the aircraft or used in the transportation of an aircraft prior to its completion from one facility of the manufacturer to another facility of the manufacturer, provided the taxpayer, over a seven year period, invests at least seven hundred fifty million dollars in real or personal property or both comprising or located at a single manufacturing facility and creates at least three thousand eight hundred full-time new jobs at the a single manufacturing facility
- Toll charges between telephone exchanges, certain access charges, charges for telegraph messages, and automatic teller machine transactions
- Fuel and other supplies for consumption on ships on the high seas
- Wrapping paper, containers, etc., used incident to the sale and delivery of tangible personal property
- Motor fuel taxed under the motor fuel user fee law
- Machines used in manufacturing, processing, agricultural packaging, recycling, compounding, mining, or quarrying tangible personal property for sale. This includes certain machines used to prevent or abate air, water or noise pollution caused by machines used in manufacturing, processing, recycling, compounding, mining or quarrying tangible personal property for sale
- Electricity used to manufacture, process, mine or quarry tangible personal property for sale or used by cotton gins to manufacture tangible personal property for sale
- Railcars and locomotives
- Certain vessels and barges (more than 50 tons burden)
- Laundry supplies and machinery used by a laundry or dry cleaning business. This exemption does not apply to coin operated laundromats.
- Vacation time sharing plans and exchange of accommodations in which the accommodation to be exchanged is the primary consideration
- 50% of the gross proceeds of a modular home regulated under Chapter 43 of Title 23
- Movies sold or rented to movie theatres

- Tangible personal property delivered out of state by South Carolina retailers
- Petroleum asphalt products transported and used outside South Carolina
- Shipping containers used by international shipping lines under contract with the State Ports Authority
- Depreciable assets as part of a sale of an entire business
- Supplies, equipment, machinery and electricity for use in filming/producing motion pictures
- Postage purchased by a person engaged in the business of selling advertising services for clients consisting of mailing advertising material through the United States mail
- The following items when used by a qualified recycling facility: recycling property, electricity, natural gas, fuels, gasses, fluids and lubricants, ingredients or component parts of manufactured products, property used for the handling or transfer of postconsumer waste or manufactured products or in or for the manufacturing process, and machinery and equipment foundations
- Material handling systems and material handling equipment used in the operation of a distribution facility or a manufacturing facility of a taxpayer that invests at least \$35 million in South Carolina
- Parts and supplies used by persons engaged in the business of repairing or reconditioning aircraft. This exemption does not extend to tools and other equipment not attached to or that do not become a part of the aircraft.
- Motor vehicle extended service and warranty contracts
- Clothing and other attire required for working in a class 100 or better clean room environment (as defined in Federal Standard 209E)
- Audiovisual masters made or used by a production company
- Machines used in research and development
- Cooperative direct mail promotional advertising materials and promotional maps, brochures, pamphlets or discount coupons for use by nonprofit chambers of commerce or nonprofit convention and visitor bureaus
- Facilities transmitting electricity that are transferred, sold or exchanged by an electrical utility, municipality, electric cooperative or political subdivision to a limited liability company subject to regulation under the Federal Power Act and formed to operate or to take functional control of electric transmission assets
- 70% of the gross proceeds of the rental or lease of portable toilets
- Sweet grass baskets made by artists of South Carolina using locally grown sweet grass
- Computer equipment used in connection with, and electricity and certain fuel used by, a technology intensive facility (defined in South Carolina Code §12-6-3360(M)(14)(b)) that invests \$300 million over 5 years, creates at least 100 new jobs during the 5 years with an average cash compensation of 150% of the per capita income of the State, and spends at least 60% of the \$300 million investment on computer equipment.
- Computer equipment used in connection with a manufacturing facility where the taxpayer, over a seven year period, invests at least \$750 million in real or personal

property or both comprising or located at a single manufacturing facility and creates at least 3,800 full-time new jobs at a single manufacturing facility

- Construction material used in the construction of a single manufacturing or distribution facility, or one that serves both, that invests at least \$100 million at a single site in South Carolina over an 18 month period.
- Construction material used in the construction of a single manufacturing facility where the taxpayer, over a seven year period, invests at least \$750 million in real or personal property or both comprising or located at a single manufacturing facility and creates at least 3,800 full-time new jobs at the a single manufacturing facility
- Gold, silver or platinum bullion or any combination; coins that are or have been legal tender; and currency.
- Amusement park rides; parts, machinery and equipment used to assemble, operate and make up amusement park rides; and performance venue facilities and any related or required machinery, equipment and fixtures. A \$250 million investment and creation of 250 full-time jobs and 500 part-time or seasonal jobs over a 5 year period is required.
- Machinery and equipment, building and other raw materials and electricity used in the operation of a facility owned by an organization which qualifies as a tax exempt organization pursuant to the Internal Revenue Code Section 501(c)(3) when the facility is principally used for researching and testing the impact of such natural hazards as wind, fire, water, earthquake, and hail on building materials used in residential, commercial, and agricultural buildings, provided the taxpayer invests at least \$20 million dollars over a three year period.
- Computers, computer equipment and computer software used within a datacenter, and electricity used by a datacenter or used by eligible business property located and used at a datacenter where the taxpayer: (1) invests at least \$50 million in real or personal property or both over a 5 year period; or, if more than one taxpayer, invests a minimum aggregate capital investment of at least \$75 million in real or personal property or both over a 5 year period; (2) creates and maintains at least 25 full-time jobs at the facility with an average cash compensation level of 150% of the per capita income of South Carolina or of the county in which the facility is located; and (3) maintains the jobs requirement for 3 consecutive years after certification by the Department of Commerce.

Government Exemptions

- Transactions that are prohibited from being taxed by U.S. or State Constitutional provisions or federal or state law
- Sales to the federal government
- Material necessary to assemble missiles
- Sales of cars and motorcycles to nonresident military personnel
- Federal government contracts – property that passes to the government
- Supplies purchased by State General Services Division for resale to State agencies
- War memorials and monuments