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Via Electronic Mail

January 5, 2007

Mr. Lance C. Stotts
Vice President Bulk Power Marketing
Duke Energy Corporation
526 South Church Street
Charlotte, NC 28202

Re: Duke Energy Carolinas Interface Pricing Arrangements

Dear Mr. Stotts:

In order to establish an appropriate locational pricing signal for energy transactions between Duke Energy Carolinas, LLC ("DEC"), and PJM Interconnection, LLC ("PJM"), PJM will institute the protocols set forth below for purchases by DEC from the PJM area and for sales into the PJM area by DEC. The purpose of these protocols is to allow DEC to make sales and purchases at a single interface pricing point pursuant to conditions acceptable to both PJM and DEC. The protocols set forth below will begin at 12:00 a.m., January 10, 2007, unless otherwise agreed to by the parties.

1. PJM will establish a DECGEN LMP point comprised of the average of the individual DEC generator bus LMP nodes. At all times that the protocols set forth herein are in effect, except as provided in Paragraphs 4 through 6 below, the DECGEN LMP will be the price for energy sales into the PJM area made by DEC and energy purchases from the PJM area made by DEC.
2. DEC will provide the following data to PJM Operations in the form of real time telemetering on a one-minute scan time, or shorter scan time when commercially practicable:
 - a. DEC* aggregate system load
 - b. DEC* aggregate system generation
 - c. DEC* aggregate energy sales
 1. to others
 2. energy calls on DEC
 3. to PJM
 - d. DEC* aggregate energy purchases
 1. from others

2. energy puts to DEC
3. from PJM
- e. DEC* miniACE (control error) signal

*DEC includes only gen, load, sales, miniACE of DEC and does not include the load, gen, sales, miniACE of the munis, coops, power authorities, marketing entities, etc. within the DEC control area or for which DEC provides load balancing service.

3. PJM will perform the following two calculations in its Energy Management System (EMS):

DEC Sales to PJM = Gen + Purchases – Load – nonPJM energy sales – miniACE**

DEC Sales to PJM = b + (d1 + d2) - a - c1 - c2 - e

DEC Purchases from PJM = Load + Sales – Gen – non-PJM energy purchases + miniACE**

DEC Purchases from PJM = a + (c1 + c2) – b – (d1 + d2) + e

**miniACE sign convention is (+) overgeneration, (-) undergeneration.

4. During any hour in which DEC (or any affiliate at such times as and to the extent it is making energy purchases or sales in the DEC control area) makes any purchases outside of the DEC control area (other than SEPA pass-through energy deliveries, energy puts to DEC, or delivery of DEC-owned external resources) at the same time that DEC is making an energy sale into PJM, DEC will not receive the DECGEN LMP but rather will receive the PJM SOUTHIMP LMP for the corresponding volume and time period. Under extraordinary circumstances, including but not limited to unexpected forced outages of DEC generating resources, DEC will be permitted to import energy to maintain system balance while exporting energy to PJM. For short time periods not longer than sixty (60) minutes following such system disturbances, PJM will net the DEC imported amount against the DEC exported amount to PJM such that the net export amount to PJM will retain the DECGEN price while the amount of the export corresponding to the imported amount will receive the SOUTHIMP price. To the extent that the automated PJM settlement process automatically moves all the DEC export MW to PJM to the SOUTHIMP price in such situations, DEC will be required to notify PJM of the extraordinary condition so that netting process described above may be effectuated.
5. In the PJM Settlement System, in order for DEC to receive the DECGEN price for its sales into the PJM area, the hourly average value for DEC Sales to PJM must equal the amount scheduled in the PJM Enhanced Energy Scheduler (EES) within a tolerance. Ten percent (10%) of each scheduled quantity will be used as

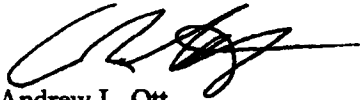
an initial tolerance, provided that should operational conditions warrant, this value may be reasonably modified following mutual consent of the parties. In addition, DEC external purchases excluding energy puts to DEC must equal zero ($d1=0$), understanding that short-term deviations in DEC purchase quantities can occur, such that DEC shall have the right to verify after-the-fact that any small $d1$ values were not the result of importing from other areas while exporting to PJM. To the extent that either of the conditions set forth in this paragraph is not met, DEC will receive the PJM SOUTHIMP LMP for the applicable hours.

6. In order for DEC to be eligible to pay the DECGEN price for DEC Purchases from PJM, the hourly average value for DEC Purchases from PJM must equal the amount scheduled in EES within a tolerance. Ten percent (10%) of each scheduled quantity will be used as an initial tolerance, provided that should operational conditions warrant, this value may be reasonably modified following mutual consent of the parties. In addition, DEC external sales excluding energy calls on DEC must equal zero ($c1=0$) understanding that short-term deviations in DEC sales quantities can occur, such that DEC shall have the right to verify after-the-fact that any small $c1$ values were not the result of exporting to other areas while importing from PJM. To the extent that either of the conditions is not met, DEC will pay the PJM SOUTHEXP LMP for the applicable hours.
7. All data provided to PJM by DEC will be used only for the purpose of conducting the protocols set forth herein, will be treated confidentially by PJM, and will be afforded the same treatment provided to Member confidential data under the PJM Operating Agreement.
8. PJM reserves the right to audit the data supplied by DEC to PJM by giving written notice to DEC no more than three months following provision of such data, and at least ten (10) business days in advance of the date that PJM wishes to initiate such audit, with completion of the audit occurring within sixty (60) days of such notice. Each party will be responsible for its own expenses related to any such audit.
9. DEC and PJM acknowledge that this Interface Pricing arrangement may be terminated by PJM or DEC upon at least ninety (90) days written notice to the other party including a statement of the reason for such termination; provided, however, that PJM may terminate this Interface Pricing arrangement at any time if PJM reasonably believes that this arrangement is threatening or compromising reliable operation of the system, in which case PJM will provide DEC with as much advance notice as is reasonably practicable under the circumstances.
10. In the event that any dispute related to this Interface Pricing arrangement arises between the parties, the parties shall, prior to initiating any adjudicatory process, attempt to resolve such dispute promptly and informally by referring the matter to a senior management representative of each company.

Mr. Lance C. Stotts
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If DEC is in agreement with the foregoing terms and conditions, please so indicate by affixing your signature in the space provided below. Thank you for your cooperation.

Sincerely yours,



Andrew L. Ott
Vice President, Markets

On behalf of PJM Interconnection, L.L.C.

Agreed to and accepted this 5th day of January, 2007



Lance C. Stotts
Vice President Bulk Power Marketing
Duke Energy Corporation