DUKE ENERGY PROGRESS, LLC.
Form 10-K
February 25, 2016

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K
(Mark One)

ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal period ended December 31, 2015 or

.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from_____to_____

Commission file number	Registrant, State of Incorporation or Organization, Address of Principal Executive Offices, and Telephone Number	IRS Employer Identification No.
1-32853	DUKE ENERGY CORPORATION (a Delaware corporation) 550 South Tryon Street Charlotte, NC 28202-1803 704-382-3853	20-2777218

Commission file number	Registrant, State of Incorporation or Organization, Address of Principal Executive Offices, Telephone Number and IRS Employer Identification Number	Commission file number	Registrant, State of Incorporation or Organization, Address of Principal Executive Offices, Telephone Number and IRS Employer Identification Number
1-4928	DUKE ENERGY CAROLINAS, LLC (a North Carolina limited liability company) 526 South Church Street Charlotte, North Carolina 28202-1803 704-382-3853 56-0205520	1-3274	DUKE ENERGY FLORIDA, LLC (formerly DUKE ENERGY FLORIDA, INC.) (a Florida limited liability company) 299 First Avenue North St. Petersburg, Florida 33701 704-382-3853 59-0247770
1-15929	PROGRESS ENERGY, INC. (a North Carolina corporation) 410 South Wilmington Street Raleigh, North Carolina 27601-1748 704-382-3853 56-2155481	1-1232	DUKE ENERGY OHIO, INC. (an Ohio corporation) 139 East Fourth Street Cincinnati, Ohio 45202 704-382-3853 31-0240030
1-3382	DUKE ENERGY PROGRESS, LLC (formerly DUKE ENERGY PROGRESS, INC.) (a North Carolina limited liability company) 410 South Wilmington Street Raleigh, North Carolina 27601-1748 704-382-3853	1-3543	DUKE ENERGY INDIANA, LLC (formerly DUKE ENERGY INDIANA, Inc.) (an Indiana limited liability company) 1000 East Main Street Plainfield, Indiana 46168 704-382-3853

56-0165465 35-0594457

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

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

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT: None

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

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

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

Yes ¨ No x (Response applicable to all registrants.)

Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrants have submitted electronically and posted on their corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

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

Indicate by check mark whether Duke Energy is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

Indicate by check mark whether Duke Energy Carolinas, Progress Energy, Duke Energy Progress, Duke Energy Florida, Duke Energy Ohio and Duke Energy Indiana are large accelerated filers, accelerated filers, non-accelerated

filers, or smaller reporting companies. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer x Smaller reporting company ¨

Indicate by check mark whether the registrants are a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

Estimated aggregate market value of the common equity held by nonaffiliates of Duke Energy at June 30, 2015.	48,570,203,631
Number of shares of Common Stock, $0.001 par value, outstanding at January 31, 2016.	688,377,923

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Duke Energy definitive proxy statement for the 2015 Annual Meeting of the Shareholders or an amendment to this Annual Report are incorporated by reference into PART II, Item 5 and PART III, Items 10, 11, 12 and 13 hereof.

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

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

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FORM 10-K FOR THE YEAR ENDED December 31, 2015

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This document includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are based on management's beliefs and assumptions and can often be identified by terms and phrases that include "anticipate," "believe," "intend," "estimate," "expect," "continue," "should," "could," "may," "plan," "project," "predict," "will," "potential," "forecast," "target" or other similar terminology. Various factors may cause actual results to be materially different than the suggested outcomes within forward-looking statements; accordingly, there is no assurance that such results will be realized. These factors include, but are not limited to:

- State, federal and foreign legislative and regulatory initiatives, including costs of compliance with existing and future environmental requirements or climate change, as well as rulings that affect cost and investment recovery or have an impact on rate structures or market prices;
- The extent and timing of costs and liabilities to comply with federal and state laws, regulations, and legal requirements related to coal ash remediation, including amounts for required closure of certain ash impoundments, are uncertain and difficult to estimate;
- The ability to recover eligible costs, including amounts associated with coal ash mitigation such as coal ash impoundment retirement obligations and cost related to significant weather events, and earn an adequate return on investment through the regulatory process;
- The costs of decommissioning Crystal River Unit 3 and other nuclear facilities could prove to be more extensive than amounts estimated and all costs may not be fully recoverable through the regulatory process;
- Credit ratings of the Duke Energy Registrants may be different from what is expected;
- Costs and effects of legal and administrative proceedings, settlements, investigations and claims;
- Industrial, commercial and residential growth or decline in service territories or customer bases resulting from variations in customer usage patterns, including energy efficiency efforts and use of alternative energy sources, including self-generation and distributed generation technologies;
- Federal and state regulations, laws and other efforts designed to promote and expand the use of energy efficiency measures and distributed generation technologies, such as rooftop solar and battery storage, in Duke Energy service territories could result in customers leaving the electric distribution system, excess generation resources as well as stranded costs;
- Advancements in technology;
- Additional competition in electric markets and continued industry consolidation;
- Political, economic and regulatory uncertainty in Brazil and other countries in which Duke Energy conducts business;
- The influence of weather and other natural phenomena on operations, including the economic, operational and other effects of severe storms, hurricanes, droughts, earthquakes and tornadoes;
- The ability to successfully operate electric generating facilities and deliver electricity to customers including direct or indirect effects to the company resulting from an incident that affects the U.S. electric grid or generating resources;
- The impact on facilities and business from a terrorist attack, cybersecurity threats, data security breaches, and other catastrophic events such as fires, explosions, pandemic health events or other similar occurrences;
- The inherent risks associated with the operation and potential construction of nuclear facilities, including environmental, health, safety, regulatory and financial risks;
- The timing and extent of changes in commodity prices, interest rates and foreign currency exchange rates and the ability to recover such costs through the regulatory process, where appropriate, and their impact on liquidity positions and the value of underlying assets;
- The results of financing efforts, including the ability to obtain financing on favorable terms, which can be affected by various factors, including credit ratings, interest rate fluctuations and general economic conditions;
- Declines in the market prices of equity and fixed income securities and resultant cash funding requirements for defined benefit pension plans, other post-retirement benefit plans, and nuclear decommissioning trust funds;
- Construction and development risks associated with the completion of Duke Energy Registrants' capital investment projects, including risks related to financing, obtaining and complying with terms of permits, meeting construction

budgets and schedules, and satisfying operating and environmental performance standards, as well as the ability to recover costs from customers in a timely manner or at all;

- Changes in rules for regional transmission organizations, including changes in rate designs and new and evolving capacity markets, and risks related to obligations created by the default of other participants;
- The ability to control operation and maintenance costs;
- The level of creditworthiness of counterparties to transactions;
- Employee workforce factors, including the potential inability to attract and retain key personnel;
- The ability of subsidiaries to pay dividends or distributions to Duke Energy Corporation holding company (the Parent);
- The performance of projects undertaken by our nonregulated businesses and the success of efforts to invest in and develop new opportunities;

- The effect of accounting pronouncements issued periodically by accounting standard-setting bodies;
- The impact of potential goodwill impairments;
- The ability to reinvest prospective undistributed earnings of foreign subsidiaries or repatriate such earnings on a tax-efficient basis;
- The expected timing and likelihood of completion of the proposed acquisition of Piedmont Natural Gas Company, Inc. (Piedmont), including the timing, receipt and terms and conditions of any required governmental and regulatory approvals of the proposed acquisition that could reduce anticipated benefits or cause the parties to abandon the acquisition, and under certain specified circumstance pay a termination fee of $250 million, as well as the ability to successfully integrate the businesses and realize anticipated benefits and the risk that the credit ratings of the combined company or its subsidiaries may be different from what the companies expect; and
- The ability to successfully complete future merger, acquisition or divestiture plans.

In light of the various risks, uncertainties and assumptions, the events described in the forward-looking statements might not occur or might occur to a different extent or at a different time than described. Forward-looking statements speak only as of the date they are made; the Duke Energy Registrants expressly disclaim an obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Glossary of Terms

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

Term or Acronym	Definition
the 2010 Plan	Duke Energy's 2010 Long-Term Incentive Plan
the 2012 Edwardsport settlement	Settlement agreement in 2012 among Duke Energy Indiana, the Office of Utility Consumer Counselor, the Duke Energy Indiana Industrial Group and Nucor Steel-Indiana
the 2012 Settlement	Settlement agreement in 2012 among Duke Energy Florida, the OPC and other customer advocates
the 2013 Settlement	Settlement agreement in 2013 among Duke Energy Florida, the OPC and other customer advocates
ACP	Atlantic Coast Pipeline
AFUDC	Allowance for Funds Used During Construction
AHFS	Assets held for sale
ALJ	Administrative Law Judge
ANEEL	Brazilian electricity regulatory agency
AOCI	Accumulated Other Comprehensive Income
ASRP	Accelerated natural gas service line replacement program
ASU	Accounting standard update
Board of Directors	Duke Energy Board of Directors
Bison	Bison Insurance Company Limited
Brunswick	Brunswick Nuclear Plant
CAA	Clean Air Act
CAIR	Clean Air Interstate Rule
Calpine	Calpine Corporation
Catawba	Catawba Nuclear Station
Catawba Riverkeeper	Catawba Riverkeeper Foundation, Inc.

CC	Combined Cycle
CCR	Coal Combustion Residuals
CCS	Carbon Capture and Storage
CECPCN	Certificate of Environmental Compatibility and Public Convenience and Necessity
CEO	Chief Executive Officer
Cinergy	Cinergy Corp. (collectively with its subsidiaries)
CO_2	Carbon Dioxide
Coal Ash Act	North Carolina Coal Ash Management Act of 2014
Coal Ash Commission	Coal Ash Management Commission
COL	Combined Construction and Operating License
the Company	Duke Energy Corporation and its subsidiaries
Consolidated Complaint	Corrected Verified Consolidated Shareholder Derivative Complaint
CPCN	Certificate of Public Convenience and Necessity
CPP	Clean Power Plan
CRC	Cinergy Receivables Company, LLC
Crescent	Crescent Resources LLC
Crystal River Unit 3	Crystal River Unit 3 Nuclear Plant
CSA	Comprehensive Site Assessment
CSAPR	Cross-State Air Pollution Rule
CT	Combustion Turbine

CWA	Clean Water Act
D.C. Circuit Court	U.S. Court of Appeals for the District of Columbia
DEBS	Duke Energy Business Services, LLC
DECAM	Duke Energy Commercial Asset Management, LLC
DECS	Duke Energy Corporate Services
DEFR	Duke Energy Florida Receivables, LLC
DEGS	Duke Energy Generation Services, Inc.
DEIGP	Duke Energy International Geracao Paranapenema S.A.
Deloitte	Deloitte & Touche LLP, and the member firms of Deloitte Touche Tohmatsu and their respective affiliates
DEPR	Duke Energy Progress Receivables, LLC
DERF	Duke Energy Receivables Finance Company, LLC
Disposal Group	Duke Energy Ohio’s nonregulated Midwest generation business and Duke Energy Retail Sales, LLC
DOE	U.S. Department of Energy
Dominion	Dominion Resources
DSM	Demand Side Management
Duke Energy	Duke Energy Corporation (collectively with its subsidiaries)
Duke Energy Audit Committee	Audit Committee of the Board of Directors
Duke Energy Carolinas	Duke Energy Carolinas, LLC
Duke Energy Defendants	Several current and former Duke Energy officers and directors named as defendants in the Consolidated Complaint
Duke Energy Florida	Duke Energy Florida, LLC (formerly Duke Energy Florida, Inc.)
Duke Energy Indiana	Duke Energy Indiana, Inc. (subsequently Duke Energy Indiana, LLC)
Duke Energy Kentucky	Duke Energy Kentucky, Inc.

Duke Energy Ohio	Duke Energy Ohio, Inc.
Duke Energy Progress	Duke Energy Progress, LLC (formerly Duke Energy Progress, Inc.)
Duke Energy Registrants	Duke Energy, Duke Energy Carolinas, Progress Energy, Duke Energy Progress, Duke Energy Florida, Duke Energy Ohio and Duke Energy Indiana
Duke Energy Retail	Duke Energy Retail Sales, LLC
DukeNet	DukeNet Communications Holdings, LLC
Dynegy	Dynegy Inc.
EE	Energy efficiency
EGU	Electric Generating Units
EIP	Progress Energy's Equity Incentive Plan
ELG	Effluent Limitation Guidelines
EMC	North Carolina Environmental Management Commission
EPA	U.S. Environmental Protection Agency
EPC	Engineering, Procurement and Construction agreement
EPS	Earnings Per Share
ESP	2014 Electric Security Plan
ETR	Effective tax rate
Exchange Act	Exchange Act of 1934
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
Fitch	Fitch Ratings, Inc.

FMJO	Florida Municipal Joint Owners - city of Ocala, Orlando Utilities Commission, city of Gainesville, city of Leesburg, Kissimmee Utility Authority, Utilities Commission of City of New Smyrna Beach, city of Alachua and city of Bushnell
Form S-3	Registration statement
FPSC	Florida Public Service Commission
FTC	Federal Trade Commission
FTR	Financial transmission rights
GAAP	Generally Accepted Accounting Principles in the United States
Gas Settlement	Settlement agreement in 2013 among Duke Energy Ohio, PUCO Staff and intervening parties
GHG	Greenhouse Gas
GPC	Georgia Power Company
GWh	Gigawatt-hours
Harris	Shearon Harris Nuclear Plant
HB 998	North Carolina House Bill 998, or the North Carolina Tax Simplification and Rate Reduction Act
Hines	Hines Energy Complex
IAP	State Environmental Agency of Parana
IBAMA	Brazil Institute of Environment and Renewable Natural Resources
IBNR	Incurred but not yet reported
IC	Internal combustion
IGCC	Integrated Gasification Combined Cycle
Interim FERC Mitigation	Interim firm power sale agreements mitigation plans related to the Progress Energy merger
IRP	Integrated Resource Plans
IRS	Internal Revenue Service
ISFSI	Independent Spent Fuel Storage Installation

ISO	Independent System Operator
ITC	Investment Tax Credit
IURC	Indiana Utility Regulatory Commission
Investment Trusts	Grantor trusts of Duke Energy Progress, Duke Energy Florida and Duke Energy Indiana
JDA	Joint Dispatch Agreement
Joint Intervenors	Intervenors in matters related to the Edwardsport IGCC Plan, including the Citizens Action Coalition of Indiana, Inc., Sierra Club, Inc., Save the Valley, Inc. and Valley Watch, Inc.
KPSC	Kentucky Public Service Commission
kV	Kilovolt
kWh	Kilowatt-hour
Lee Nuclear Station	William States Lee III Nuclear Station
Levy	Duke Energy Florida’s proposed nuclear plant in Levy County, Florida
Legacy Duke Energy Directors	Members of the pre-merger Duke Energy Board of Directors
LIBOR	London Interbank Offered Rate
Long-Term FERC Mitigation	The revised market power mitigation plan related to the Progress Energy merger
MATS	Mercury and Air Toxics Standards (previously referred to as the Utility MACT Rule)
Mcf	Thousand cubic feet
McGuire	McGuire Nuclear Station
MGP	Manufactured gas plant
MISO	Midcontinent Independent System Operator, Inc.
MMBtu	Million British Thermal Unit

Moody’s	Moody’s Investors Service, Inc.
MTBE	Methyl tertiary butyl ether
MTEP	MISO Transmission Expansion Planning
MW	Megawatt
MVP	Multi Value Projects
MWh	Megawatt-hour
NASDAQ	Nasdaq Composite
NCDEQ	North Carolina Department of Environmental Quality (formerly the North Carolina Department of Environment and Natural Resources)
NCEMC	North Carolina Electric Membership Corporation
NCEMPA	North Carolina Eastern Municipal Power Agency
NCRC	Florida’s Nuclear Cost Recovery Clause
NCSC	North Carolina Supreme Court
NCUC	North Carolina Utilities Commission
NC WARN	N.C. Waste Awareness and Reduction Network
NDTF	Nuclear decommissioning trust funds
NEIL	Nuclear Electric Insurance Limited
NMC	National Methanol Company
NOL	Net operating loss
NOV	Notice of violation
NO_x	Nitrogen oxide
NPNS	Normal purchase/normal sale
NRC	U.S. Nuclear Regulatory Commission
NSR	New Source Review

NWPA	Nuclear Waste Policy Act of 1982
NYSE	New York Stock Exchange
Oconee	Oconee Nuclear Station
Ohio EPA	Ohio Environmental Protection Agency
OPC	Florida Office of Public Counsel
OPEB	Other Post-Retirement Benefit Obligations
Osprey Plant acquisition	Duke Energy Florida's proposed acquisition of Calpine Corporation's 599 MW combined-cycle natural gas plant in Auburndale, Florida
OUCC	Office of Utility Consumer Counselor
OVEC	Ohio Valley Electric Corporation
the Parent	Duke Energy Corporation Holding Company
PESC	Progress Energy Service Company
PJM	PJM Interconnection, LLC
Plea Agreements	Plea Agreements entered into by Duke Energy Carolinas and Duke Energy Progress in connection with a criminal investigation related to the Dan River ash basin release and the management of coal ash basins in North Carolina
Progress Energy	Progress Energy, Inc.
PSCSC	Public Service Commission of South Carolina
Public Staff	North Carolina Utilities Commission Public Staff
PUCO	Public Utilities Commission of Ohio
PURPA	Public Utility Regulatory Act of 1978

QF	Qualifying Facility
RCA	Revolving Credit Agreement
RCRA	Resource Conservation and Recovery Act
Relative TSR	TSR of Duke Energy stock relative to a pre-defined peer group
the Resolutions	Proposed resolutions promulgated by the Brazilian electricity regulatory agency
Robinson	Robinson Nuclear Station
RTO	Regional Transmission Organization
Sabal Trail	Sabal Trail Transmission, LLC
SAFSTOR	A method of decommissioning in which a nuclear facility is placed and maintained in a condition that allows the facility to be safely stored and subsequently decontaminated to levels that permit release for unrestricted use.
SCDHEC	South Carolina Department of Health and Environmental Control
SEC	Securities and Exchange Commission
SELC	Southern Environmental Law Center
Segment Income	Income from continuing operations net of income attributable to noncontrolling interests
SO_2	Sulfur dioxide
Spectra Energy	Spectra Energy Corp.
Spectra Capital	Spectra Energy Capital, LLC (formerly Duke Capital LLC)
S&P	Standard & Poor’s Rating Services
SSO	Standard Service Offer
State Utility Commissions	NCUC, PSCSC, FPSC, PUCO, IURC and KPSC (Collectively)
Subsidiary Registrants	Duke Energy Carolinas, Progress Energy, Duke Energy Progress, Duke Energy Florida, Duke Energy Ohio and Duke Energy Indiana
Supreme Court	U.S. Supreme Court
Sutton	L.V. Sutton combined cycle facility
Suwannee project	

	Proposed 320 MW combustion turbine plant at Duke Energy Florida's Suwannee generating facility
TSR	Total shareholder return
U.S.	United States
USDOJ	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
VDEQ	Virginia Department of Environmental Quality
VEBA I	Duke Energy Corporation Employee Benefits Trust
Vermillion	Vermillion Generating Station
VIE	Variable Interest Entity
WACC	Weighted Average Cost of Capital
WVPA	Wabash Valley Power Association, Inc.

PART I

ITEM 1. BUSINESS

DUKE ENERGY

General

Duke Energy Corporation (collectively with its subsidiaries, Duke Energy) is an energy company headquartered in Charlotte, North Carolina, subject to regulation by the Federal Energy Regulatory Commission (FERC). Duke Energy operates in the United States (U.S.) and Latin America primarily through its direct and indirect subsidiaries. Duke Energy's subsidiaries include its subsidiary registrants (collectively referred to as the Subsidiary Registrants); Duke Energy Carolinas, LLC (Duke Energy Carolinas); Progress Energy, Inc. (Progress Energy); Duke Energy Progress, LLC (formerly Duke Energy Progress, Inc.) (Duke Energy Progress); Duke Energy Florida, LLC (formerly Duke Energy Florida, Inc.) (Duke Energy Florida); Duke Energy Ohio, Inc. (Duke Energy Ohio); and Duke Energy Indiana, LLC (formerly Duke Energy Indiana, Inc.) (Duke Energy Indiana). When discussing Duke Energy’s consolidated financial information, it necessarily includes the results of its Subsidiary Registrants, which along with Duke Energy, are collectively referred to as the Duke Energy Registrants.

Duke Energy has entered into an Agreement and Plan of Merger (Merger Agreement) with Piedmont Natural Gas Company, Inc. (Piedmont), a North Carolina corporation. Piedmont is an energy services company primarily engaged in the distribution of natural gas to residential, commercial, industrial and power generation customers in portions of North Carolina, South Carolina and Tennessee. Under terms of the Merger Agreement, Duke Energy will acquire Piedmont for $4.9 billion in cash and Piedmont will become a wholly owned subsidiary of Duke Energy. Piedmont's common stock will be delisted from the New York Stock Exchange (NYSE). Duke Energy and Piedmont target to close the transaction by the end of 2016 subject to meeting various conditions, including receipt of required regulatory approvals. For additional information see Note 2 to the Consolidated Financial Statements, "Acquisitions and Dispositions."

Duke Energy completed the sale of the nonregulated Midwest generation business and Duke Energy Retail Sales, LLC (collectively, the Disposal Group) to Dynegy Inc. (Dynegy) on April 2, 2015, for approximately $2.8 billion in cash. The Disposal Group primarily included Duke Energy Ohio's coal-fired and gas-fired generation assets located in the Midwest region of the United States and dispatched into the PJM wholesale market. The Disposal Group also included a retail sales subsidiary of Duke Energy, that served retail electric and gas customers in Ohio with energy and other energy services at competitive rates. For additional information see Note 2 to the Consolidated Financial Statements, "Acquisitions and Dispositions."

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

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

Business Segments

Duke Energy conducts its operations in three business segments; Regulated Utilities, International Energy and Commercial Portfolio (formerly Commercial Power). The remainder of Duke Energy’s operations are presented as Other. Duke Energy’s chief operating decision maker regularly reviews financial information about each of these business segments in deciding how to allocate resources and evaluate the performance of the business. For additional

information on each of these business segments, including financial and geographic information, see Note 3 to the Consolidated Financial Statements, “Business Segments.”

The following sections describe the business and operations of each of Duke Energy’s reportable business segments, as well as Other.

REGULATED UTILITIES

Regulated Utilities conducts operations primarily through Duke Energy Carolinas, Duke Energy Progress, Duke Energy Florida, Duke Energy Indiana, and Duke Energy Ohio. These electric and gas operations are subject to the rules and regulations of the FERC, the North Carolina Utilities Commission (NCUC), the Public Service Commission of South Carolina (PSCSC), the Florida Public Service Commission (FPSC), the Indiana Utility Regulatory Commission (IURC), the Public Utilities Commission of Ohio (PUCO), and the Kentucky Public Service Commission (KPSC).

Regulated Utilities serves 7.4 million retail electric customers in six states in the Southeast and Midwest regions of the U.S. Its service area covers approximately 95,000 square miles with an estimated population of 24 million people. Regulated Utilities serves 525,000 retail natural gas customers in southwestern Ohio and northern Kentucky. Electricity is also sold wholesale to incorporated municipalities, electric cooperative utilities and other load-serving entities.

PART I

The following table represents the distribution of billed sales by customer class for the year ended December 31, 2015.

	Duke Energy Carolinas[(a)]	Duke Energy Progress[(a)]	Duke Energy Florida[(b)]	Duke Energy Ohio[(c)]	Duke Energy Indiana[(d)]
Residential	32%	28%	50%	34%	27%
General service	33%	24%	38%	37%	25%
Industrial	25%	16%	8%	24%	31%
Total retail sales	90%	68%	96%	95%	83%
Wholesale and other sales	10%	32%	4%	5%	17%
Total sales	100%	100%	100%	100%	100%

(a) Primary general service sectors include health care, education, financial services, information technology and military buildings. Primary industrial sectors include textiles, chemicals, rubber and plastics, paper, food and beverage, and auto manufacturing.

(b) Primary general service sectors include tourism, health care and government facilities and schools. Primary industrial sectors include phosphate rock mining and processing and citrus and other food processing.

(c) Primary general service sectors include health care, education, real estate and rental leasing, financial and insurance services, water/wastewater services, and wholesale trade services. Primary industrial sectors include primary metals, chemicals, food and beverage, and transportation.

(d) Primary general service sectors include retail, financial, health care and education services. Primary industrial sectors include metals, transportation, building materials, food and beverage, and chemicals.

The number of residential, general service and industrial customers within the Regulated Utilities service territory is expected to increase over time. However, growth in the near term has been hampered by current economic conditions and continued adoption of energy efficiencies. Average usage per residential customer is expected to remain flat or decline for the foreseeable future. While total industrial and general service sales increased in 2015 when compared to 2014, the growth rate was modest when compared to historical periods.

Seasonality and the Impact of Weather

Regulated Utilities' costs and revenues are influenced by seasonal patterns. Peak sales of electricity occur during the summer and winter months, resulting in higher revenue and cash flows in these periods. By contrast, lower sales of electricity occur during the spring and fall, allowing for scheduled plant maintenance. Peak gas sales occur during the winter months. Residential and general service customers are most impacted by weather. Estimated weather impacts are based on actual current period weather compared to normal weather conditions. Normal weather conditions are defined as the long-term average of actual historical weather conditions.

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

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

Competition

Retail

Regulated Utilities' businesses operate as the sole supplier of electricity within their service territories, with the exception of Ohio, which has a competitive electricity supply market for generation service. Regulated Utilities owns

and operates facilities necessary to transmit and distribute electricity and, except in Ohio, to generate electricity. Services are priced by state commission approved rates designed to include the costs of providing these services and a reasonable return on invested capital. This regulatory policy is intended to provide safe and reliable electricity at fair prices. Competition in the regulated electric distribution business is primarily from the development and deployment of alternative energy sources including on-site generation from industrial customers and distributed generation, such as rooftop solar, at residential, general service and/or industrial customer sites.

Regulated Utilities is not aware of any proposed legislation in any of its jurisdictions that would give its retail customers the right to choose their electricity provider or otherwise restructure or deregulate the electric industry including broadly subsidizing distributed generation such as rooftop solar.

Although there is no pending legislation at this time, if the retail jurisdictions served by Regulated Utilities become subject to deregulation, the recovery of stranded costs could become a significant consideration. Stranded costs primarily include the generation assets of Regulated Utilities whose value in a competitive marketplace may be less than their current book value, as well as above-market purchased power commitments from qualifying facilities (QFs). The Public Utility Regulatory Policies Act of 1978 (PURPA) established a new class of generating facilities as QFs, typically small power production facilities that generate power within a utility company’s service territory for which the utility companies are legally obligated to purchase the energy at an avoided cost rate. Thus far, all states that have passed restructuring legislation have provided for the opportunity to recover a substantial portion of stranded costs.

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Regulated Utilities' largest stranded cost exposure is primarily related to Duke Energy Florida's purchased power commitments with QFs, under which it has future minimum expected capacity payments through 2043 of $3.1 billion. Duke Energy Florida was obligated to enter into these contracts under provisions of PURPA. Duke Energy Florida continues to seek ways to address the impact of escalating payments under these contracts. However, the FPSC allows full recovery of the retail portion of the cost of power purchased from QFs. For additional information related to these purchased power commitments, see Note 5 to the Consolidated Financial Statements, "Commitments and Contingencies."

In Ohio, Regulated Utilities conducts competitive auctions for electricity supply and purchases the gas commodity for natural gas service. The cost of energy purchased through these auctions and the cost of gas purchases are recovered from retail customers. Regulated Utilities earns retail margin in Ohio on the transmission and distribution of electricity and the distribution of gas and not on the cost of the underlying energy.

Wholesale

Regulated Utilities competes with other utilities and merchant generators for bulk power sales, sales to municipalities and cooperatives, and wholesale transactions. The principal factors in competing for these sales are price, availability of capacity and power, and reliability of service. Prices are influenced primarily by market conditions and fuel costs. Increased competition in the wholesale electric utility industry and the availability of transmission access could affect Regulated Utilities' load forecasts, plans for power supply and wholesale energy sales and related revenues. Wholesale energy sales will be impacted by the extent to which additional generation is available to sell to the wholesale market and the ability of Regulated Utilities to attract new customers and to retain existing customers.

Energy Capacity and Resources

Regulated Utilities owns approximately 50,000 megawatts (MW) of generation capacity. For additional information on Regulated Utilities' generation facilities, see Item 2, "Properties."

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

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

Potential 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 earlier than their current estimated useful lives. These facilities do not have the requisite emission control equipment, primarily to meet United States Environmental Protection Agency (EPA) regulations recently approved or proposed. 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. For additional information related to potential plant retirements see Note 4 to the Consolidated Financial Statements, "Regulatory Matters."

On October 23, 2015, the EPA published in the Federal Register the Clean Power Plan (CPP) rule for regulating carbon dioxide (CO_2) emissions from existing fossil fuel-fired electric generating units (EGUs). The CPP establishes CO_2 emission rates and mass cap goals that apply to fossil fuel-fired generation. Under the CPP, states are required to develop and submit a final compliance plan, or an initial plan with an extension request, to the EPA by September 2016, or no later than September 2018 with an approved extension. These state plans are subject to EPA approval,

with a federal plan applied to states that fail to submit a plan to the EPA or if a state plan is not approved. Legal challenges to the CPP have been filed by stakeholders and motions to stay the requirements of the rule pending the outcome of the litigation have been filed. The U.S. Supreme Court granted a Motion to Stay in February 2016, effectively blocking enforcement of the rule until legal challenges are resolved. Final resolution of these legal challenges could take several years. Compliance with CPP could cause the industry to replace coal generation with natural gas and renewables, especially in states that have significant CO_2 reduction targets under the rule. Costs to operate coal-fired generation plants continue to grow due to increasing environmental compliance requirements, including ash management costs unrelated to CPP, and this may result in the retirement of coal-fired generation plants earlier than the current useful lives. Duke Energy continues to evaluate the need to retire generating facilities and plans to seek regulatory recovery, where appropriate, for amounts that have not been recovered upon asset retirements. However, recovery is subject to future regulatory approval, including the recovery of carrying costs on remaining book values, and therefore cannot be assured.

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Sources of Electricity

Regulated Utilities relies principally on coal, natural gas and nuclear fuel for its generation of electricity. The following table lists sources of electricity and fuel costs for the three years ended December 31, 2015.

	Generation by Source[d]			Cost of Delivered Fuel per Net Kilowatt-hour Generated (Cents)[d]		
	2015	2014[e]	2013[e]	2015	2014	2013
Coal[a]	29.0 %	33.5 %	32.8 %	3.24	3.54	3.67
Nuclear[a]	27.0 %	26.1 %	26.3 %	0.65	0.65	0.66
Gas and oil[a]	23.1 %	19.0 %	19.5 %	3.74	4.70	4.18
All fuels (cost-based on weighted average)[a]	79.1 %	78.6 %	78.6 %	2.50	2.86	2.79
Hydroelectric and solar[b]	0.8 %	0.8 %	1.3 %			
Total generation	79.9 %	79.4 %	79.9 %			
Purchased power and net interchange[c]	20.1 %	20.6 %	20.1 %			
Total sources of energy	100.0 %	100.0 %	100.0 %			

(a) Statistics related to all fuels reflect Regulated Utilities' ownership interest in jointly owned generation facilities.
(b) Generating figures are net of output required to replenish pumped storage facilities during off-peak periods.
(c) Purchased power includes renewable energy purchases.
(d) Includes the effect of the Joint Dispatch Agreement (JDA).
(e) Amounts for 2014 and 2013 have been adjusted to reflect the inclusion of Duke Energy Ohio auction purchases from PJM and Purchased power and net interchange.

Coal

Regulated Utilities meets its coal demand through a portfolio of long-term purchase contracts and short-term spot market purchase agreements. Large amounts of coal are purchased under long-term contracts with mining operators who mine both underground and at the surface. Regulated Utilities uses spot market purchases to meet coal requirements not met by long-term contracts. Expiration dates for its long-term contracts, which have various price adjustment provisions and market re-openers, range from 2016 to 2017 for Duke Energy Carolinas, 2016 to 2018 for Duke Energy Progress, 2016 to 2017 for Duke Energy Florida, and 2016 to 2025 for Duke Energy Indiana. Regulated Utilities expects to renew these contracts or enter into similar contracts with other suppliers as existing contracts expire, though prices will fluctuate over time as coal markets change. Coal purchased for the Carolinas is primarily produced from mines in Central Appalachia, Northern Appalachia and the Illinois Basin. Coal purchased for Florida is primarily produced from mines in Colorado and the Illinois Basin. Coal purchased for Indiana is primarily produced in Indiana and Illinois. Regulated Utilities has an adequate supply of coal under contract to fuel its projected 2016 operations and a significant portion of supply to fuel its projected 2017 operations. As a result of lower natural gas prices and less coal-fired dispatch within the generation fleet, coal inventories may periodically exceed production requirements and result in higher inventory levels. In these circumstances, Regulated Utilities has worked with suppliers to defer contracted deliveries, renegotiate existing contract volumes or has received regulatory support to adjust generation dispatch to reduce the inventory levels.

The current average sulfur content of coal purchased by Regulated Utilities is between 1.5 percent and 2 percent for Duke Energy Carolinas, between 1.5 percent and 2 percent for Duke Energy Progress, between 1 percent and 2.5 percent for Duke Energy Florida, and between 2 percent and 3 percent for Duke Energy Indiana. Regulated Utilities' environmental controls, in combination with the use of sulfur dioxide (SO_2) emission allowances, enable Regulated Utilities to satisfy current SO_2 emission limitations for its existing facilities.

Nuclear

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

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

Regulated Utilities has entered into fuel contracts that cover 100 percent of its uranium concentrates, conversion services, and enrichment services requirements through at least 2017 and cover fabrication services requirements for these plants through at least 2019. For future requirements not already covered under long-term contracts, Regulated Utilities believes it will be able to renew contracts as they expire, or enter into similar contractual arrangements with other suppliers of nuclear fuel materials and services.

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Natural Gas and Oil

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

Purchased Power

Regulated Utilities purchases a portion of its capacity and system requirements through purchase obligations, leases and purchase contracts. Regulated Utilities believes it can obtain adequate purchased power capacity to meet future system load needs. However, during periods of high demand, the price and availability of purchased power may be significantly affected.

The following table summarizes purchased power the previous three years:

	2015	2014	2013
Purchase obligations and leases (in millions of megawatt-hours (MWh))[(a)]	14.9	14.3	11.7
Purchases capacity under contract (in MW)[(b)]	4,573	4,500	3,800

(a) Represents approximately 5 percent of total system requirements for all years presented.

(b) These agreements include approximately 421 MW of firm capacity under contract by Duke Energy Florida with QFs.

Natural Gas for Retail Distribution

Regulated Utilities is responsible for the purchase and the subsequent delivery of natural gas to retail customers in its Ohio and Kentucky service territories. Regulated Utilities' natural gas procurement strategy is to buy firm natural gas supplies and firm interstate pipeline transportation capacity during the winter season and during the non-heating season through a combination of firm supply and transportation capacity along with spot supply and interruptible transportation capacity. This strategy allows Regulated Utilities to assure reliable natural gas supply for its non-curtailable customers during peak winter conditions and provides Regulated Utilities the flexibility to reduce its contract commitments if firm customers choose alternate gas. In 2015, firm supply purchase commitment agreements provided approximately 71 percent of the natural gas supply.

Inventory

Generation of electricity is capital intensive. Regulated Utilities must maintain an adequate stock of fuel and materials and supplies in order to ensure continuous operation of generating facilities and reliable delivery to customers. As of December 31, 2015, the inventory balance for Regulated Utilities was $3,702 million. For additional information on inventory see Note 1 to the Consolidated Financial Statements, "Summary of Significant Accounting Policies."

Ash Basin Management

On September 20, 2014, the North Carolina Coal Ash Management Act of 2014 (Coal Ash Act) became law and was amended on June 24, 2015, by the Mountain Energy Act. The Coal Ash Act established a Coal Ash Management Commission (Coal Ash Commission) to oversee handling of coal ash within the state and requires closure of ash impoundments by no later than December 31, 2029 based on risk rankings, amongst other detailed requirements. The Coal Ash Act leaves the decision on cost recovery determinations related to closure of coal combustion residual (CCR) surface impoundments (ash basins or impoundments) to the normal ratemaking processes before utility regulatory commissions. Duke Energy has and will periodically submit to applicable authorities required site-specific coal ash impoundment remediation or closure plans. These plans and all associated permits must be approved before any work can begin.

On April 17, 2015, the EPA published Resource Conservation and Recovery Act (RCRA) in the Federal Register, establishing rules to regulate the disposal of coal combustion residuals (CCR) from electric utilities as solid waste. The RCRA, and the Coal Ash Act, as amended, finalized the legal framework related to coal ash management practices and ash basin closure.

Duke Energy has advanced the strategy and implementation for the remediation or closure of coal ash basins. In 2015, Duke Energy began activities at certain sites within North Carolina specified as high risk by the Coal Ash Act with coal ash moving off-site for use in structural fill or to lined landfills.

For additional information on the ash basins, see Notes 5 and 9 to the Consolidated Financial Statements, "Commitments and Contingencies" and "Asset Retirement Obligations," respectively.

Nuclear Matters

Regulated Utilities owns, wholly or partially, 11 nuclear reactors located at six stations. Nuclear insurance includes: nuclear liability coverage; property, decontamination and premature decommissioning coverage; and replacement power expense coverage. Joint owners reimburse Regulated Utilities for certain expenses associated with nuclear insurance in accordance with joint owner agreements. The Price-Anderson Act requires plant owners to provide for public nuclear liability claims resulting from nuclear incidents to the maximum total financial protection liability, which currently is $13.5 billion. For additional information on nuclear insurance see Note 5 to the Consolidated Financial Statements, “Commitments and Contingencies.”

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Regulated Utilities has a significant future financial commitment to dispose of spent nuclear fuel and decommission and decontaminate each plant safely. The NCUC, PSCSC and FPSC require Regulated Utilities to update their cost estimates for decommissioning their nuclear plants every five years.

The following table summarizes the fair value of nuclear decommissioning trust fund (NDTF) balances and cost study results for Duke Energy Carolinas, Duke Energy Progress and Duke Energy Florida.

(in millions)	NDTF[a] December 31, 2015	December 31, 2014	Decommissioning Costs[(a)(b)]	Year of Cost Study
Duke Energy	$5,825	$5,546	$8,130	2013 and 2014
Duke Energy Carolinas	3,050	3,042	3,420	2013
Duke Energy Progress	2,035	1,701	3,550	2014
Duke Energy Florida[c]	740	803	1,160	2013

(a) Amounts for Progress Energy equal the sum of Duke Energy Progress and Duke Energy Florida.

(b) Amounts include 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) Duke Energy Florida received reimbursements from the NDTF for costs related to ongoing decommissioning activity of the Crystal River Unit 3 Nuclear Plant during 2015.

The NCUC, PSCSC. FPSC and FERC have allowed Regulated Utilities' to recover estimated decommissioning costs through retail and wholesale rates over the expected remaining service periods of their nuclear stations. Regulated Utilities believes the decommissioning costs being recovered through rates, when coupled with the existing fund balance and expected fund earnings, will be sufficient to provide for the cost of future decommissioning. For additional information see Note 9 to the Consolidated Financial Statements, "Asset Retirement Obligations."

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

Under federal law, the U.S. Department of Energy (DOE) is responsible for the selection and construction of a facility for the permanent disposal of spent nuclear fuel and high-level radioactive waste. Delays have occurred in the DOE's proposed permanent repository to be located at Yucca Mountain, Nevada. At this time, DOE's focus is on developing consolidated storage for commercial spent nuclear fuel at one or more central sites rather than at a permanent repository.

Until the DOE begins to accept the spent nuclear fuel, Duke Energy Carolinas, Duke Energy Progress and Duke Energy Florida will continue to safely manage their spent nuclear fuel. Under current regulatory guidelines, Harris Nuclear Plant has sufficient storage capacity in its spent fuel pools through the expiration of its renewed operating license. Crystal River Unit 3 was retired in 2013, and placed in SAFSTOR prior to final decommissioning. The spent fuel is currently stored in the spent fuel pool and an independent spent fuel storage installation will be installed to accommodate storage of all the spent nuclear fuel until the DOE accepts the spent nuclear fuel. With certain modifications and approvals by the U.S. Nuclear Regulatory Commission (NRC) to expand the on-site dry cask storage facilities, spent nuclear fuel dry storage facilities will be sufficient to provide storage space of spent fuel through the expiration of the operating licenses, including any license renewals, for the Brunswick Nuclear Plant, Catawba Nuclear Station, McGuire Nuclear Station, Oconee Nuclear Station and Robinson Nuclear Plant.

The nuclear power industry faces uncertainties with respect to the cost and long-term availability of disposal sites for spent nuclear fuel and other radioactive waste, compliance with changing regulatory requirements, capital outlays for modifications and new plant construction, the technological and financial aspects of decommissioning plants at the end of their licensed lives, and requirements relating to nuclear insurance.

Regulated Utilities is subject to the jurisdiction of the NRC for the design, construction and operation of its nuclear generating facilities. The following table includes the current year of expiration of nuclear operating licenses for nuclear stations in operation. Nuclear operating licenses are potentially subject to extension.

Unit	Year of Expiration
Duke Energy Carolinas	
Catawba Unit 1 & 2	2043
McGuire Unit 1	2041
McGuire Unit 2	2043
Oconee Unit 1 & 2	2033
Oconee Unit 3	2034
Duke Energy Progress	
Brunswick Unit 1	2036
Brunswick Unit 2	2034
Harris	2046
Robinson	2030

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Duke Energy Florida has requested the NRC to terminate the Crystal River Unit 3 operating license as Crystal River Unit 3 permanently ceased operation in February 2013. For additional information on decommissioning activity and transition to SAFSTOR, see Note 4 "Regulatory Matters."

The NRC issues orders with regard to security at nuclear plants in response to new or emerging threats. The most recent orders include additional restrictions on nuclear plant access, increased security measures at nuclear facilities and closer coordination with intelligence, military, law enforcement and emergency response functions at the federal, state and local levels. As the NRC, other governmental entities and the industry continue to consider security issues, it is possible that more extensive security plans could be required.

Regulation

State

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

Each of the state utility commissions allow recovery of certain costs through various cost-recovery clauses to the extent the respective commission determines in periodic hearings that such costs, including any past over or under-recovered costs, are prudent. The clauses are in addition to approved base rates.

Fuel, fuel-related costs and certain purchased power costs are eligible for recovery by Regulated Utilities. Regulated Utilities uses coal, hydroelectric, natural gas, oil and nuclear fuel to generate electricity, thereby maintaining a diverse fuel mix that helps mitigate the impact of cost increases in any one fuel. Due to the associated regulatory treatment and the method allowed for recovery, changes in fuel costs from year to year have no material impact on operating results of Regulated Utilities, unless a commission finds a portion of such costs to have been imprudent. However, delays between the expenditure for fuel costs and recovery from customers can adversely impact the timing of cash flows of Regulated Utilities.

The following table summarizes base rate cases approved and effective in the past three years.

	Annual Increase (in millions)	Return on Equity	Equity Component of Capital Structure	Effective Date	Other
Duke Energy Carolinas 2013 North Carolina Rate Case[a]	$234	10.2 %	53 %	September 2013	(b)
Duke Energy Carolinas 2013 South Carolina Rate Case[a]	118	10.2 %	53 %	September 2013	(c)
Duke Energy Progress 2012 North Carolina Rate Case[a]	178	10.2 %	53 %	June 2013	(d)
Duke Energy Ohio 2012 Electric Rate Case	49	9.84 %	53 %	May 2013	
Duke Energy Ohio 2012 Natural Gas Rate Case	—	9.84 %	53 %	December 2013	(e)
Duke Energy Florida 2013 FPSC Settlement	—	10.5 %	49 %	October 2013	(f)(h)
Duke Energy Florida 2012 FPSC Settlement	150	10.5 %	49 %	January 2013	(g)(h)

(a) Rates increase over a two or three year period as approved by the NCUC and PSCSC. Annual increase amounts represent the total increase once effective.

(b) Terms of this rate case include (i) recognition of nuclear outage expenses over the refueling cycle rather than when the outage occurs, (ii) a $10 million shareholder contribution to agencies providing 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.

(c) Terms of this rate case include (i) recognition of nuclear outage expenses over the refueling cycle rather than when the outage occurs, (ii) an approximate $4 million shareholder contribution to agencies providing 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.

(d) Terms of this rate case include (i) recognition of nuclear outage expenses over the refueling cycle rather than when the outage occurs, (ii) a $20 million shareholder contribution to agencies providing 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.

(e) Although the PUCO approved no increase in base rates, more than half of the revenue request was approved to be recovered in various riders, including recovery of costs related to former manufactured gas plants (MGP). Recovery of $56 million of MGP costs via a rider was approved in November 2013. The rider became effective in March 2014, was suspended in June 2014 and reinstated in January 2015. For additional information on MGP recovery see Note 4 to the Consolidated Financial Statements, “Regulatory Matters.”

(f) Terms of this settlement include (i) no additional base rate increases until 2019, (ii) partial recovery of Crystal River Unit 3, which began in 2014, and (iii) full recovery of Crystal River Unit 3, not to exceed $1,466 million, plus the cost to build a dry cask storage facility, beginning no later than 2017. See Note 4, "Regulatory Matters," for information regarding Duke Energy Florida's nuclear asset securitizable balance related to Crystal River Unit 3.

(g) Terms of this settlement include the removal of Crystal River Unit 3 assets from rate base.

(h) Capital structure includes deferred income tax, customer deposits and investment tax credits.

For more information on rate matters and other regulatory proceedings, see Note 4 to the Consolidated Financial Statements, “Regulatory Matters.”

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Federal

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

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

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

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

INTERNATIONAL ENERGY

International Energy principally operates and manages power generation facilities and engages in sales and marketing of electric power, natural gas, and natural gas liquids outside the U.S. 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 methanol and methyl tertiary butyl ether (MTBE) located in Saudi Arabia. International Energy's economic ownership interest will decrease to 17.5 percent upon successful startup of NMC's polyacetal production facility, which is expected to occur in January 2017. International Energy will retain 25 percent of the board representation and voting rights of NMC. The investment in NMC is accounted for under the equity method of accounting.

On February 18, 2016, Duke Energy announced it had initiated a process to divest the International Energy business segment, excluding the equity method investment in NMC. The process remains in a preliminary stage and there have been no binding or non-binding offers requested or submitted. Duke Energy can provide no assurance that this process will result in a transaction and there is no specific timeline for execution of a potential transaction.

In December 2014, Duke Energy declared a taxable dividend of historical foreign earnings in the form of notes payable that resulted in the repatriation of approximately $2.7 billion in cash held and expected to be generated by International Energy over a period of up to eight years. For additional information see Note 22 to the Consolidated Financial Statements, "Income Taxes."

Customers, Competition and Regulation

International Energy's customers include retail distributors, electric utilities, independent power producers, marketers, and industrial and commercial companies.

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

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

served by International Energy.

International Energy’s operations are subject to both country-specific and international laws and regulations. See “Environmental Matters” in this section.

COMMERCIAL PORTFOLIO

Commercial Portfolio primarily acquires, builds, develops, and operates wind and solar renewable generation and energy transmission projects throughout the continental U.S. The portfolio includes nonregulated renewable energy, electric transmission, natural gas infrastructure and energy storage businesses. The segment was renamed in 2015 as a result of the sale of the nonregulated Midwest generation business, as discussed in Note 2 of the Consolidated Financial Statements, "Acquisitions and Dispositions."

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Commercial Portfolio's renewable energy includes utility-scale wind and solar generation assets which total more than 2,400 MW across 11 states from more than 22 wind farms and 38 commercial solar farms. Revenues are primarily generated by selling the power produced from renewable generation through long-term contracts to utilities, electric cooperatives, municipalities, and commercial and industrial customers. In most instances, these customers have obligations under state-mandated renewable energy portfolio standards or similar state or local renewable energy goals. Energy and renewable energy credits generated by wind and solar projects are generally sold at contractual prices. In addition, as wind and solar projects are placed in service, Commercial Portfolio recognizes either investment tax credits (ITC) when the renewable project achieves commercial availability or production tax credits (PTC) as power is generated by the project over 10 years. Renewable ITC are recognized over the useful life of the asset with the benefit of the tax basis adjustment due to the ITC recognized in income in the year of commercial availability.
Duke Energy, through its Commercial Portfolio segment, is a 40 percent equity member of Atlantic Coast Pipeline, LLC, (ACP) that plans to build and own the proposed Atlantic Coast Pipeline (the pipeline), a 564-mile interstate natural gas pipeline. The pipeline is intended to transport diverse gas supplies into southeastern markets. Duke Energy Carolinas and Duke Energy Progress, among others, will be customers of the pipeline. The estimated in-service date of the pipeline is late 2018. For additional information on the ACP equity investment and further details on the proposed pipeline, see Note 4 to the Consolidated Financial Statements, “Regulatory Matters."
Commercial Portfolio also has a 7.5 percent equity ownership interest in the proposed Sabal Trail natural gas pipeline. The Sabal Trail pipeline is planned to begin service in 2017 and traverse Alabama, Georgia and Florida to meet rapidly growing demand for natural gas in those states. For additional information on the Sabal Trail equity investment and further details on the proposed pipeline, see Note 4 to the Consolidated Financial Statements, “Regulatory Matters."
Commercial Portfolio has executed investments to expand and grow the business through the addition of distributed solar projects, energy storage systems and energy management solutions specifically tailored to commercial businesses.
For additional information on Commercial Portfolio’s generation facilities, see Item 2, “Properties.”
Other Matters
Commercial Portfolio is subject to regulation at the federal level, primarily from the FERC. Regulations of the FERC govern access to regulated market information by nonregulated entities, services provided between regulated and nonregulated utilities, pipeline certification.
For more information on rate matters, see Note 4 to the Consolidated Financial Statements, “Regulatory Matters – Rate Related Information.”
Market Environment and Competition
The market price of commodities and services, along with the quality and reliability of services provided, drive competition in the wholesale energy business. Commercial Portfolio’s main competitors include other nonregulated generators and wholesale power providers.
Sources of Electricity
Commercial Portfolio relies on wind and solar resources for its generation of electric energy.
OTHER
The remainder of Duke Energy’s operations is presented as Other. While it is not an operating segment, Other primarily includes unallocated corporate interest expense, certain unallocated corporate costs, Bison Insurance Company Limited (Bison), Duke Energy’s wholly owned, captive insurance subsidiary, contributions to the Duke Energy Foundation, and other minor and immaterial investments in businesses the Company retained from previous divestitures that are no longer part of its current operating segment or is in various stages of exiting or winding down. Bison’s principal activities as a captive insurance entity include the indemnification of various business risks and losses, such as property, workers’ compensation and general liability of Duke Energy subsidiaries and affiliates.
Regulation
Certain entities within Other are subject to the jurisdiction of state and local agencies.
Geographic Regions

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

Employees

On December 31, 2015, Duke Energy had a total of 29,188 employees on its payroll. The total includes 5,371 employees who are represented by labor unions under various collective bargaining agreements that generally cover wages, benefits, working practices, and other terms and conditions of employment.

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Executive Officers of the Registrants

The following table sets forth the individuals who currently serve as executive officers. Executive officers serve until their successors are duly elected or appointed.

Name	Age[(a)]	Current and Recent Positions Held
Lynn J. Good	56	Chairman, President and Chief Executive Officer. Ms. Good was elected as Chairman of the Board, effective January 1, 2016, and assumed her position as President and Chief Executive Officer in July 2013. Prior to that, she served as Executive Vice President and Chief Financial Officer since 2009.
Steven K. Young	57	Executive Vice President and Chief Financial Officer. Mr. Young assumed his current position in August 2013. Prior to that, he had served as Senior Vice President, Chief Accounting Officer and Controller since April 2006.
Douglas F Esamann	58	Executive Vice President and President, Midwest and Florida Regions. Mr. Esamann assumed his current position in June 2015. Prior to that he was President, Duke Energy Indiana since November 2010.
Lloyd M. Yates	55	Executive Vice President, Market Solutions and President, Carolinas Region. Mr. Yates assumed his current position in August 2014. He held the position of Executive Vice President, Regulated Utilities from December 2012 to August 2014, and prior to that, had served as Executive Vice President, Customer Operations since July 2012, upon the merger of Duke Energy and Progress Energy. Prior to the merger, Mr. Yates was President and Chief Executive Officer of Progress Energy Carolinas, Inc., which is now known as Duke Energy Progress, LLC. since July 2007.
Dhiaa M. Jamil	59	Executive Vice President and President, Regulated Generation and Transmission. Mr. Jamil assumed his current position in June 2015. Prior to that he had served as Executive Vice President and President, Regulated Generation since August 2014. He served as Executive Vice President and President of Duke Energy Nuclear from March 2013 and as Chief Nuclear Officer from February 2008 to August 2014. He also served as Chief Generation Officer for Duke Energy from July 2009 to June 2012.
Julia S. Janson	51	Executive Vice President, Chief Legal Officer and Corporate Secretary. Ms. Janson assumed her current position in December 2012 and, in February 2016, assumed the interim responsibilities for the External Affairs and Strategic Policy organization. Prior to that, she had held the position of President of Duke Energy Ohio and Duke Energy Kentucky since 2008.
A.R. Mullinax	61	Executive Vice President, Strategic Services. Mr. Mullinax assumed his current position in August 2014. Prior to that, he had held the position of Chief Information Officer since 2007.
Melissa H. Anderson	51	Senior Vice President and Chief Human Resources Officer. Ms. Anderson assumed her position in January 2015. Prior to joining Duke Energy, she served as Senior Vice President of Human Resources at Domtar Inc. since 2010.
Brian D. Savoy	40	Senior Vice President, Chief Accounting Officer and Controller. Mr. Savoy assumed his current position in September 2013. Prior to that, he had held the position of Director, Forecasting and Analysis since 2009.

(a) The ages of the officers provided are as of December 31, 2015.

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

Environmental Matters

The Duke Energy Registrants are subject to federal, state and local laws and regulations with regard to air and water quality, hazardous and solid waste disposal and other environmental matters. Duke Energy is also subject to international laws and regulations with regard to air and water quality, hazardous and solid waste disposal and other

environmental matters. Environmental laws and regulations affecting the Duke Energy Registrants include, but are not limited to:

- The Clean Air Act (CAA), as well as state laws and regulations impacting air emissions, including State Implementation Plans related to existing and new national ambient air quality standards for ozone and particulate matter. Owners and/or operators of air emission sources are responsible for obtaining permits and for annual compliance and reporting.
- The Clean Water Act (CWA), which requires permits for facilities that discharge wastewaters into the environment.
- The Comprehensive Environmental Response, Compensation and Liability Act, which can require any individual or entity that currently owns or in the past may have owned or operated a disposal site, as well as transporters or generators of hazardous substances sent to a disposal site, to share in remediation costs.
- The Solid Waste Disposal Act, as amended by the RCRA, which requires certain solid wastes, including hazardous wastes, to be managed pursuant to a comprehensive regulatory regime.
- The National Environmental Policy Act, which requires federal agencies to consider potential environmental impacts in their decisions, including siting approvals.
- The CPP, which regulates CO_2 emissions from existing fossil fuel-fired electric generating units by requiring states to develop and submit final compliance plans, or initial plans with an extension request, to the EPA by September 6, 2016, or no later than September 6, 2018, with an approved extension. On February 9, 2016, the U.S. Supreme Court granted a stay against the CPP halting enforcement until legal challenges are resolved.

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- Coal Ash Act, as amended, which establishes regulations regarding the use and closure of existing ash basins, the disposal of ash at active coal plants and the handling of surface water impacts from ash basins in North Carolina.
- CCR, which classifies CCR as nonhazardous waste under RCRA and establishes requirements regarding landfill design and management and monitoring of CCR.

See "Other Matters" section of Management's Discussion and Analysis of Financial Condition and Results of Operations for a discussion about potential Global Climate Change legislation and the potential impacts such legislation could have on the Duke Energy Registrants' operations. Additionally, other recently passed and potential future environmental laws and regulations could have a significant impact on the Duke Energy Registrants' results of operations, cash flows or financial position. However, if and when such laws and regulations become effective, the Duke Energy Registrants will seek appropriate regulatory recovery of costs to comply within its regulated operations. For more information on environmental matters involving the Duke Energy Registrants, including possible liability and capital costs, see Note 5 to the Consolidated Financial Statements, "Commitments and Contingencies – Environmental." Except to the extent discussed in Note 5 to the Consolidated Financial Statements, "Commitments and Contingencies," compliance with current international, federal, state and local provisions regulating the discharge of materials into the environment, or otherwise protecting the environment, is incorporated into the routine cost structure of our various business segments and is not expected to have a material adverse effect on the competitive position, consolidated results of operations, cash flows or financial position of the Duke Energy Registrants.

DUKE ENERGY CAROLINAS

Duke Energy Carolinas is a regulated public utility primarily engaged in the generation, transmission, distribution, and sale of electricity in portions of North Carolina and South Carolina. Duke Energy Carolinas' service area covers approximately 24,000 square miles and supplies electric service to 2.5 million residential, commercial and industrial customers. For information about Duke Energy Carolinas' generating facilities, see Item 2, "Properties." Duke Energy Carolinas is subject to the regulatory provisions of the NCUC, PSCSC, NRC and FERC.

Substantially all of Duke Energy Carolinas' operations are regulated and qualify for regulatory accounting. Duke Energy Carolinas operates one reportable business segment, Regulated Utilities. For additional information regarding this business segment, including financial information, see Note 3 to the Consolidated Financial Statements, "Business Segments."

PROGRESS ENERGY

Progress Energy is a public utility holding company primarily engaged in the regulated electric utility business and is subject to regulation by the FERC. Progress Energy conducts operations through its wholly owned subsidiaries, Duke Energy Progress and Duke Energy Florida. When discussing Progress Energy's financial information, it necessarily includes the results of Duke Energy Progress and Duke Energy Florida.

Substantially all of Progress Energy's operations are regulated and qualify for regulatory accounting. Progress Energy operates one reportable business segment, Regulated Utilities. For additional information regarding this business segment, including financial information, see Note 3 to the Consolidated Financial Statements, "Business Segments."

DUKE ENERGY PROGRESS

Duke Energy Progress is a regulated public utility primarily engaged in the generation, transmission, distribution and sale of electricity in portions of North Carolina and South Carolina. Duke Energy Progress' service area covers approximately 32,000 square miles, and supplies electric service to approximately 1.5 million residential, commercial and industrial customers. For information about Duke Energy Progress' generating facilities, see Item 2, "Properties." Duke Energy Progress is subject to the regulatory provisions of the NCUC, PSCSC, NRC and FERC.

Substantially all of Duke Energy Progress' operations are regulated and qualify for regulatory accounting. Duke Energy Progress operates one reportable business segment, Regulated Utilities. For additional information regarding this business segment, including financial information, see Note 3 to the Consolidated Financial Statements, "Business Segments."

DUKE ENERGY FLORIDA

Duke Energy Florida is a regulated public utility primarily engaged in the generation, transmission, distribution, and sale of electricity in portions of Florida. Duke Energy Florida's service area covers approximately 13,000 square miles and supplies electric service to approximately 1.7 million residential, commercial and industrial customers. For information about Duke Energy Florida's generating facilities, see Item 2, "Properties." Duke Energy Florida is subject to the regulatory provisions of the FPSC, NRC and FERC.

Substantially all of Duke Energy Florida's operations are regulated and qualify for regulatory accounting. Duke Energy Florida operates one reportable business segment, Regulated Utilities. For additional information regarding this business segment, including financial information, see Note 3 to the Consolidated Financial Statements, "Business Segments."

DUKE ENERGY OHIO

Duke Energy Ohio is a regulated public utility primarily engaged in the transmission and distribution of electricity in portions of Ohio and Kentucky, in the generation and sale of electricity in portions of Kentucky, and the transportation and sale of natural gas in portions of Ohio and Kentucky. Duke Energy Ohio also conducts competitive auctions for retail electricity supply in Ohio whereby recovery of the energy price is from retail customers. Operations in Kentucky are conducted through its wholly owned subsidiary, Duke Energy Kentucky, Inc. (Duke Energy Kentucky). References herein to Duke Energy Ohio include Duke Energy Ohio and its subsidiaries, unless otherwise noted. Duke Energy Ohio is subject to the regulatory provisions of the PUCO, KPSC and FERC.

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Duke Energy Ohio’s service area covers approximately 3,000 square miles and supplies electric service to approximately 840,000 residential, commercial and industrial customers and provides transmission and distribution services for natural gas to approximately 525,000 customers. For information about Duke Energy Ohio's generating facilities, see Item 2, “Properties.”

On April 2, 2015, Duke Energy completed the sale of its nonregulated Midwest generation business, which sold power into wholesale energy markets, to a subsidiary of Dynegy. For further information about the sale of the Midwest Generation business, refer to Note 2 to the Consolidated Financial Statements, "Acquisitions and Dispositions."

Substantially all of Duke Energy Ohio's operations that remain after the sale qualify for regulatory accounting.

Business Segments

Duke Energy Ohio had two reportable operating segments, Regulated Utilities and Commercial Portfolio, prior to the sale of the nonregulated Midwest generation business. As a result of the sale Commercial Portfolio no longer qualifies as a Duke Energy Ohio reportable operating segment. Therefore, for periods subsequent to the sale, beginning in the second quarter of 2015, all of the remaining assets and related results of operations previously presented in Commercial Portfolio are presented in Regulated Utilities and Other. For additional information on this business segment, including financial information, see Note 3 to the Consolidated Financial Statements, “Business Segments.”

DUKE ENERGY INDIANA

Duke Energy Indiana is a regulated public utility primarily engaged in the generation, transmission, distribution and sale of electricity in portions of Indiana. Duke Energy Indiana’s service area covers 23,000 square miles and supplies electric service to 810,000 residential, commercial and industrial customers. See Item 2, “Properties” for further discussion of Duke Energy Indiana’s generating facilities, transmission and distribution. Duke Energy Indiana is subject to the regulatory provisions of the IURC and FERC.

Substantially all of Duke Energy Indiana’s operations are regulated and qualify for regulatory accounting. Duke Energy Indiana operates one reportable business segment, Regulated Utilities. For additional information regarding this business segment, including financial information, see Note 3 to the Consolidated Financial Statements, “Business Segments.”

ITEM 1A. RISK FACTORS

In addition to other disclosures within this Form 10-K, including Management’s Discussion and Analysis – Matters Impacting Future Results for each registrant in Item 7, and other documents filed with the SEC from time to time, the following factors should be considered in evaluating Duke Energy and its subsidiaries. Such factors could affect actual results of operations and cause results to differ substantially from those currently expected or sought. Unless otherwise indicated, risk factors discussed below generally relate to risks associated with all of the Duke Energy Registrants. Risks identified at the Subsidiary Registrant level are generally applicable to Duke Energy.

Duke Energy may be unable to obtain the approvals required to complete its acquisition of Piedmont or, in order to do so, the combined company may be required to comply with material restrictions or conditions.

On October 24, 2015, Duke Energy entered into a Merger Agreement with Piedmont. For the acquisition to be completed, various approvals must be obtained from state utility and regulatory authorities. These governmental authorities may impose conditions on the completion, or require changes to the terms, of the transaction, including restrictions or conditions on the business, operations, or financial performance of the combined company following completion of the transaction. These conditions or changes could have the effect of delaying completion of the acquisition or imposing additional costs on or limiting the revenues of the combined company following the transaction, which could have a material adverse effect on the financial position, results of operations or cash flows of the combined company and/or cause either Duke Energy or Piedmont to abandon the transaction.

If completed, Duke Energy’s acquisition of Piedmont may not achieve its intended results.

Duke Energy and Piedmont entered into the merger agreement with the expectation that the transaction would result in various benefits, including, among other things, being accretive to earnings and foundational to establishing a broader

gas infrastructure business within Duke Energy. Achieving the anticipated benefits of the transaction is subject to a number of uncertainties, including whether the business of Piedmont is integrated in an efficient and effective manner. Failure to achieve these anticipated benefits could result in increased costs; decreases in the amount of expected revenues generated by the combined company and diversion of management's time and energy, all of which could have an adverse effect on the combined company's financial position, results of operations or cash flows.

Failure to complete the transaction with Piedmont could negatively impact Duke Energy's stock price and Duke Energy's future business and financial results.

If Duke Energy's acquisition of Piedmont is not completed, Duke Energy's ongoing business and financial results may be adversely affected and Duke Energy will be subject to a number of risks, including the following:

- Duke Energy may be required, under specified circumstances set forth in the Merger Agreement, to pay Piedmont a termination fee of $250 million;
- Duke Energy will be required to pay costs relating to the transaction, including legal, accounting, financial advisory, filing and printing costs, whether or not the transaction is completed; and
- execution of Duke Energy's acquisition of Piedmont (including integration planning) may require substantial commitments of time and resources by our management, which could otherwise have been devoted to other opportunities that may have been beneficial to Duke Energy.

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Duke Energy could also be subject to litigation related to any failure to complete the transaction with Piedmont. If the transaction is not completed, these risks may materialize and may adversely affect Duke Energy's financial position, results of operations or cash flows.

Regulatory, Legislative and Legal Risks

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

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

If legislative and regulatory structures were to evolve in such a way that the Duke Energy Registrants' exclusive rights to serve their regulated customers were eroded, their future earnings could be negatively impacted. In addition, federal and state regulations, laws and other efforts designed to promote and expand the use of energy efficiency measures and distributed generation technologies, such as rooftop solar and battery storage, in Duke Energy service territories could result in customers leaving the electric distribution system and an increased customer net energy metering, which allows customers with rooftop solar to receive bill credits for surplus power at the full retail amount. Over time, customer adoption of these technologies and increased energy efficiency could result in excess generation resources as well as stranded costs if the Company is not able to fully recover the costs and investment in generation.

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

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

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

The Duke Energy Registrants are subject to regulation by FERC, NRC, EPA and various other federal agencies as well as the North American Electric Reliability Corporation. Regulation affects almost every aspect of the Duke Energy Registrants' businesses, including, among other things, their ability to: take fundamental business management actions; determine the terms and rates of transmission and distribution services; make acquisitions; issue equity or debt securities; engage in transactions with other subsidiaries and affiliates; and pay dividends upstream to the Duke Energy Registrants. Changes to federal regulations are continuous and ongoing. The Duke Energy Registrants cannot predict the future course of regulatory changes or the ultimate effect those changes will have on their businesses. However, changes in regulation can cause delays in or affect business planning and transactions and can substantially increase the Duke Energy Registrants' costs.

The Dan River ash basin release could impact the reputation and financial condition of the Duke Energy Registrants. There is uncertainty regarding the extent and timing of future additional costs and liabilities related to the Dan River ash basin release, including the amount and extent of any pending or future civil penalties and resulting litigation. These uncertainties are likely to continue for an extended period and may further increase costs. Thus, the Dan River

ash basin release could have an adverse impact on the reputation of the Duke Energy Registrants and their financial position, results of operations and cash flows.

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

The Duke Energy Registrants are subject to numerous environmental laws and regulations affecting many aspects of their present and future operations, including CCRs, air emissions, water quality, wastewater discharges, solid waste and hazardous waste. These laws and regulations can result in increased capital, operating and other costs. These laws and regulations generally require the Duke Energy Registrants to obtain and comply with a wide variety of environmental licenses, permits, inspections and other approvals. Compliance with environmental laws and regulations can require significant expenditures, including expenditures for cleanup costs and damages arising from contaminated properties. Failure to comply with environmental regulations may result in the imposition of fines, penalties and injunctive measures affecting operating assets. The steps the Duke Energy Registrants could be required to take to ensure their facilities are in compliance could be prohibitively expensive. As a result, the Duke Energy Registrants may be required to shut down or alter the operation of their facilities, which may cause the Duke Energy Registrants to incur losses. Further, the Duke Energy Registrants may not be successful in recovering capital and operating costs incurred to comply with new environmental regulations through existing regulatory rate structures and their contracts with customers. Also, the Duke Energy Registrants may not be able to obtain or maintain from time to time all required environmental regulatory approvals for their operating assets or development projects. Delays in obtaining any required environmental regulatory approvals, failure to obtain and comply with them or changes in environmental laws or regulations to more stringent compliance levels could result in additional costs of operation for existing facilities or development of new facilities being prevented, delayed or subject to additional costs. Although it is not expected that the costs to comply with current environmental regulations will have a material adverse effect on the Duke Energy Registrants' financial position, results of operations or cash flows due to regulatory cost recovery, the Duke Energy Registrants are at risk that the costs of complying with environmental regulations in the future will have such an effect.

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The EPA has recently enacted or proposed new federal regulations governing the management of cooling water intake structures, wastewater and CO_2 emissions. These regulations may require the Duke Energy Registrants to make additional capital expenditures and increase operating and maintenance costs.

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

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

Operational Risks

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

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

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

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

- weather conditions, including abnormally mild winter or summer weather that cause lower energy usage for heating or cooling purposes, respectively, and periods of low rainfall that decrease the ability to operate facilities in an economical manner;
- supply of and demand for energy commodities;
- transmission or transportation constraints or inefficiencies that impact nonregulated energy operations;
- availability of competitively priced alternative energy sources, which are preferred by some customers over electricity produced from coal, nuclear or gas plants, and customer usage of energy efficient equipment that reduces energy demand;
- natural gas, crude oil and refined products production levels and prices;
- ability to procure satisfactory levels of inventory, such as coal, gas and uranium; and
- capacity and transmission service into, or out of, the Duke Energy Registrants' markets.

Natural disasters or operational accidents may adversely affect the Duke Energy Registrants' operating results.

Natural disasters (such as electromagnetic events or the 2011 earthquake and tsunami in Japan) or other operational accidents within the company or industry (such as the San Bruno, California natural gas transmission pipeline failure)

could have direct significant impacts on the Duke Energy Registrants as well as on key contractors and suppliers. Such events could indirectly impact the Duke Energy Registrants through changes to policies, laws and regulations whose compliance costs have a significant impact on the Duke Energy Registrants' financial position, results of operations and cash flows.

The reputation and financial condition of the Duke Energy Registrants could be negatively impacted due to their obligations to comply with federal and state regulations, laws, and other legal requirements that govern the operations, assessments, storage, closure, remediation, disposal, and monitoring relating to coal combustion residuals (CCR), the high costs and new rate impacts associated with implementing these new CCR-related requirements, and the strategies and methods necessary to implement these requirements in compliance with these legal obligations.

As a result of electricity produced for decades at coal-fired power plants, the Duke Energy Registrants manage large amounts of CCR that are primarily stored in dry storage within landfills or combined with water in other surface impoundments, all in compliance with applicable regulatory requirements. However, the potential exists for another CCR-related incident, such as the one that occurred during the 2014 Dan River Steam Station basin release, that could raise environmental or general public health concerns. Such a CCR-related incident could have a material adverse impact on the reputation and financial condition of the Duke Energy Registrants.

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During 2015, EPA regulations were enacted related to the management of CCR from power plants. These regulations classify CCR as nonhazardous waste under the RCRA, and apply to electric generating sites with new and existing landfills, new and existing surface impoundments, structural fills and CCR piles, and 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 for the disposal and management of CCR. In addition to the federal regulations, CCR landfills and surface impoundments will continue to be independently regulated by existing state laws, regulations, and permits, as well as additional legal requirements that may be imposed in the future. These federal and state laws, regulations, and other legal requirements may require or result in additional expenditures, increased operating and maintenance costs, and/or result in closure of certain power generating facilities, which could affect the financial position, results of operations and cash flows of the Duke Energy Registrants. The Duke Energy Registrants intend to seek full cost recovery for expenditures through the normal ratemaking process with state and federal utility commissions, who permit recovery in rates of necessary and prudently incurred costs associated with the Duke Energy Registrants' regulated operations, and through other wholesale contracts with terms that contemplate recovery of such costs, although there is no guarantee of full cost recovery. In addition, the timing for recovery of such costs could have a material adverse impact on Duke Energy's cash flows.

The Duke Energy Registrants have recognized significant asset retirement obligations related to these CCR-related requirements. In 2015, closure activities began at the four sites specified as high priority by the North Carolina Coal Ash Management Act (Coal Ash Act) and at the W.S. Lee Steam Station site in South Carolina in connection with other legal requirements. Excavation at these sites involves movement of large amounts of CCR materials to offsite locations for use as structural fill and to offsite or onsite lined landfills. At other sites, preliminary planning and closure methods have been studied and factored into the estimated retirement and management costs. Coal Ash Act requires CCR surface impoundments in North Carolina to be closed, with the closure method based on a risk ranking classification determined by state regulators and the North Carolina Coal Ash Commission. Other than the high priority sites specifically delineated by Coal Ash Act, the North Carolina Department of Environmental Quality (NCDEQ) has issued either preliminary draft risk rankings or has yet to designate specific risk classifications. These proposed risk rankings remain subject to a public comment period, including public meetings, followed by a final risk ranking recommendation by the NCDEQ to the Coal Ash Commission, for the Coal Ash Commission's final approval. As the closure and CCR management work progresses, final risk ranking classifications of surface impoundments in North Carolina are delineated, and final closure plans are developed and approved at each site, the scope and complexity of work and the amount of CCR material could be greater than estimates and could, therefore, materially increase compliance expenditures and rate impacts.

The Duke Energy Registrants' financial position, results of operations and cash flows may be negatively affected by a lack of growth or slower growth in the number of customers, or decline in customer demand or number of customers. Growth in customer accounts and growth of customer usage each directly influence demand for electricity and the need for additional power generation and delivery facilities. Customer growth and customer usage are affected by a number of factors outside the control of the Duke Energy Registrants, such as mandated energy efficiency measures, demand-side management goals, distributed generation resources and economic and demographic conditions, such as population changes, job and income growth, housing starts, new business formation and the overall level of economic activity.

Certain regulatory and legislative bodies have introduced or are considering requirements and/or incentives to reduce energy consumption by certain dates. Additionally, technological advances driven by federal laws mandating new levels of energy efficiency in end-use electric devices or other improvements in or applications of technology could lead to declines in per capita energy consumption.

Advances in distributed generation technologies that produce power, including fuel cells, micro-turbines, wind turbines and solar cells, may reduce the cost of alternative methods of producing power to a level competitive with central power station electric production utilized by the Duke Energy Registrants.

Some or all of these factors, could result in a lack of growth or decline in customer demand for electricity or number of customers, and may cause the failure of the Duke Energy Registrants to fully realize anticipated benefits from significant capital investments and expenditures which could have a material adverse effect on their financial position, results of operations and cash flows.

Furthermore, the Duke Energy Registrants currently have energy efficiency riders in place to recover the cost of energy efficiency programs in North Carolina, South Carolina, Florida, Ohio and Kentucky. Should the Duke Energy Registrants be required to invest in conservation measures that result in reduced sales from effective conservation, regulatory lag in adjusting rates for the impact of these measures could have a negative financial impact.

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

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

Sustained severe drought conditions could impact generation by hydroelectric plants, as well as fossil and nuclear plant operations, as these facilities use water for cooling purposes and for the operation of environmental compliance equipment. Furthermore, destruction caused by severe weather events, such as hurricanes, tornadoes, severe thunderstorms, snow and ice storms, can result in lost operating revenues due to outages; property damage, including downed transmission and distribution lines; and additional and unexpected expenses to mitigate storm damage. The cost of storm restoration efforts may not be fully recoverable through the regulatory process.

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

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

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

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

The Duke Energy Registrants are exposed to the effects of market fluctuations in the price of natural gas, coal, fuel oil, nuclear fuel, electricity and other energy-related commodities as a result of their ownership of energy-related assets. Fuel costs are recovered primarily through cost-recovery clauses, subject to the approval of state utility commissions.

Additionally, the Duke Energy Registrants are exposed to risk that counterparties will not be able to fulfill their obligations. Disruption in the delivery of fuel, including disruptions as a result of, among other things, transportation delays, weather, labor relations, force majeure events, or environmental regulations affecting any of these fuel suppliers, could limit the Duke Energy Registrants to operate their facilities. Should counterparties fail to perform, the Duke Energy Registrants might be forced to replace the underlying commitment at prevailing market prices possibly resulting in losses in addition to the amounts, if any, already paid to the counterparties.

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

Potential terrorist activities or military or other actions could adversely affect the Duke Energy Registrants' businesses.

The continued threat of terrorism and the impact of retaliatory military and other action by the U.S. and its allies may lead to increased political, economic and financial market instability and volatility in prices for natural gas and oil, which may have material adverse effects in ways the Duke Energy Registrants cannot predict at this time. In addition, future acts of terrorism and possible reprisals as a consequence of action by the U.S. and its allies could be directed against companies operating in the U.S. or their international affiliates. Information technology systems, transmission and distribution and generation facilities such as nuclear plants could be potential targets of terrorist activities or harmful activities by individuals or groups. The potential for terrorism has subjected the Duke Energy Registrants' operations to increased risks and could have a material adverse effect on their businesses. In particular, the Duke Energy Registrants may experience increased capital and operating costs to implement increased security for their information technology systems, transmission and distribution and generation facilities, including nuclear power plants under the NRC's design basis threat requirements. These increased costs could include additional physical plant security and security personnel or additional capability following a terrorist incident.

Cyberattacks and data security breaches could adversely affect the Duke Energy Registrants' businesses.

Information security risks have generally increased in recent years as a result of the proliferation of new technologies and the increased sophistication and frequency of cyberattacks and data security breaches. The utility industry requires the continued operation of sophisticated information technology systems and network infrastructure, which are part of an interconnected regional grid. Additionally, connectivity to the Internet continues to increase through smart grid and other initiatives. Because of the critical nature of the infrastructure, increased connectivity to the Internet and

technology systems' inherent vulnerability to disability or failures due to hacking, viruses, acts of war or terrorism or other types of data security breaches, the Duke Energy Registrants face a heightened risk of cyberattack. In the event of such an attack, the Duke Energy Registrants could (i) have business operations disrupted, property damaged, customer information stolen and other private information accessed (ii) experience substantial loss of revenues, repair and restoration costs, implementation costs for additional security measures to avert future cyberattacks and other financial loss, and (iii) be subject to increased regulation, litigation and reputational damage.

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

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

PART I

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

Duke Energy's operations and investments outside the U.S. expose it to risks related to fluctuations in currency rates. As each local currency's value changes relative to the U.S. dollar, the value in U.S. dollars of Duke Energy's assets and liabilities in such locality and the cash flows generated in such locality, expressed in U.S. dollars, also change. Duke Energy's primary foreign currency rate exposure is to the Brazilian real.

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

The costs of retiring Duke Energy Florida's Crystal River Unit 3 could prove to be more extensive than is currently identified.

Costs to retire and decommission the plant could exceed estimates and, if not recoverable through the regulatory process, could adversely affect Duke Energy's, Progress Energy's and Duke Energy Florida's financial condition, results of operations and cash flows.

Duke Energy Ohio's and Duke Energy Indiana's membership in an RTO presents risks that could have a material adverse effect on their results of operations, financial condition and cash flows.

The rules governing the various regional power markets may change, which could affect Duke Energy Ohio's and Duke Energy Indiana's costs and/or revenues. To the degree Duke Energy Ohio and Duke Energy Indiana incur significant additional fees and increased costs to participate in an RTO, their results of operations may be impacted. Duke Energy Ohio and Duke Energy Indiana may be allocated a portion of the cost of transmission facilities built by others due to changes in RTO transmission rate design. Duke Energy Ohio and Duke Energy Indiana may be required to expand their transmission system according to decisions made by an RTO rather than their own internal planning process. While RTO transmission rates were initially designed to be revenue neutral, various proposals and proceedings currently taking place by the FERC may cause transmission rates to change from time to time. In addition, RTOs have been developing rules associated with the allocation and methodology of assigning costs associated with improved transmission reliability, reduced transmission congestion and firm transmission rights that may have a financial impact on Duke Energy Ohio and Duke Energy Indiana.

As members of an RTO, Duke Energy Ohio and Duke Energy Indiana are subject to certain additional risks, including those associated with the allocation among RTO members, of losses caused by unreimbursed defaults of other participants in the RTO markets and those associated with complaint cases filed against an RTO that may seek refunds of revenues previously earned by RTO members.

Nuclear Generation Risks

Duke Energy Carolinas, Duke Energy Progress and Duke Energy Florida may incur substantial costs and liabilities due to their ownership and operation of nuclear generating facilities.

Ownership interest in and operation of nuclear stations by Duke Energy Carolinas, Duke Energy Progress and Duke Energy Florida subject them to various risks. These risks include, among other things: the potential harmful effects on the environment and human health resulting from the operation of nuclear facilities and the storage, handling and disposal of radioactive materials; limitations on the amounts and types of insurance commercially available to cover losses that might arise in connection with nuclear operations; and uncertainties with respect to the technological and financial aspects of decommissioning nuclear plants at the end of their licensed lives.

Ownership and operation of nuclear generation facilities requires compliance with licensing and safety-related requirements imposed by the NRC. In the event of non-compliance, the NRC may increase regulatory oversight, impose fines, and/or shut down a unit, depending upon its assessment of the severity of the situation. Revised security and safety requirements promulgated by the NRC, which could be prompted by, among other things, events within or outside of the control of Duke Energy Carolinas, Duke Energy Progress and Duke Energy Florida, such as a serious

nuclear incident at a facility owned by a third party, could necessitate substantial capital and other expenditures, as well as assessments to cover third-party losses. In addition, if a serious nuclear incident were to occur, it could have a material adverse effect on the results of operations and financial condition and reputation of the Duke Energy Registrants.

Liquidity, Capital Requirements and Common Stock Risks

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

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

PART I

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

Duke Energy maintains a revolving credit facility to provide backup for its commercial paper program and letters of credit to support variable rate demand tax-exempt bonds that may be put to the Duke Energy Registrant issuer at the option of the holder. The facility includes borrowing sublimits for the Duke Energy Registrants, each of whom is a party to the credit facility, and financial covenants that limit the amount of debt that can be outstanding as a percentage of the total capital for the specific entity. Failure to maintain these covenants at a particular entity could preclude Duke Energy from issuing commercial paper or the Duke Energy Registrants from issuing letters of credit or borrowing under the Master Credit Facility.

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

Each of the Duke Energy Registrants' senior long-term debt issuances is currently rated investment grade by various rating agencies. The Duke Energy Registrants cannot ensure their senior long-term debt will be rated investment grade in the future.

If the rating agencies were to rate the Duke Energy Registrants below investment grade, borrowing costs would increase, perhaps significantly. In addition, the potential pool of investors and funding sources would likely decrease. Further, if the short-term debt rating were to fall, access to the commercial paper market could be significantly limited.

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

Non-compliance with debt covenants or conditions could adversely affect the Duke Energy Registrants' ability to execute future borrowings.

The Duke Energy Registrants' debt and credit agreements contain various financial and other covenants. Failure to meet those covenants beyond applicable grace periods could result in accelerated due dates and/or termination of the agreements.

Market performance and other changes may decrease the value of the NDTF investments of Duke Energy Carolinas, Duke Energy Progress and Duke Energy Florida, which then could require significant additional funding.

Ownership and operation of nuclear generation facilities also requires the maintenance of funded trusts that are intended to pay for the decommissioning costs of the respective nuclear power plants. The performance of the capital markets affects the values of the assets held in trust to satisfy these future obligations. Duke Energy Carolinas, Duke Energy Progress and Duke Energy Florida have significant obligations in this area and hold significant assets in these trusts. These assets are subject to market fluctuations and will yield uncertain returns, which may fall below projected rates of return. Although a number of factors impact funding requirements, a decline in the market value of the assets may increase the funding requirements of the obligations for decommissioning nuclear plants. If Duke Energy Carolinas, Duke Energy Progress and Duke Energy Florida are unable to successfully manage their NDTF assets, their financial condition, results of operations and cash flows could be negatively affected.

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

PART I

ITEM 2. PROPERTIES

REGULATED UTILITIES

The following table provides information related to Regulated Utilities' electric generation stations as of December 31, 2015. The MW displayed in the table below are based on summer capacity.

Facility	Plant Type	Primary Fuel	Location	Total MW Capacity	Owned MW Capacity	Ownership Interest (%)
Duke Energy Carolinas						
Oconee	Nuclear	Uranium	SC	2,554	2,554	100
McGuire	Nuclear	Uranium	NC	2,296	2,296	100
Catawba[(a)]	Nuclear	Uranium	SC	2,290	441	19.25
Belews Creek	Fossil	Coal	NC	2,220	2,220	100
Marshall	Fossil	Coal	NC	2,078	2,078	100
J.E. Rogers	Fossil	Coal	NC	1,396	1,396	100
Lincoln Combustion Turbine (CT)	Fossil	Gas/Oil	NC	1,267	1,267	100
Allen	Fossil	Coal	NC	1,127	1,127	100
Rockingham CT	Fossil	Gas/Oil	NC	825	825	100
Buck CC	Fossil	Gas	NC	668	668	100
Dan River Combined Cycle (CC)	Fossil	Gas	NC	638	638	100
Mill Creek CT	Fossil	Gas/Oil	SC	596	596	100
W.S. Lee	Fossil	Gas	SC	170	170	100
W.S. Lee CT	Fossil	Gas/Oil	SC	82	82	100
Bad Creek	Hydro	Water	SC	1,360	1,360	100
Jocassee	Hydro	Water	SC	780	780	100
Cowans Ford	Hydro	Water	NC	325	325	100
Keowee	Hydro	Water	SC	152	152	100
Other small facilities (25 plants)	Hydro	Water	NC/SC	666	666	100
Distributed generation	Renewable	Solar	NC	4	4	100
Total Duke Energy Carolinas				21,494	19,645	

Facility	Plant Type	Primary Fuel	Location	Total MW Capacity	Owned MW Capacity	Ownership Interest (%)
Duke Energy Progress						
Brunswick	Nuclear	Uranium	NC	1,870	1,870	100
Harris	Nuclear	Uranium	NC	928	928	100
Robinson	Nuclear	Uranium	SC	741	741	100
Roxboro	Fossil	Coal	NC	2,439	2,439	100
Smith CC	Fossil	Gas/Oil	NC	1,088	1,088	100
H.F. Lee CC	Fossil	Gas/Oil	NC	910	910	100
Wayne County CT	Fossil	Gas/Oil	NC	863	863	100
Smith CT	Fossil	Gas/Oil	NC	780	780	100
Darlington CT	Fossil	Gas/Oil	SC	735	735	100
Mayo	Fossil	Coal	NC	727	727	100
L.V. Sutton CC	Fossil	Gas/Oil	NC	622	622	100
Asheville	Fossil	Coal	NC	376	376	100
Asheville CT	Fossil	Gas/Oil	NC	324	324	100

Weatherspoon CT	Fossil	Gas/Oil	NC	128	128	100
L.V. Sutton CT	Fossil	Gas/Oil	NC	61	61	100
Blewett CT	Fossil	Oil	NC	52	52	100
Walters	Hydro	Water	NC	112	112	100
Other small facilities (3 plants)	Hydro	Water	NC	115	115	100
Distributed generation	Renewable	Solar	NC	44	44	100
Total Duke Energy Progress				12,915	12,915	

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Facility	Plant Type	Primary Fuel	Location	Total MW Capacity	Owned MW Capacity	Ownership Interest (%)
Duke Energy Florida						
Crystal River	Fossil	Coal	FL	2,291	2,291	100
Hines CC	Fossil	Gas/Oil	FL	1,912	1,912	100
Bartow CC	Fossil	Gas/Oil	FL	1,105	1,105	100
Anclote	Fossil	Gas	FL	1,041	1,041	100
Intercession City CT[(b)]	Fossil	Gas/Oil	FL	984	984	(b)
DeBary CT	Fossil	Gas/Oil	FL	637	637	100
Tiger Bay CC	Fossil	Gas/Oil	FL	205	205	100
Bartow CT	Fossil	Gas/Oil	FL	175	175	100
Bayboro CT	Fossil	Oil	FL	174	174	100
Suwannee River CT	Fossil	Gas	FL	155	155	100
Suwannee River	Fossil	Gas/Oil	FL	128	128	100
Higgins CT	Fossil	Gas/Oil	FL	109	109	100
Turner CT	Fossil	Oil	FL	79	79	100
Avon Park CT	Fossil	Gas/Oil	FL	48	48	100
University of Florida CoGen CT	Fossil	Gas	FL	46	46	100
Rio Pinar CT	Fossil	Oil	FL	12	12	100
Total Duke Energy Florida				9,101	9,101	

Facility	Plant Type	Primary Fuel	Location	Total MW Capacity	Owned MW Capacity	Ownership Interest (%)
Duke Energy Ohio						
East Bend	Fossil	Coal	KY	600	600	100
Woodsdale CT	Fossil	Gas/Propane	OH	462	462	100
Total Duke Energy Ohio				1,062	1,062	

Facility	Plant Type	Primary Fuel	Location	Total MW Capacity	Owned MW Capacity	Ownership Interest (%)
Duke Energy Indiana						
Gibson[(c)]	Fossil	Coal	IN	3,132	2,822	90.10
Cayuga[(d)]	Fossil	Coal/Oil	IN	1,005	1,005	100
Wabash River[(e)]	Fossil	Coal/Oil	IN	676	676	100
Edwardsport	Fossil	Coal	IN	595	595	100
Madison CT	Fossil	Gas	OH	576	576	100
Vermillion CT[(f)]	Fossil	Gas	IN	568	355	62.50
Wheatland CT	Fossil	Gas	IN	460	460	100
Noblesville CC	Fossil	Gas/Oil	IN	285	285	100
Gallagher	Fossil	Coal	IN	280	280	100
Henry County CT	Fossil	Gas/Oil	IN	129	129	100
Cayuga CT	Fossil	Gas/Oil	IN	99	99	100
Connersville CT	Fossil	Oil	IN	86	86	100
Miami Wabash CT	Fossil	Oil	IN	80	80	100
Markland	Hydro	Water	IN	45	45	100
Total Duke Energy Indiana				8,016	7,493	

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Facility	Plant Type	Primary Fuel	Location	Total MW Capacity	Owned MW Capacity	Ownership Interest (%)
Total Regulated Utilities				52,588	50,216	
Totals By Plant Type						
Nuclear				10,679	8,830	
Fossil				38,306	37,783	
Hydro				3,555	3,555	
Renewable				48	48	
Total Regulated Utilities				52,588	50,216	

(a) Jointly owned with North Carolina Municipal Power Agency Number 1, North Carolina Electric Membership Corporation and Piedmont Municipal Power Agency.

(b) Duke Energy Florida owns and operates Intercession City Station Units 1-10 and 12-14. Unit 11 is jointly owned with Georgia Power Company (GPC). GPC has the exclusive right to the output of this unit during the months of June through September. Duke Energy Florida has the exclusive right to the output of this unit for the remainder of the year. Duke Energy Florida has executed an agreement to purchase Georgia Power Company's interest in these facilities.

(c) Duke Energy Indiana owns and operates Gibson Station Units 1-4 and owns 50.05 percent of, and operates, unit 5. Unit 5 is jointly owned with Wabash Valley Power Association, Inc. and Indiana Municipal Power Agency.

(d) Includes Cayuga Internal Combustion (IC).

(e) Includes Wabash River IC.

(f) Jointly owned with Wabash Valley Power Association.

The following table provides information related to Regulated Utilities' electric transmission and distribution properties as of December 31, 2015.

	Duke Energy Carolinas	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana	Duke Energy Utilities
Electric Transmission Lines						
Miles of 500 to 525 Kilovolt (kV)	600	300	200	—	—	1,100
Miles of 345 kV	—	—	—	1,000	700	1,700
Miles of 230 kV	2,600	3,400	1,700	—	700	8,400
Miles of 100 to 161 kV	6,800	2,600	1,000	700	1,400	12,500
Miles of 13 to 69 kV	3,100	—	2,300	700	2,500	8,600
Total conductor miles of electric transmission lines	13,100	6,300	5,200	2,400	5,300	32,300
Electric Distribution Lines						
Miles of overhead lines	66,600	44,100	24,200	13,800	22,400	171,100
Miles of underground line	36,500	23,700	18,200	5,800	8,600	92,800
Total conductor miles of electric distribution lines	103,100	67,800	42,400	19,600	31,000	263,900
Number of electric transmission and distribution substations	1,500	500	500	300	500	3,300
Miles of gas mains	—	—	—	7,200	—	7,200
Miles of gas service lines	—	—	—	5,800	—	5,800

Substantially all of Regulated Utilities' electric plant in service is mortgaged under indentures relating to Duke Energy Carolinas', Duke Energy Progress', Duke Energy Florida's, Duke Energy Ohio's and Duke Energy Indiana's various series of First Mortgage Bonds.

PART I

INTERNATIONAL ENERGY

The following table provides additional information related to International Energy's electric generation stations as of December 31, 2015. The MW displayed in the table below are based on summer capacity.

	Primary Fuel	Location	Total MW Capacity	Owned MW Capacity	Ownership Interest (%)
DEI Brazil	Water	Brazil	2,274	2,087	92
DEI Argentina	Water/Gas	Argentina	576	523	91
DEI Peru – Egenor	Water	Peru	352	352	100
DEI Peru – Aguaytia	Gas	Peru	192	192	100
DEI Chile	Water/Diesel	Chile	362	362	100
DEI Guatemala	Oil/Diesel/Coal	Guatemala	361	361	100
DEI El Salvador	Oil/Diesel	El Salvador	324	293	90
DEI Ecuador	Diesel	Ecuador	192	163	85
Total International Energy			4,633	4,333	

International Energy also owns a 25 percent equity interest in NMC. In 2015, NMC produced approximately 890,000 metric tons of methanol and approximately 1.0 million metric tons of MTBE. Approximately 40 percent of methanol is normally used in the MTBE production.

PART I

COMMERCIAL PORTFOLIO

The following table provides information related to Commercial Portfolio's electric generation facilities as of December 31, 2015. The MW displayed in the table below are based on summer capacity.

Facility	Plant Type	Primary Fuel	Location	Total MW Capacity	Owned MW Capacity	Ownership Interest (%)
Duke Energy Renewables – Wind						
Los Vientos Windpower	Renewable	Wind	TX	712	712	100
Top of the World	Renewable	Wind	WY	200	200	100
Notrees	Renewable	Wind	TX	153	153	100
Campbell Hill	Renewable	Wind	WY	99	99	100
North Allegheny	Renewable	Wind	PA	70	70	100
Laurel Hill Wind Energy	Renewable	Wind	PA	69	69	100
Ocotillo	Renewable	Wind	TX	59	59	100
Kit Carson	Renewable	Wind	CO	51	51	100
Silver Sage	Renewable	Wind	WY	42	42	100
Happy Jack	Renewable	Wind	WY	29	29	100
Shirley	Renewable	Wind	WI	20	20	100
Sweetwater I	Renewable	Wind	TX	38	19	50
Sweetwater II	Renewable	Wind	TX	91	45	50
Sweetwater III	Renewable	Wind	TX	135	67	50
Sweetwater IV	Renewable	Wind	TX	241	113	47
Sweetwater V	Renewable	Wind	TX	80	38	47
Ironwood	Renewable	Wind	KS	168	84	50
Cimarron II	Renewable	Wind	KS	131	66	50
Mesquite Creek	Renewable	Wind	TX	211	106	50
Total Renewables – Wind				2,599	2,042	
Duke Energy Renewables – Solar						
Conetoe II	Renewable	Solar	NC	80	80	100
Seville	Renewable	Solar	CA	50	50	100
Kelford	Renewable	Solar	NC	22	22	100
Highlander	Renewable	Solar	CA	21	21	100
Dogwood	Renewable	Solar	NC	20	20	100
Halifax Airport	Renewable	Solar	NC	20	20	100
Pasquotank	Renewable	Solar	NC	20	20	100
Pumpjack	Renewable	Solar	CA	20	20	100
Wildwood	Renewable	Solar	CA	20	20	100
Shawboro	Renewable	Solar	NC	20	20	100
Bagdad	Renewable	Solar	AZ	15	15	100
TX Solar	Renewable	Solar	TX	14	14	100
Creswell Alligood	Renewable	Solar	NC	14	14	100
Washington White Post	Renewable	Solar	NC	12	12	100
Whitakers	Renewable	Solar	NC	12	12	100
Other small solar	Renewable	Solar	Various	79	79	100
Total Renewables – Solar				439	439	
Total Commercial Portfolio				3,038	2,481	

OTHER

Duke Energy owns approximately 5.2 million square feet and leases 2.9 million square feet of corporate, regional and district office space spread throughout its service territories and in Houston, Texas.

ITEM 3. LEGAL PROCEEDINGS

For information regarding legal proceedings, including regulatory and environmental matters, see Note 4, “Regulatory Matters,” and Note 5, “Commitments and Contingencies,” to the Consolidated Financial Statements.

PART I

Virginia Department of Environmental Quality Civil Enforcement

In June 2015, the Virginia State Water Control Board voted to approve a consent order to resolve the civil enforcement claim of the Virginia Department of Environmental Quality (VDEQ) against Duke Energy Carolinas related to the February 2014 Dan River coal ash release. Pursuant to the terms of the $2.5 million settlement, Duke Energy Carolinas is required to perform $2.25 million of environmental projects that benefit Virginia communities and fund an additional $250,000 for VDEQ to respond to environmental emergencies. Failure to perform sufficient environmental projects will require Duke Energy Carolinas to make a cash payment in the amount of the shortfall.

MTBE Litigation

On June 29, 2007, the New Jersey Department of Environmental Protection (NJDEP) filed suit against, among others, Duke Energy Merchants (DEM), alleging contamination of “waters of the state” by MTBE from leaking gasoline storage tanks. MTBE is a gasoline additive intended to increase the oxygen level in gasoline and make it burn cleaner. The case was moved to federal court and consolidated in an existing multidistrict litigation docket of pending MTBE cases. DEM and NJDEP have reached an agreement in principle to settle the case for a payment by DEM of $1.7 million. On February 19, 2016, the Court approved a Consent Decree executed by the parties which settles the case.

DEM is also a defendant in a similar case filed by the Commonwealth of Pennsylvania on June 19, 2014. That case has also been moved to the consolidated multidistrict proceeding. Discovery in this case continues.

Brazilian Transmission Fee Assessments

On July 16, 2008, Duke Energy International Geracao Paranapanema S.A. (DEIGP) filed a lawsuit in the Brazilian federal court challenging transmission fee assessments imposed under two new resolutions promulgated by the Brazilian electricity regulatory agency (ANEEL) (collectively, the Resolutions). The Resolutions purport to impose additional transmission fees on generation companies located in the State of Sao Paulo for utilization of the electric transmission system. The fees were retroactive to July 1, 2004, and effective through June 30, 2009. DEIGP's original assessment under these Resolutions amounts to approximately $43 million inclusive of interest through December 2015. Pending resolution of this dispute on the merits, DEIGP deposited the disputed portion, approximately $15 million, of the assessment into a court-monitored escrow, and paid the undisputed portion to the distribution companies. In a decision published on October 2, 2013, the trial court affirmed an additional fine imposed by ANEEL in the amount of approximately $7 million for DEIGP’s failure to pay the disputed portion of the assessment. The $7 million was also deposited into a court-monitored escrow. In December 2014, the trial court ruled in favor of DEIGP on the merits of the original assessment. The merits of the original assessment and fine, as well as the contradiction between the trial court's ruling in favor of DEIGP on the original assessment but against DEIGP on its alleged failure to timely pay that assessment are being addressed on appeal.

Brazilian Regulatory Citations

In September 2007, the State Environmental Agency of Parana (IAP) assessed seven fines against DEIGP for failure to comply with reforestation measures allegedly required by state regulations in Brazil. DEIGP has challenged the fines in administrative and judicial proceedings. Two of the seven fines have subsequently been dismissed or otherwise resolved in favor of DEIGP. A third fine was determined legitimate by the trial court, but is under appeal. The remaining fines are pending. The total current amount of the IAP fines is approximately $10 million.

Additionally, DEIGP was assessed three fines by Brazil Institute of Environment and Renewable Natural Resources (IBAMA) for improper maintenance of existing reforested areas. One of these fines was determined legitimate by the trial court and is under appeal. The others are pending. The total current IBAMA assessment is approximately $400,000. DEIGP believes that it has properly maintained all reforested areas and has challenged the IBAMA assessments.

ITEM 4. MINE SAFETY DISCLOSURES

This is not applicable for any of the Duke Energy Registrants.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The common stock of Duke Energy is listed and traded on the NYSE (ticker symbol DUK). As of January 31, 2016, there were 166,231 Duke Energy common stockholders of record.

There is no market for common stock of the Subsidiary Registrants, all of which is owned by Duke Energy.

Common Stock Data by Quarter

The following chart provides Duke Energy common stock trading prices as reported on the New York Stock Exchange and information on common stock dividends declared. Stock prices represent the intra-day high and low stock price.

Duke Energy expects to continue its policy of paying regular cash dividends; however, there is no assurance as to the amount of future dividends as they depend on future earnings, capital requirements, and financial condition, and are subject to declaration by the Duke Energy Board of Directors.

Duke Energy’s operating subsidiaries have certain restrictions on their ability to transfer funds in the form of dividends or loans to Duke Energy. See Note 4 to the Consolidated Financial Statements, “Regulatory Matters” for further information regarding these restrictions.

Securities Authorized for Issuance Under Equity Compensation Plans

Duke Energy will provide information that is responsive to this Item 5 in its definitive proxy statement or in an amendment to this annual report not later than 120 days after the end of the fiscal year covered by this annual report, in either case under the caption “Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters,” and possibly elsewhere therein. That information is incorporated in this Item 5 by reference.

Issuer Purchases of Equity Securities for Fourth Quarter 2015

There were no repurchases of equity securities during the fourth quarter of 2015.

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Stock Performance Graph

The following performance graph compares the cumulative total shareholder return from Duke Energy Corporation common stock, as compared with the Standard & Poor's 500 Stock Index (S&P 500) and the Philadelphia Utility Sector Index (Philadelphia Utility Index) for the past five years. The graph assumes an initial investment of $100 on December 31, 2010, in Duke Energy common stock, in the S&P 500 and in the Philadelphia Utility Index and that all dividends were reinvested. The stockholder return shown below for the five-year historical period may not be indicative of future performance.

NYSE CEO Certification

Duke Energy has filed the certification of its Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 as exhibits to this Annual Report on Form 10-K for the year ended December 31, 2015.

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ITEM 6. SELECTED FINANCIAL DATA

The following table provides selected financial data for the years of 2011 through 2015.

(in millions, except per share amounts)	2015	2014	2013	2012	2011
Statement of Operations[a]					
Total operating revenues	$23,459	$23,925	$22,756	$17,912	$12,412
Operating income	5,367	5,258	4,854	2,911	2,475
Income from continuing operations	2,811	2,465	2,590	1,611	1,508
Income (loss) from discontinued operations, net of tax	20	(576)	86	171	206
Net income	2,831	1,889	2,676	1,782	1,714
Net income attributable to Duke Energy Corporation	2,816	1,883	2,665	1,768	1,706
Common Stock Data					
Income from continuing operations attributable to Duke Energy Corporation common stockholders[b]					
Basic	$4.02	$3.46	$3.64	$2.77	$3.34
Diluted	4.02	3.46	3.63	2.77	3.34
Income (loss) from discontinued operations attributable to Duke Energy Corporation common stockholders[b]					
Basic	$0.03	$(0.80)	$0.13	$0.30	$0.49
Diluted	0.03	(0.80)	0.13	0.30	0.49
Net income attributable to Duke Energy Corporation common stockholders[b]					
Basic	$4.05	$2.66	$3.77	$3.07	$3.83
Diluted	4.05	2.66	3.76	3.07	3.83
Dividends declared per share of common stock[b]	3.24	3.15	3.09	3.03	2.97
Balance Sheet					
Total assets[c]	$120,976	$120,557	$114,779	$113,856	$62,526
Long-term debt including capital leases and redeemable preferred stock of subsidiaries, less current maturities[c]	37,495	37,061	38,152	36,444	18,679

(a) Significant transactions reflected in the results above include: (i) 2014 impairment of the Disposal Group (see Note 2 to the Consolidated Financial Statements, "Acquisitions and Dispositions"); (ii) 2014 incremental tax expense resulting from the decision to repatriate all cumulative historical undistributed foreign earnings (see Note 22 to the Consolidated Financial Statements, "Income Taxes"); (iii) 2014 increase in the litigation reserve related to the criminal investigation of the Dan River coal ash release (see Note 5 to the Consolidated Financial Statements, “Commitments and Contingencies”); (iv) 2013 charges related to Crystal River Unit 3 and nuclear development costs (see Note 4 to the Consolidated Financial Statements, "Regulatory Matters"); (v) the 2012 merger with Progress Energy; (vi) costs to achieve mergers in 2015, 2014, 2013, 2012 and 2011; and (vii) 2012 and 2011 pretax impairment and other charges related to the Edwardsport Integrated Gasification Combined Cycle (IGCC) project of $628 million and $222 million, respectively.

(b) On July 2, 2012, immediately prior to the merger with Progress Energy, Duke Energy executed a one-for-three reverse stock split. All share and earnings per share amounts are presented as if the one-for-three reverse stock split had been effective at the beginning of the earliest period presented.

(c) During 2015, Duke Energy adopted new accounting guidance related to the presentation of debt issuance costs on the balance sheet. As a result of the adoption, Total Assets and Long-term debt including capital leases and redeemable preferred stock of subsidiaries, less current maturities were recasted to conform to the new

presentation. The impact to 2013, 2012 and 2011 was not material. See Note 1 to the Consolidated Financial Statements, "Summary of Significant Accounting Policies," for additional information related the new accounting standard.

PART II

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis includes financial information prepared in accordance with generally accepted accounting principles (GAAP) in the United States (U.S.), as well as certain non-GAAP financial measures such as adjusted earnings, adjusted earnings per share and adjusted segment income, discussed below. Generally, a non-GAAP financial measure is a numerical measure of financial performance, financial position or cash flows that excludes (or includes) amounts that are included in (or excluded from) the most directly comparable measure calculated and presented in accordance with GAAP. The non-GAAP financial measures should be viewed as a supplement to, and not a substitute for, financial measures presented in accordance with GAAP. Non-GAAP measures as presented herein may not be comparable to similarly titled measures used by other companies.

The following combined Management's Discussion and Analysis of Financial Condition and Results of Operations is separately filed by Duke Energy Corporation (collectively with its subsidiaries, Duke Energy) and its subsidiaries Duke Energy Carolinas, LLC (Duke Energy Carolinas), Progress Energy, Inc. (Progress Energy), Duke Energy Progress, LLC (formerly Duke Energy Progress, Inc.) (Duke Energy Progress), Duke Energy Florida, LLC (formerly Duke Energy Florida, Inc.) (Duke Energy Florida), Duke Energy Ohio, Inc. (Duke Energy Ohio) and Duke Energy Indiana, LLC (formerly Duke Energy Indiana, Inc.) (Duke Energy Indiana) (collectively referred to as the Subsidiary Registrants). However, none of the registrants makes any representation as to information related solely to Duke Energy or the Subsidiary Registrants of Duke Energy other than itself.

DUKE ENERGY

Duke Energy is an energy company headquartered in Charlotte, North Carolina. Duke Energy operates in the U.S. primarily through its wholly owned subsidiaries, Duke Energy Carolinas, Duke Energy Progress, Duke Energy Florida, Duke Energy Ohio, and Duke Energy Indiana, as well as in Latin America.

When discussing Duke Energy's consolidated financial information, it necessarily includes the results of the Subsidiary Registrants, which, along with Duke Energy, are collectively referred to as the Duke Energy Registrants.

Management's Discussion and Analysis should be read in conjunction with the Consolidated Financial Statements and Notes for the years ended December 31, 2015, 2014 and 2013.

Executive Overview

Acquisition of Piedmont Natural Gas

On October 24, 2015, Duke Energy entered into an Agreement and Plan of Merger (Merger Agreement) with Piedmont Natural Gas Company, Inc., (Piedmont) a North Carolina corporation. Under the terms of the Merger Agreement, Duke Energy will acquire Piedmont for approximately $4.9 billion in cash. Upon closing, Piedmont will become a wholly owned subsidiary of Duke Energy.

Pursuant to the Merger Agreement, upon the closing of the merger, each share of Piedmont common stock issued and outstanding immediately prior to the closing will be converted automatically into the right to receive $60 in cash per share. In addition, Duke Energy will assume Piedmont's existing debt, which was approximately $1.9 billion at October 31, 2015, the end of Piedmont's most recent fiscal year. Duke Energy expects to finance the transaction with a combination of debt, between $500 million and $750 million of newly issued equity and other cash sources.

In connection with the Merger Agreement with Piedmont, Duke Energy entered into a $4.9 billion senior unsecured bridge financing facility (Bridge Facility) with Barclays Capital, Inc. (Barclays). The Bridge Facility, if drawn upon, may be used to (i) fund the cash consideration for the transaction and (ii) pay certain fees and expenses in connection with the transaction. In November 2015, Barclays syndicated its commitment under the Bridge Facility to a broader group of lenders. Duke Energy intends to finance the transaction with proceeds raised through the issuance of debt, equity and other sources as noted above and, therefore, does not expect to draw upon the Bridge Facility.

The Federal Trade Commission (FTC) has granted early termination of the 30-day waiting period under the federal Hart-Scott-Rodino Antitrust Improvements Act of 1976. On January 22, 2016, shareholders of Piedmont Natural Gas approved the company's acquisition by Duke Energy. On January 15, 2016, Duke Energy filed for approval of the transaction and associated financing requests with the NCUC. On January 29, 2016, the NCUC approved the

financing requests. On January 15, 2016, Duke Energy and Piedmont filed a joint request with the Tennessee Regulatory Authority for approval of a change in control of Piedmont that will result from Duke Energy's acquisition of Piedmont. In that request, Duke Energy and Piedmont requested that the Authority approve the change in control on or before April 30, 2016. Subject to receipt of required regulatory approvals and meeting closing conditions, Duke Energy and Piedmont target a closing by the end of 2016.

On December 11, 2015, Duke Energy Kentucky filed a declaratory request with the KPSC seeking a finding that the transaction does not constitute a change in control of Duke Energy Kentucky requiring KPSC approval. Duke Energy also presented the transaction for information before the PSCSC on January 13, 2016.

The Merger Agreement contains certain termination rights for both Duke Energy and Piedmont, and provides that, upon termination of the Merger Agreement under specified circumstances, Duke Energy would be required to pay a termination fee of $250 million to Piedmont and Piedmont would be required to pay Duke Energy a termination fee of $125 million.

See Note 4 to the Consolidated Financial Statements, Regulatory Matters," for additional information regarding Duke Energy and Piedmont's joint investment in Atlantic Coast Pipeline, LLC.

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Midwest Generation Exit

Duke Energy, through indirect subsidiaries, completed the sale of the nonregulated Midwest generation business and Duke Energy Retail Sales LLC (collectively, the Disposal Group) to a subsidiary of Dynegy on April 2, 2015, for approximately $2.8 billion in cash. Refer to Note 2 to the Consolidated Financial Statements, “Acquisitions and Dispositions,” for additional information on this transaction.

Accelerated Stock Repurchase Program

On April 6, 2015, Duke Energy entered into agreements with each of Goldman, Sachs & Co. and JPMorgan Chase Bank, National Association (the Dealers) to repurchase a total of $1.5 billion of Duke Energy common stock under an accelerated stock repurchase program (the ASR). Duke Energy made payments of $750 million to each of the Dealers and was delivered 16.6 million shares, with a total fair value of $1.275 billion, which represented approximately 85 percent of the total number of shares of Duke Energy common stock expected to be repurchased under the ASR. The $225 million unsettled portion met the criteria to be accounted for as a forward contract indexed to Duke Energy's stock and qualified as an equity instrument. The company recorded the $1.5 billion payment as a reduction to common stock as of April 6, 2015. In June 2015, the Dealers delivered 3.2 million additional shares to Duke Energy to complete the ASR. Approximately 19.8 million shares, in total, were delivered to Duke Energy and retired under the ASR at an average price of $75.75 per share. The final number of shares repurchased was based upon the average of the daily volume weighted average stock prices of Duke Energy’s common stock during the term of the program, less a discount.

For additional information on the details of this transaction, see Note 18 to the Consolidated Financial Statements, “Common Stock.”

Financial Results

(a) See Results of Operations below for Duke Energy’s definition of adjusted earnings and adjusted diluted earnings per share as well as a reconciliation of this non-GAAP financial measure to net income attributable to Duke Energy and net income attributable to Duke Energy per diluted share.

Adjusted earnings decreased from 2014 to 2015 primarily due to lower earnings at International Energy as a result of unfavorable hydrology and changes in foreign currency exchange rates, partially offset by improved earnings at Regulated Utilities from improved retail pricing and wholesale margins net of higher operations and maintenance expense.

Adjusted earnings increased from 2013 to 2014 primarily due to the impact of revised rates and favorable weather, partially offset by higher depreciation and amortization expense.

See “Results of Operations” below for a detailed discussion of the consolidated results of operations, as well as a detailed discussion of financial results for each of Duke Energy’s reportable business segments, as well as Other.

2015 Areas of Focus and Accomplishments

In 2015, Duke Energy advanced a number of important strategic initiatives to transform the energy future with a focus on customers, employees, operations and growth. Duke Energy announced the acquisition of Piedmont, completed the purchase of North Carolina Eastern Municipal Power Agency's (NCEMPA) generation assets, completed the sale of the nonregulated Midwest Generation business and executed on the coal ash strategy to continue moving towards ash basin closures. Duke Energy also accomplished industry-leading safety and environmental performance and increased the growth rate of the dividend, a significant component of the investor value proposition.

Acquisition of Piedmont Natural Gas. In 2015, Duke Energy entered into a Merger Agreement with Piedmont, under which Duke Energy will acquire Piedmont for $4.9 billion in cash. This acquisition reflects the growing importance of natural gas to the future of the energy infrastructure within the company's service territory, and throughout the U.S., and establishes a platform for future growth in natural gas infrastructure.

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Purchase of NCEMPA's Generation. In 2015, Duke Energy completed the acquisition of NCEMPA's ownership interest in some of Duke Energy Progress's existing nuclear and coal generation for a total amount of approximately $1.25 billion. Duke Energy and NCEMPA signed a long-term wholesale contract to provide power to NCEMPA's customers previously served by the generation assets purchased by Duke Energy.

Sale of the Midwest Generation Business. In 2015, Duke Energy completed the sale of the Disposal Group to Dynegy for approximately $2.8 billion. This decision supports Duke Energy's strategy to focus investments on businesses with more predictable and less volatile earnings. The proceeds from the sale were used, in part, to recapitalize Duke Energy through a stock repurchase program and deferrals of the issuance of long-term debt.

Operational Excellence of the Nuclear Fleet. Duke Energy's nuclear fleet set a company record for total electricity production and demonstrated a combined capacity factor at approximately 94 percent, the 17th consecutive year above 90 percent on this plant reliability measure.

Coal Ash Management. On April 17, 2015, the EPA published the RCRA in the Federal Register, establishing rules to regulate the disposal of CCR from electric utilities as solid waste. The RCRA, and the Coal Ash Act, as amended, finalized the legal framework related to coal ash management practices and ash basin closure. With final rules in place, Duke Energy has made significant progress toward closure of coal ash basins and has recommended excavation of 24 basins in the Carolinas. In addition, Duke Energy has performed comprehensive groundwater studies at each North Carolina basin and provided that information to the North Carolina Department of Environmental Quality (NCDEQ), which was used by NCDEQ to risk-rank each North Carolina basin. These draft risk rankings provide additional direction for the closure of each basin.

Also in 2015, Duke Energy began closure activities on the four sites specified as high risk by the Coal Ash Act and at the W.S. Lee site in South Carolina. At each site, excavation has commenced, with coal ash moving off-site for use in structural fill or to lined landfills.

Deliver Merger Benefits. Duke Energy continues to focus on realizing benefits of the merger with Progress Energy. Duke Energy is on track to achieve the $687 million of guaranteed savings for customers in the Carolinas over five years. After three and a half years, Duke Energy Carolinas and Duke Energy Progress have generated approximately 90 percent of the guaranteed fuel and joint dispatch savings.

Grow the Dividend. In 2015, Duke Energy increased the growth rate of the dividend to an annual rate of approximately 4 percent.

Duke Energy Objectives – 2016 and Beyond

Duke Energy will continue to deliver exceptional value to our customers, be an integral part of the communities in which we do business, and provide attractive returns to our investors. Duke Energy is committed to lead the way to cleaner, smarter energy solutions that customers value through a strategy focused on:

- Transformation of the customer experience to meet the changing customer expectations through enhanced convenience, control and choice in energy supply and usage.
- Modernization of the power grid to improve reliability and flexibility in support of increased distributed energy sources.
- Generation of cleaner energy through an increased amount of natural gas, renewables generation and the continued safe and reliable operation of nuclear plants.
- Operational excellence through engagement with employees and being one of the best safety performers in the industry.
- Stakeholder engagement to ensure the regulatory rules in the states in which we operate benefit all customers.

Primary objectives toward the implementation of this strategy include:

Complete the Acquisition of Piedmont. As discussed above, Duke Energy will continue to pursue the remaining required regulatory approvals to achieve completion of the Piedmont acquisition in 2016. This acquisition will establish a broader gas infrastructure platform within Duke Energy.

Duke Energy expects to finance the acquisition through a combination of debt, newly issued equity and other cash sources.

Potential Sale of the Latin American Generation Business. On February 18, 2016, Duke Energy announced it had initiated a process to divest the International Energy business segment, excluding the equity investment in NMC. The process remains in a preliminary stage and there have been no binding or non-binding offers requested or submitted. There is no specific timeline for execution of a potential transaction. The sale is expected to be dilutive to Duke Energy but would improve Duke Energy's risk profile and enhance its ability to generate more consistent earnings and cash flows over time. Proceeds from a successful sale would be used to fund the operations and growth of its domestic business.

Growth Initiatives. Duke Energy will continue to pursue regulatory, state and federal approval of the growth projects announced in 2015 and in earlier periods. These projects will support long-term adjusted earnings growth and support Duke Energy’s ability to continue providing its customers affordable, reliable energy from an increasingly diverse generation portfolio.

Growth in the Regulated Utilities business is expected to be supported by retail and wholesale load growth and significant investments. Duke Energy expects to invest between $4 billion and $5 billion annually in the Regulated Utilities business growth projects. Many of these projects will be recovered through riders such as transmission and distribution expenditures in Indiana and Ohio, as well as energy efficiency riders in the Carolinas.

The Commercial Portfolio renewables business is a significant component of the Duke Energy growth strategy. Renewable projects enable Duke Energy to respond to customer interest in clean energy resources while increasing diversity in the generation portfolio. The portfolio of wind and solar is expected to continue growing as between $1 billion and $2 billion of capital is expected to be deployed over the next three years. Additionally, investments in the Atlantic Coast Pipeline add approximately $1 billion of capital spending through 2017.

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Duke Energy announced new growth initiatives in 2015, which include:

- Duke Energy Progress proposed an approximate $1 billion investment in the Western Carolinas Modernization Project. The project will retire and replace the existing coal units with two natural gas combined cycle 280 MW fired generation projects, a utility scale solar power plant and aggressive energy efficiency and demand-side management adoption in the region.
- Commercial Portfolio acquired a 7.5 percent ownership interest in Sabal Trail Transmission, LLC pipeline for a total estimated investment of approximately $225 million upon completion of the project.

Cost Management. Duke Energy has a demonstrated track record of driving efficiencies and productivity into the business. Duke Energy committed to efficiencies following the merger with Progress Energy and is on track to meet those commitments. Additionally, there is potential for more productivity and efficiency gains leading to a target of 2016 operations and maintenance costs at or below 2015 levels.

Continue the Coal Ash Management Strategy. Duke Energy will continue the company's compliance strategy with the Coal Ash Act and RCRA. Duke Energy will update ash management plans to comply with the appropriate regulations and expand excavation and other compliance work at additional sites once plans and permits are approved.

Results of Operations

In this section, Duke Energy provides analysis and discussion of earnings and factors affecting earnings on both a GAAP and non-GAAP basis.

Management evaluates financial performance in part based on the non-GAAP financial measures, adjusted earnings and adjusted diluted EPS. These items are measured as income from continuing operations net of income (loss) attributable to noncontrolling interests, adjusted for the dollar and per-share impact of mark-to-market impacts of economic hedges in the Commercial Portfolio segment and special items including the operating results of the Disposal Group classified as discontinued operations for GAAP purposes. Special items represent certain charges and credits, which management believes will not be recurring on a regular basis, although it is reasonably possible such charges and credits could recur. Operating results of the Disposal Group sold to Dynegy are reported as discontinued operations, including a portion of the mark-to-market adjustments associated with derivative contracts. Management believes that including the operating results of the Disposal Group reported as discontinued operations better reflects its financial performance and therefore has included these results in adjusted earnings and adjusted diluted EPS prior to the sale of the Disposal Group. Additionally, as a result of completing the sale of the Disposal Group during the second quarter of 2015, state income tax expense increased as state income tax apportionments changed. The additional tax expense was recognized in Continuing Operations on a GAAP basis. This impact to state income taxes has been excluded from the Commercial Portfolio segment for adjusted diluted EPS purposes as management believes these impacts are incidental to the sale of the Disposal Group. Derivative contracts are used in Duke Energy’s hedging of a portion of the economic value of its generation assets in the Commercial Portfolio segment. The mark-to-market impact of derivative contracts is recognized in GAAP earnings immediately and, if associated with the Disposal Group, classified as discontinued operations, as such derivative contracts do not qualify for hedge accounting or regulatory treatment. The economic value of generation assets is subject to fluctuations in fair value due to market price volatility of input and output commodities (e.g., coal, electricity, natural gas). Economic hedging involves both purchases and sales of those input and output commodities related to generation assets. Operations of the generation assets are accounted for under the accrual method. Management believes excluding impacts of mark-to-market changes of the derivative contracts from adjusted earnings until settlement better matches the financial impacts of the derivative contract with the portion of economic value of the underlying hedged asset. Management believes the presentation of adjusted earnings and adjusted diluted EPS provides useful information to investors, as it provides them an additional relevant comparison of Duke Energy’s performance across periods. Management uses these non-GAAP financial measures for planning and forecasting and for reporting results to the Duke Energy Board of Directors (Board of Directors), employees, shareholders, analysts and investors concerning Duke Energy’s financial performance. Adjusted diluted EPS is also used as a basis for employee incentive bonuses. The most directly comparable GAAP measures for adjusted earnings and adjusted diluted EPS are Net Income Attributable to Duke Energy Corporation and Diluted EPS Attributable to Duke Energy Corporation common shareholders, which include

the dollar and per-share impact of special items, mark-to-market impacts of economic hedges in the Commercial Portfolio segment and discontinued operations.

Management 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.

Management also uses adjusted segment income as a measure of historical and anticipated future segment performance. Adjusted segment income is a non-GAAP financial measure, as it is based upon segment income adjusted for the mark-to-market impacts of economic hedges in the Commercial Portfolio segment and special items, including the operating results of the Disposal Group classified as discontinued operations for GAAP purposes. Management believes the presentation of adjusted segment income as presented provides useful information to investors, as it provides them with an additional relevant comparison of a segment's performance across periods. The most directly comparable GAAP measure for adjusted segment income is segment income, which represents segment income from continuing operations, including any special items and the mark-to-market impacts of economic hedges in the Commercial Portfolio segment.

Duke Energy's adjusted earnings, adjusted diluted EPS, and adjusted segment income may not be comparable to similarly titled measures of another company because other entities may not calculate the measures in the same manner.

See Note 3 to the Consolidated Financial Statements, "Business Segments," for a discussion of Duke Energy's segment structure.

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Overview

The following table reconciles non-GAAP measures to the most directly comparable GAAP measure.

	Year Ended December 31, 2015							
(in millions, except per share amounts)	Regulated Utilities	International Energy	Commercial Portfolio	Total Reportable Segments	Other	Eliminations/ Discontinued Operations	Duke Energy	Per Diluted Share
Adjusted segment income/Adjusted earnings	$2,972	$225	$140	$3,337	$(185)	$—	$3,152	$4.54
Midwest generation operations	—	—	(94)	$(94)	—	94	—	—
Cost savings initiatives	(10)	—	(1)	(11)	(77)	—	(88)	(0.13)
Costs to achieve mergers	—	—	—	—	(60)	—	(60)	(0.09)
Edwardsport settlement	(58)	—	—	(58)	—	—	(58)	(0.08)
Ash basin settlement penalties	(11)	—	—	(11)	—	—	(11)	(0.02)
Discontinued operations	—	—	(41)	(41)	—	(78)	(119)	(0.17)
Segment income (loss)/Net income attributable to Duke Energy Corporation	$2,893	$225	$4	$3,122	$(322)	$16	$2,816	$4.05

	Year Ended December 31, 2014							
(in millions, except per share amounts)	Regulated Utilities	International Energy	Commercial Portfolio	Total Reportable Segments	Other	Eliminations/ Discontinued Operations	Duke Energy	Per Diluted Share
Adjusted segment income/Adjusted earnings	$2,897	$428	$109	$3,434	$(216)	$—	$3,218	$4.55
International tax adjustment	—	(373)	—	(373)	—	—	(373)	(0.53)
Costs to achieve mergers	—	—	—	—	(127)	—	(127)	(0.18)
Midwest generation operations	—	—	(114)	(114)	—	114	—	—
Coal ash Plea Agreements reserve	(102)	—	—	(102)	—	—	(102)	(0.14)
Asset impairment	—	—	(59)	(59)	—	—	(59)	(0.08)
Asset sales	—	—	—	—	9	—	9	0.01
Economic hedges (mark-to-market)	—	—	(6)	(6)	—	—	(6)	(0.01)
Discontinued operations	—	—	15	15	—	(692)	(677)	(0.96)
Segment income (loss)/Net income attributable to Duke Energy Corporation	$2,795	$55	$(55)	$2,795	$(334)	$(578)	$1,883	$2.66

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	Year Ended December 31, 2013							
(in millions, except per share amounts)	Regulated Utilities	International Energy	Commercial Portfolio	Total Reportable Segments	Other	Eliminations/ Discontinued Operations	Duke Energy	Per Diluted Share
Adjusted segment income/Adjusted earnings	$2,776	$ 408	$ 15	$ 3,199	$(119)	$ —	$3,080	$ 4.36
Crystal River Unit 3 charges	(215)	—	—	(215)	—	—	(215)	(0.31)
Costs to achieve mergers	—	—	—	—	(184)	—	(184)	(0.26)
Midwest generation operations	—	—	(88)	(88)	14	74	—	—
Nuclear development charges	(57)	—	—	(57)	—	—	(57)	(0.08)
Litigation reserve	—	—	—	—	(14)	—	(14)	(0.02)
Asset sales	—	—	(15)	(15)	65	—	50	0.07
Discontinued operations	—	—	—	—	—	5	5	—
Segment income (loss)/Net income attributable to Duke Energy Corporation	$2,504	$ 408	$ (88)	$ 2,824	$(238)	$ 79	$2,665	$ 3.76

The variance in adjusted earnings for the year ended December 31, 2015, compared to 2014, was primarily due to:

- Lower results in Latin America primarily due to lower demand, unfavorable hydrology in Brazil, changes in foreign currency exchange rates, a prior-year tax benefit related to the reorganization of Chilean operations, and lower dispatch in Central America due to increased competition;
- Higher operations and maintenance expense primarily due to the prior-year benefit associated with the adoption of nuclear outage levelization, amounts related to additional ownership interest in assets acquired from NCEMPA, and higher planned fossil generation outage costs, partially offset by lower storm restoration costs;
- Higher depreciation and amortization expense primarily due to higher depreciable base; and
- Lower equity in earnings of unconsolidated affiliates due to lower margins at NMC, largely driven by lower MTBE prices, partially offset by lower butane costs.

Partially offset by:

- Increased retail pricing primarily due to rate riders in most jurisdictions, including increased revenues related to energy efficiency programs, equity returns related to additional ownership interest in assets acquired from NCEMPA, and higher base rates;
- Increased wholesale net margins largely due to increases in contracted amounts and prices and a new wholesale contract with NCEMPA;
- Retail sales growth of 0.6 percent;
- Higher results at the nonregulated Midwest generation business prior to its sale on April 2, 2015, due to higher PJM Interconnection LLC (PJM) capacity revenues and increased generation margins; and
- Reduction in shares outstanding due to the Duke Energy stock repurchase (only impacts per diluted share amounts in the tables above).

The variance in adjusted earnings for the year ended December 31, 2014, compared to 2013, was primarily due to:

- Increased retail pricing and riders primarily resulting from the implementation of revised rates in most jurisdictions;
- Favorable weather in 2014 compared to 2013;
- Higher PJM capacity revenues for the nonregulated Midwest generation business due to higher prices; and
- Higher results of the renewables business due to higher production from the wind and solar portfolios, lower costs and additional renewables investments.

Partially offset by:

- Higher depreciation and amortization expense primarily due to higher depreciable asset base and lower reductions to cost of removal reserves;

- Higher operations and maintenance expense due to higher storm costs, the timing of fossil plant outages and the impact of nuclear outage cost levelization;
- Lower post in-service debt returns due to projects added to customer rates; and
- Higher property and other non-income taxes.

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Segment Results

The remaining information presented in this discussion of results of operations is on a GAAP basis.

Regulated Utilities

	Years Ended December 31,				
(in millions)	2015	2014	Variance 2015 vs. 2014	2013	Variance 2014 vs. 2013
Operating Revenues	$22,062	$22,271	$(209)	$20,910	$1,361
Operating Expenses	16,698	17,026	(328)	16,126	900
Gains on Sales of Other Assets and Other, net	11	4	7	7	(3)
Operating Income	5,375	5,249	126	4,791	458
Other Income and Expense, net	262	267	(5)	221	46
Interest Expense	1,097	1,093	4	986	107
Income Before Income Taxes	4,540	4,423	117	4,026	397
Income Tax Expense	1,647	1,628	19	1,522	106
Segment Income	$2,893	$2,795	$98	$2,504	$291
Duke Energy Carolinas Gigawatt-Hours (GWh) sales	87,375	87,645	(270)	85,790	1,855
Duke Energy Progress GWh sales	64,881	62,871	2,010	60,204	2,667
Duke Energy Florida GWh sales	40,053	38,703	1,350	37,974	729
Duke Energy Ohio GWh sales	25,439	24,735	704	24,557	178
Duke Energy Indiana GWh sales	33,518	33,433	85	33,715	(282)
Total Regulated Utilities GWh sales	251,266	247,387	3,879	242,240	5,147
Net proportional MW capacity in operation	50,170	49,600	570	49,607	(7)

Year Ended December 31, 2015 as Compared to 2014

Regulated Utilities' results increased due to an increase in wholesale power margins, growth in retail sales, and increased retail pricing primarily due to rate riders in most jurisdictions, including increased revenues related to energy efficiency programs, and higher base rates primarily due to phasing of 2013 rate cases. These drivers were partially offset by impairment expense associated with the 2015 Edwardsport IGCC settlement, higher operations and maintenance expenses, and increased depreciation and amortization expense. The following is a detailed discussion of the variance drivers by line item.

Operating Revenues. The variance was driven primarily by:

- a $339 million decrease in fuel revenues driven primarily by overall lower fuel rates for electric retail customers. Fuel revenues represent sales to retail and wholesale customers; and
- a $131 million decrease in revenues to recover gross receipts taxes due to the North Carolina Tax Simplification and Rate Reduction Act, which terminated the collection of the North Carolina gross receipts tax effective July 1, 2014.

Partially offset by:

- a $175 million increase in wholesale power revenues, primarily due to additional volumes and capacity charges for customers served under long-term contracts, including the NCEMPA wholesale contract that became effective August 1, 2015; and
- a $79 million increase from retail sales growth (net of fuel revenue) reflecting increased demand.

Operating Expenses. The variance was driven primarily by:

- a $422 million decrease in fuel expense (including purchased power and natural gas purchases for resale) primarily due to (i) lower natural gas and coal prices, (ii) lower volumes of coal and oil used in electric generation and (iii) lower gas prices and volumes to full-service retail gas customers, partially offset by (iv) higher volumes of natural gas used in electric generation; and
- a $116 million decrease in property and other taxes primarily due to the termination of the collection of the North Carolina gross receipts tax as mentioned above, and the partial reversal of a sales tax reserve recorded in 2014 at

Duke Energy Indiana, partially offset by higher property taxes across multiple jurisdictions and a favorable 2014 Ohio gas excise tax settlement that did not recur in 2015.

Partially offset by:

- an $88 million impairment charge related to the 2015 Edwardsport IGCC settlement. See Note 4 to the Consolidated Financial Statements, “Regulatory Matters,” for additional information;

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- a $56 million increase in operations and maintenance expense primarily due to planned nuclear spending and the prior-year benefit of the adoption of nuclear outage levelization, higher costs for customer programs and distribution projects, and higher maintenance costs at fossil generation stations primarily due to increased ownership interest in assets acquired from NCEMPA, partially offset by a 2014 litigation reserve related to the investigation of the Dan River coal ash spill (see Note 5 to the Consolidated Financial Statements, “Commitments and Contingencies,” for additional information), and lower storm restoration costs; and
- a $55 million increase in depreciation and amortization expense primarily due to increased plant in service.

Income Tax Expense. The variance was primarily due to an increase in the pretax income. The effective tax rates for the years ended December 31, 2015 and 2014 were 36.3 percent and 36.8 percent, respectively.

Year Ended December 31, 2014 as Compared to 2013

Regulated Utilities’ results were positively impacted by higher retail pricing and rate riders, favorable weather, an increase in wholesale power margins, retail sales growth, and 2013 impairments and other charges. These impacts were partially offset by higher depreciation and amortization expense, higher operation and maintenance costs, higher interest expense, and higher income tax expense. The following is a detailed discussion of the variance drivers by line item.

Operating Revenues. The variance was driven primarily by:

- a $614 million increase in fuel revenues driven primarily by increased demand from electric retail customers resulting from favorable weather conditions, and higher fuel rates for electric retail customers for all jurisdictions, except North Carolina. Fuel revenues represent sales to retail and wholesale customers;
- a $556 million net increase in retail pricing primarily due to retail rate changes and updated rate riders;
- a $216 million increase in electric sales (net of fuel revenue) to retail customers due to more favorable weather conditions across the service territory. Compared to normal, weather was favorable in the Carolinas and Florida service territories, while weather in the Midwest was essentially normal;
- a $63 million increase in wholesale power revenues, net of sharing, primarily due to additional volumes and capacity charges for customers served under long-term contracts; and
- a $21 million increase from retail sales growth (net of fuel revenue) reflecting increased demand.

Partially offset by:

- a $139 million decrease in gross receipts tax revenue due to the NC Tax Simplification and Rate Reduction Act which terminated the collection of the North Carolina gross receipts tax effective July 1, 2014.

Operating Expenses. The variance was driven primarily by:

- a $611 million increase in fuel expense (including purchased power and natural gas purchases for resale) primarily related to (i) higher volumes of coal, and oil used in electric generation due primarily to increased generation resulting from favorable weather conditions, (ii) higher natural gas prices, and (iii) the application of the Nuclear Electric Insurance Limited (NEIL) settlement proceeds in 2013 for Duke Energy Florida;
- a $436 million increase in depreciation and amortization expense primarily due to increases in depreciation as a result of additional plant in service and amortization of regulatory assets, and higher 2013 reductions to cost of removal reserves in accordance with regulatory orders; and
- a $292 million increase in operating and maintenance expense primarily due to a litigation reserve related to the criminal investigation of the Dan River coal ash spill (see Note 5 to the Consolidated Financial Statements, “Commitments and Contingencies,” for additional information), higher storm costs, repairs and remediation expenses associated with the Dan River coal ash discharge and other ash basin related assessment costs, and higher nuclear costs, including nuclear outage levelization costs, and higher environmental and operational costs that are recoverable in rates; partially offset by a 2013 Crystal River Unit 3 related settlement matter, decreased benefits costs and 2013 donations for low-income customers and job training in accordance with 2013 NCUC and PSCSC rate case orders.

Partially offset by:

- a $346 million decrease due to the 2013 impairment and other charges primarily related to Crystal River Unit 3 and the proposed Levy Nuclear Station (Levy). See Note 4 to the Consolidated Financial Statements, “Regulatory Matters,” for additional information;

- a $42 million decrease in property and other taxes primarily due to the termination of the collection of the North Carolina gross receipts tax as mentioned above; partially offset by a sales tax reserve as a result of an Indiana sales tax audit, and higher property taxes; and
- a $22 million decrease due to the 2013 impairment resulting from the decision to suspend the application for two proposed nuclear units at Shearon Harris Nuclear Plant (Harris).

Other Income and Expenses, net. The variance is primarily due to recognition of post in-service equity returns for projects that had been completed prior to being reflected in customer rates, partially offset by lower Allowance for Funds Used During Construction (AFUDC) equity, primarily due to placing the Sutton Plant into service in late 2013.

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Interest Expense. The variance was primarily due to no longer recording post in-service debt returns on projects reflected in customer rates and a reduction in debt return on the Crystal River Unit 3 regulatory asset recovered through fuel revenues.

Income Tax Expense. The variance was primarily due to higher pretax income, partially offset by a lower effective tax rate of 36.8 percent compared to 37.8 percent, respectively, for the years ended December 31, 2014 and 2013. The decrease in effective tax rate is primarily due to favorable audit settlements, a higher manufacturing deduction due to prior year limitations based on taxable income, and changes in income apportionment for state income tax, partially offset by the non-deductible litigation reserve related to the criminal investigation of the Dan River coal ash spill.

Matters Impacting Future Regulated Utilities Results

Duke Energy is a party to multiple lawsuits and could be subject to fines and other penalties related to the Dan River coal ash release and operations at other North Carolina facilities with ash basins. The outcome of these lawsuits and potential fines and penalties could have an adverse impact on Regulated Utilities' financial position, results of operations and cash flows. See Note 5 to the Consolidated Financial Statements, “Commitments and Contingencies,” for additional information.

An order from regulatory authorities disallowing recovery of costs related to closure of ash impoundments could have an adverse impact on Regulated Utilities' financial position, results of operations and cash flows. See Notes 4 and 9 to the Consolidated Financial Statements, “Regulatory Matters” and "Asset Retirement Obligations," respectively, for additional information.

In 2013, a Federal Energy Regulatory Commission (FERC) Administrative Law Judge (ALJ) issued an initial decision that Duke Energy is responsible for costs associated with Multi Value Projects (MVP), a type of Transmission Expansion Planning (MTEP) cost, approved by MISO prior to the date of Duke Energy’s withdrawal. On October 29, 2015, the FERC issued an order reversing the ALJ's decision. FERC ruled that Duke Energy has no liability for MVP costs after its withdrawal from MISO. On November 30, 2015, MISO filed with the FERC a request for rehearing. MISO may appeal the FERC's decision if its request for rehearing is denied. If Duke Energy is deemed responsible for these costs, and if the regulatory commissions disallow recovery of these costs, there would be an adverse impact to Regulated Utilities' financial position, results of operations and cash flows. See Note 4 to the Consolidated Financial Statements, “Regulatory Matters,” for additional information.

The FPSC approved an agreement on all securitization-related issues and issued a final financing order to securitize the Crystal River Unit 3 Regulatory asset with low-cost securities. Securitization will replace base rate recovery and result in a lower rate impact to customers. Securitization of the costs of the retired Crystal River Unit 3 Nuclear Plant would result in an initial acceleration of cash, followed by a reduction to Regulated Utilities’ future results of operations and ongoing cash flows as it would no longer earn an equity return on these costs. Under a previous settlement agreement with the FPSC, the allowed return on equity for Crystal River Unit 3 is limited to 70 percent of the approved return on equity, which is currently 10.5 percent. Regulated Utilities expects to issue the securitization bonds in the first half of 2016.

In September 2015, Duke Energy Indiana entered into a settlement agreement with multiple parties that will resolve all disputes, claims and issues from the IURC proceedings regarding the Edwardsport IGCC generating facility. In January 2016, additional parties joined a revised settlement. Pursuant to the terms of the agreement, Regulated Utilities recognized an impairment and related charges of $93 million. Additionally, the agreement stipulates the recovery of the remaining regulatory asset over an eight-year period and confirms the conclusion that the in-service date for accounting and ratemaking purposes will remain June 7, 2013. The settlement agreement will also impose a cost cap for recoverable operations and maintenance retail costs of $73 million in 2016 and $77 million in 2017 as well as a cost cap for ongoing capital expenditures through 2017. As part of the settlement, Duke Energy Indiana committed to cease burning coal at Gallagher Station Units 2 and 4 by the end of 2022. The settlement is subject to IURC approval and if approved would resolve and close a number of outstanding issues pending before the IURC related to post commercial operating performance and recovery of ongoing operating and capital costs at Edwardsport. If the settlement is not approved, outstanding issues before the IURC related to Edwardsport would resume, the ultimate resolution of which could have an adverse impact on Regulated Utilities' financial position, results of

operations and cash flows. In addition, the inability to manage operating and capital costs under caps imposed under the settlement could have an adverse impact on Regulated Utilities' financial position, results of operations and cash flows. See Note 4 to the Consolidated Financial Statements, “Regulatory Matters,” for additional information.

On October 23, 2015, the EPA published in the Federal Register the CPP rule for regulating CO_2 emissions from existing fossil fuel-fired EGUs. The CPP establishes CO_2 emission rates and mass cap goals that apply to fossil fuel-fired generation. Under the CPP, states are required to develop and submit a final compliance plan, or an initial plan with an extension request, to the EPA by September 6, 2016, or no later than September 6, 2018, with an approved extension. These state plans are subject to EPA approval, with a federal plan applied to states that fail to submit a plan to the EPA or if a state plan is not approved. Legal challenges to the CPP have been filed by stakeholders and motions to stay the requirements of the rule pending the outcome of the litigation have been filed. The U.S. Supreme Court granted a Motion to Stay in February 2016, effectively blocking enforcement of the rule until legal challenges are resolved. Final resolution of these legal challenges could take several years. Compliance with CPP could cause the industry to replace coal generation with natural gas and renewables, especially in states that have significant CO_2 reduction targets under the rule. Costs to operate coal-fired generation plants continue to grow due to increasing environmental compliance requirements, including ash management costs unrelated to CPP, and this may result in the retirement of coal-fired generation plants earlier than the current useful lives. Regulated Utilities continues to evaluate the need to retire generating facilities and plans to seek regulatory recovery, where appropriate, for amounts that have not been recovered upon asset retirements. However, recovery is subject to future regulatory approval, including the recovery of carrying costs on remaining book values, and therefore cannot be assured. In addition, Regulated Utilities could incur increased fuel, purchased power, operation and maintenance, and other costs for replacement generation as a result of this rule. Regulated Utilities cannot predict the outcome of these matters.

PART II

International Energy

	Years Ended December 31,				
(in millions)	2015	2014	Variance 2015 vs. 2014	2013	Variance 2014 vs. 2013
Operating Revenues	$1,088	$1,417	$(329)	$1,546	$(129)
Operating Expenses	805	1,007	(202)	1,000	7
Gains on Sales of Other Assets and Other, net	6	6	—	3	3
Operating Income	289	416	(127)	549	(133)
Other Income and Expense, net	101	190	(89)	125	65
Interest Expense	85	93	(8)	86	7
Income Before Income Taxes	305	513	(208)	588	(75)
Income Tax Expense	74	449	(375)	166	283
Less: Income Attributable to Noncontrolling Interests	6	9	(3)	14	(5)
Segment Income	$225	$55	$170	$408	$(353)
Sales, GWh	19,211	18,629	582	20,306	(1,677)
Net proportional MW capacity in operation	4,333	4,340	(7)	4,600	(260)

Year Ended December 31, 2015 as Compared to 2014

International Energy's results were impacted by the absence of prior-year taxes on repatriated foreign earnings, partially offset by lower results in Brazil due to lower demand, unfavorable hydrological conditions and changes in foreign currency exchange rates, the absence of a prior year merger step-up tax benefit in Chile and lower earnings from NMC and Central America. The following is a detailed discussion of the variance drivers by line item.

Operating Revenues. The variance was driven primarily by:

- a $177 million decrease in Brazil due to exchange rates, lower average spot prices and volumes, partially offset by higher average contract prices;
- a $122 million decrease in Central America due to lower average prices and volumes as a result of increased competition and unplanned outages; and
- a $27 million decrease in Peru due to lower average hydrocarbon prices and unfavorable exchanges rates, partially offset by higher energy sales volumes.

Operating Expenses. The variance was driven primarily by:

- a $105 million decrease in Brazil due to exchange rates and lower purchased power costs, partially offset by higher variable costs;
- an $88 million decrease in Central America due to lower fuel costs; and
- a $31 million decrease in Peru due to lower hydrocarbon royalties, purchased power costs and fuel consumption and change in exchange rates.

Partially offset by:

- a $25 million increase in Ecuador due to an asset impairment loss, higher fuel consumption, and provision for asset retirement obligation.

Other Income and Expenses, net. The variance is primarily due to lower interest income in Brazil and lower equity earnings in NMC, as a result of lower average MTBE and methanol prices, and lower MTBE sales volumes, partially offset by lower butane costs.

Income Tax Expense. The variance was primarily due to approximately $373 million of incremental tax expense in 2014 resulting from the decision to repatriate all cumulative historical undistributed foreign earnings. The effective tax rates for the years ended December 31, 2015 and 2014 were 24.3 percent and 87.3 percent, respectively. The decrease in the effective tax rate was primarily due to the tax expense associated with the repatriation decision, partially offset by the favorable adjustment related to the merger of two Chilean subsidiaries recorded in 2014.

Year Ended December 31, 2014 as Compared to 2013

International Energy’s results were negatively impacted by higher tax expense resulting from the decision to repatriate historical undistributed foreign earnings, unfavorable hydrology and exchange rates in Brazil and an unplanned outage in Chile, partially offset by higher equity earnings in NMC and a 2013 net currency remeasurement loss in Latin America. The following is a detailed discussion of the variance drivers by line item.

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Operating Revenues. The variance was driven primarily by:
- a $44 million decrease in Peru as a result of lower sales volumes and exchange rates;
- a $35 million decrease in Brazil due to exchange rates and lower sales volumes partially offset by higher average prices;
- a $27 million decrease in Chile as a result of lower sales volumes due to an unplanned outage, and lower average prices; and
- a $25 million decrease in Argentina due to exchange rates and lower average prices.

Operating Expenses. The variance was driven primarily by:
- a $75 million increase in Brazil due to higher purchased power as a result of unfavorable hydrology, partially offset by exchange rates.

Partially offset by:
- a $38 million decrease in Peru as a result of lower purchased power, transmission, and royalty costs; and
- a $26 million decrease in Argentina due to exchange rates and lower purchased power and fuel consumption.

Other Income and Expenses, net. The variance is primarily due to a 2013 net currency remeasurement loss in Latin America, higher interest income in Brazil, and higher equity earnings in NMC as a result of increased MTBE and methanol sales volumes, partially offset by lower average prices and higher butane costs.

Income Tax Expense. The variance was primarily due to approximately $373 million of incremental tax expense in 2014 resulting from the decision to repatriate all cumulative historical undistributed foreign earnings. The effective tax rates for the years ended December 31, 2014 and 2013 were 87.3 percent and 28.3 percent, respectively. The increase in the effective tax rate was also primarily due to the tax expense associated with the repatriation decision.

Matters Impacting Future International Energy Results

International Energy's operations include conventional hydroelectric power generation facilities located in Brazil where water reservoirs are at abnormally low levels due to a lack of rainfall. Weather and economic conditions within Brazil have resulted in higher energy prices, a reduction in electricity demand and unfavorable impacts to the exchange rate of Brazil's currency. These weather and economic conditions have also resulted in lawsuits brought to the Brazilian courts by certain hydroelectric generators to limit the financial exposure to the generators. International Energy's earnings and future cash flows could continue to be adversely impacted by a further sustained period of low reservoir levels, a further decline of economic conditions within Brazil, or from the outcome of legal matters in the Brazilian courts.

International Energy's equity earnings from NMC reflect sales of methanol and MTBE, which generate margins that are directionally correlated with crude oil prices and the recent decline in crude oil prices have reduced the equity earnings realized from NMC. Continued weakness in the market price of Brent crude oil and related commodities will likely result in a further decline in equity earnings from NMC.

On February 18, 2016, Duke Energy announced it had initiated a process to divest the International Energy business segment, excluding the equity method investment in NMC. Duke Energy is in the preliminary stage and no binding or non-binding offers have been requested or submitted. Duke Energy can provide no assurance that this process will result in a transaction and there is no specific timeline for execution of a potential transaction. If the potential of a sale were to progress, it could result in classification of International Energy as assets held for sale and as a discontinued operation. As of December 31, 2015, the International Energy segment had a carrying value of approximately $2.7 billion, adjusted to include the cumulative foreign currency translation losses currently classified as accumulated other comprehensive income.

PART II

Commercial Portfolio

	Years Ended December 31,				
			Variance 2015 vs.		Variance 2014 vs.
(in millions)	2015	2014	2014	2013	2013
Operating Revenues	$301	$255	$46	$260	$(5)
Operating Expenses	353	441	(88)	425	16
Gains (Losses) on Sales of Other Assets and Other, net	1	—	1	(23)	23
Operating Loss	(51)	(186)	135	(188)	2
Other Income and Expense, net	6	18	(12)	13	5
Interest Expense	44	58	(14)	61	(3)
Loss Before Income Taxes	(89)	(226)	137	(236)	10
Income Tax Benefit	(92)	(171)	79	(148)	(23)
Less: Loss Attributable to Noncontrolling Interests	(1)	—	(1)	—	—
Segment Income (Loss)	$4	$(55)	$59	$(88)	$33
Coal-fired plant production, GWh	—	867	(867)	1,644	(777)
Renewable plant production, GWh	5,577	5,462	115	5,111	351
Total Commercial Portfolio production, GWh	5,577	6,329	(752)	6,755	(426)
Net proportional MW capacity in operation	1,943	1,370	573	2,031	(661)

Year Ended December 31, 2015 as Compared to 2014

Commercial Portfolio's results were positively impacted by the 2014 impairment recorded for an intangible asset and new solar generation, partially offset by unfavorable wind patterns. The following is a detailed discussion of the variance drivers by line item.

Operating Revenues. The variance was driven primarily by:

- a $41 million increase in electric revenues due to the acquisition of REC Solar; and
- a $15 million increase in electric revenues from new solar generation placed in service.

Partially offset by:

- an $18 million decrease in electric revenues due to lower wind production.

Operating Expenses. The variance was driven primarily by the $94 million pretax impairment related to Ohio Valley Electric Corporation (OVEC) in 2014.

Other Income and Expense, net. The variance was primarily due to lower equity earnings in the renewables portfolio due to lower wind production.

Interest Expense. The variance was driven primarily by capitalized interest from increased spending on wind and solar projects.

Income Tax Benefit. The variance is primarily due to a decrease in pretax losses and changes in state deferred taxes. The effective tax rates for the years ended December 31, 2015 and 2014 were 103.4 percent and 75.5 percent, respectively. The increase in the effective tax rate is primarily due to the impact of the production tax credits for the renewables portfolio, partially offset by changes to state apportionment factors on deferred taxes due to the Disposal Group sale.

Year Ended December 31, 2014 as Compared to 2013

Commercial Portfolio's results were impacted by higher production tax credits generation, higher production and lower operating costs by the renewables business and a prior-year loss recognized on certain renewables projects, partially offset by an impairment recorded for an intangible asset. The following is a detailed discussion of the variance drivers by line item.

Operating Revenues. The variance was driven primarily by:

- an $8 million decrease in electric revenues for the Beckjord station, which is not included in the Disposal Group, driven from lower production as units have been retired;

- $7 million decrease in net mark-to-market revenues on non-qualifying power hedge contracts.

Partially offset by:

- $16 million increase in electric revenues from higher production in the renewables portfolio.

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Operating Expenses. The variance was driven primarily by:

- a $94 million increase driven by an impairment related to OVEC. The impairment reduced the carrying amount of OVEC to zero.

Partially offset by:

- an $18 million decrease in depreciation driven by discontinued amortization of an intangible asset that was impaired and written off in 2014 and extensions on the projected useful lives of assets in the renewable portfolio;
- a $17 million decrease in fuel expense for the Beckjord station driven by lower cost of coal from decreased production as units have been retired;
- a $16 million decrease related to a 2013 legal settlement reserve related to previously disposed businesses;
- a $10 million decrease in general and administrative costs;
- a $9 million decrease in operations and maintenance expense for the renewables portfolio driven primarily by development cost reductions; and
- a $6 million decrease in property tax expense driven by cost reductions in the renewables portfolio resulting from a property tax abatement that went into effect in the current year.

Losses on Sales of Other Assets and Other, net. The variance is attributable to a loss recognized on the sale of certain renewable development projects in 2013.

Other Income and Expense. The variance was primarily due to a net gain recognized for the sale of certain renewable development assets and increased equity earnings from higher production in the renewable wind portfolio.

Income Tax Benefit. The variance was primarily due to changes in state deferred taxes and higher production tax credits in 2014 for the Renewables portfolio. The effective tax rates for the years ended December 31, 2014 and 2013 were 75.5 percent and 62.8 percent, respectively.

Other

	Years Ended December 31,				
			Variance 2015 vs.		Variance 2014 vs.
(in millions)	2015	2014	2014	2013	2013
Operating Revenues	$123	$105	$18	$175	$(70)
Operating Expenses	382	322	60	457	(135)
Gains (Losses) on Sales of Other Assets and Other, net	17	6	11	(3)	9
Operating Loss	(242)	(211)	(31)	(285)	74
Other Income and Expense, net	20	45	(25)	131	(86)
Interest Expense	393	400	(7)	416	(16)
Loss Before Income Taxes	(615)	(566)	(49)	(570)	4
Income Tax Benefit	(303)	(237)	(66)	(335)	98
Less: Income attributable to Noncontrolling Interests	10	5	5	3	2
Net Expense	$(322)	$(334)	$12	$(238)	$(96)

Year Ended December 31, 2015 as Compared to 2014

Other’s results were impacted by lower Progress Energy merger costs, an increase in income tax benefit, severance accruals, and higher North Carolina franchise taxes. The following is a detailed discussion of the variance drivers by line item.

Operating Revenues. The increase was primarily due to revenues from OVEC, which was shifted from the Commercial Portfolio segment to Other subsequent to the sale of the Disposal Group (see Note 3 to the Consolidated Financial Statements, "Business Segments.")

Operating Expenses. The increase was primarily due to severance accruals, higher charges in the current year due to the shift of the residual Midwest Generation business from the Commercial Portfolio segment to Other in 2015 (see Note 3 to the Consolidated Financial Statements, "Business Segments,") and higher North Carolina franchise taxes, partially offset by lower charges related to the Progress Energy merger and higher prior-year captive insurance loss experience.

Gains on Sales of Other Assets and Other, net. The variance was primarily due to the gain on sale of telecommunication leases.

Other Income and Expenses, net. The variance was primarily due to lower returns on investments that support benefit obligations, a gain on an investment sale in the prior year and lower investment income at Bison Insurance Company Limited, partially offset by interest income from the resolution of an income tax matter.

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Income Tax Benefit. The variance was primarily due to an increase in pretax losses and higher effective tax rate. The effective tax rates for the years ended December 31, 2015 and 2014 were 49.3 percent and 41.9 percent, respectively.

Year Ended December 31, 2014 as Compared to 2013

Other's results were negatively impacted by a decrease in income tax benefit. The following is a detailed discussion of the variance drivers by line item.

Operating Revenues. The decrease was primarily due to mark-to-market activity of mitigation sales related to the Progress Energy merger.

Operating Expenses. The decrease was primarily due to lower charges related to the Progress Energy merger and prior year Crescent Resources LLC (Crescent) litigation reserve, partially offset by unfavorable loss experience at Bison.

Other Income and Expenses. The decrease was primarily due to a gain on the sale of Duke Energy's 50 percent ownership in DukeNet Communications Holdings, LLC (DukeNet) in 2013, partially offset by a current year investment sale gain and higher investment income at Bison.

Interest Expense. The variance was due primarily to lower interest on long-term debt resulting from debt maturities and new debt issued at lower rates.

Income Tax Benefit. The variance was primarily due to a state tax benefit recognized in 2013. The effective tax rates for the years ended December 31, 2014 and 2013 were 41.9 percent and 58.6 percent, respectively.

Matters Impacting Future Other Results

Duke Energy Ohio's retired Beckjord generating station (Beckjord), previously an asset of Commercial Portfolio, became an asset of Other after the sale of the Disposal Group. Beckjord, a nonregulated facility retired during 2014, is not subject to the recently enacted EPA rule related to the disposal of CCR from electric utilities. However, if costs are incurred as a result of environmental regulations or to mitigate risk associated with on-site storage of coal ash, the costs could have an adverse impact on Other's financial position, results of operations and cash flows.

INCOME (LOSS) FROM DISCONTINUED OPERATIONS, NET OF TAX

Year Ended December 31, 2015 as Compared to 2014

The variance was primarily driven by the 2014 impairment and unrealized mark-to-market losses on economic hedges, and favorable operating results in 2015, partially offset by a litigation reserve recorded in 2015, as discussed in Note 5, "Commitments and Contingencies," to the Consolidated Financial Statements. Operating results in 2015 were favorable primarily due to higher PJM capacity revenues related to higher average cleared capacity auction pricing, increased generation margins and lower depreciation expense. Included in the variance is the impact of ceasing depreciation on the assets of the Disposal Group beginning in the second quarter of 2014. The foregone depreciation for the years ended December 31, 2015, and December 31, 2014, was approximately $40 million and $117 million, respectively.

Year Ended December 31, 2014 as Compared to 2013

The variance was primarily due to the 2014 $929 million pretax write-down of the carrying amount of the assets to the estimated fair value of the Disposal Group, based on the transaction price included in the purchase sale agreement (PSA), less estimated costs to sell and a $134 million pretax mark-to-market loss on economic hedges for the Disposal Group.

DUKE ENERGY CAROLINAS

Introduction

Management's Discussion and Analysis should be read in conjunction with the accompanying Consolidated Financial Statements and Notes for the years ended December 31, 2015, 2014 and 2013.

Basis of Presentation

The results of operations and variance discussion for Duke Energy Carolinas is presented in a reduced disclosure format in accordance with General Instruction (I)(2)(a) of Form 10-K.

Results of Operations

	Years Ended December 31,		
(in millions)	2015	2014	Variance
Operating Revenues	$7,229	$7,351	$(122)

Operating Expenses	5,268	5,456	(188)
Losses on Sales of Other Assets and Other, net	(1)	—	(1)
Operating Income	1,960	1,895	65
Other Income and Expense, net	160	172	(12)
Interest Expense	412	407	5
Income Before Income Taxes	1,708	1,660	48
Income Tax Expense	627	588	39
Net Income	$1,081	$1,072	$9

PART II

The following table shows the percent changes in GWh sales and average number of customers for Duke Energy Carolinas. The below percentages for retail customer classes represent billed sales only. Total sales includes billed and unbilled retail sales, and wholesale sales to incorporated municipalities and to public and private utilities and power marketers. Amounts are not weather normalized.

(Decrease) increase over prior year	2015	2014
Residential sales	(0.2)%	4.0 %
General service sales	1.0 %	2.4 %
Industrial sales	2.6 %	2.4 %
Wholesale power sales	1.5 %	5.7 %
Joint dispatch sales	(44.8)%	(25.7)%
Total sales	(0.3)%	2.2 %
Average number of customers	1.3 %	1.0 %

Year Ended December 31, 2015 as Compared to 2014

Operating Revenues. The variance was driven primarily by:

- a $219 million decrease in fuel revenues driven primarily by lower natural gas and coal prices, as well as change in fuel mix, partially offset by an increase in demand from customers. Fuel revenues represent sales to retail and wholesale customers; and
- a $78 million decrease in revenues to recover gross receipts taxes due to the North Carolina Tax Simplification and Rate Reduction Act, which terminated the collection of North Carolina gross receipts tax effective July 1, 2014.

Partially offset by:

- a $78 million increase in retail pricing and rate riders, which primarily reflects increased revenues related to energy efficiency programs and the second year base rate step-up from the 2013 South Carolina rate case;
- a $51 million increase from retail sales growth; and
- a $40 million increase in wholesale power revenues, net of sharing, primarily due to additional volumes for customers served under long-term contracts.

Operating Expenses. The variance was driven primarily by:

- a $252 million decrease in fuel expense (including purchased power) primarily related to lower natural gas and coal prices, as well as change in fuel mix; and
- a $47 million decrease in property and other tax expenses primarily due to the termination of the collection of the North Carolina gross receipts tax as mentioned above, partially offset by higher property tax expense.

Partially offset by:

- a $71 million increase in operations and maintenance expenses primarily due to higher expenses at generating plants, including the prior-year benefit of the adoption of nuclear outage levelization, severance expenses related to cost saving initiatives, higher energy efficiency program costs and higher distribution maintenance expenses, partially offset by a 2014 litigation reserve related to the criminal investigation of the Dan River coal ash spill, lower costs associated with the Progress Energy merger, and repairs and remediation expenses associated with the Dan River coal ash discharge in 2014; and
- a $42 million increase in depreciation and amortization expense primarily due to higher depreciation as a result of additional plant in service, partially offset by lower nuclear decommissioning costs and lower amortization of certain regulatory assets.

Other Income and Expenses, net. The variance was primarily due to a decrease in recognition of post in-service equity returns for projects that had been completed prior to being reflected in customer rates.

Income Tax Expense. The variance is primarily due to an increase in the effective tax rate and higher pretax income. The effective tax rates for the years ended December 31, 2015 and 2014 were 36.7 percent and 35.4 percent, respectively. The increase in the effective tax rate is primarily due to favorable audit settlements and changes in apportionment related to state income tax recorded in 2014, and a lower tax benefit related to the manufacturing deduction in 2015 as compared to 2014, partially offset by the non-deductible litigation reserve related to the criminal investigation of the Dan River coal ash spill recorded in 2014.

Matters Impacting Future Results

Duke Energy Carolinas is a party to multiple lawsuits and subject to fines and other penalties related to the Dan River coal ash release and operations at other North Carolina facilities with ash basins. The outcome of these lawsuits, fines and penalties could have an adverse impact on Duke Energy Carolinas' financial position, results of operations and cash flows. See Note 5 to the Consolidated Financial Statements, "Commitments and Contingencies," for additional information.

An order from regulatory authorities disallowing recovery of costs related to closure of ash impoundments could have an adverse impact on Duke Energy Carolinas' financial position, results of operations and cash flows. See Notes 4 and 9 to the Consolidated Financial Statements, "Regulatory Matters" and "Asset Retirement Obligations," respectively, for additional information.

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On October 23, 2015, the EPA published in the Federal Register the CPP rule for regulating CO_2 emissions from existing fossil fuel-fired EGUs. The CPP establishes CO_2 emission rates and mass cap goals that apply to fossil fuel-fired generation. Under the CPP, states are required to develop and submit a final compliance plan, or an initial plan with an extension request, to the EPA by September 6, 2016, or no later than September 6, 2018, with an approved extension. These state plans are subject to EPA approval, with a federal plan applied to states that fail to submit a plan to the EPA or if a state plan is not approved. Legal challenges to the CPP have been filed by stakeholders and motions to stay the requirements of the rule pending the outcome of the litigation have been filed. The U.S. Supreme Court granted a Motion to Stay in February 2016, effectively blocking enforcement of the rule until legal challenges are resolved. Final resolution of these legal challenges could take several years. Compliance with CPP could cause the industry to replace coal generation with natural gas and renewables, especially in states that have significant CO_2 reduction targets under the rule. Costs to operate coal-fired generation plants continue to grow due to increasing environmental compliance requirements, including ash management costs unrelated to CPP, and this may result in the retirement of coal-fired generation plants earlier than the current useful lives. Duke Energy Carolinas continues to evaluate the need to retire generating facilities and plans to seek regulatory recovery, where appropriate, for amounts that have not been recovered upon asset retirements. However, recovery is subject to future regulatory approval, including the recovery of carrying costs on remaining book values, and therefore cannot be assured. In addition, Duke Energy Carolinas could incur increased fuel, purchased power, operation and maintenance, and other costs for replacement generation as a result of this rule. Duke Energy Carolinas cannot predict the outcome of these matters.

PROGRESS ENERGY

Introduction

Management’s Discussion and Analysis should be read in conjunction with the accompanying Consolidated Financial Statements and Notes for the years ended December 31, 2015, 2014 and 2013.

Basis of Presentation

The results of operations and variance discussion for Progress Energy is presented in a reduced disclosure format in accordance with General Instruction (I)(2)(a) of Form 10-K.

Results of Operations

	Years Ended December 31,		
(in millions)	2015	2014	Variance
Operating Revenues	$10,277	$10,166	$111
Operating Expenses	8,142	8,159	(17)
Gains on Sales of Other Assets and Other, net	25	11	14
Operating Income	2,160	2,018	142
Other Income and Expense, net	97	77	20
Interest Expense	670	675	(5)
Income Before Income Taxes	1,587	1,420	167
Income Tax Expense	522	540	(18)
Income from Continuing Operations	1,065	880	185
Loss from Discontinued Operations, net of tax	(3)	(6)	3
Net Income	1,062	874	188
Less: Net Income Attributable to Noncontrolling Interests	11	5	6
Net Income Attributable to Parent	$1,051	$869	$182

Year Ended December 31, 2015 as Compared to 2014

Operating Revenues. The variance was driven primarily by:

- a $118 million increase in wholesale power revenues primarily due to a new NCEMPA contract effective August 1, 2015, coupled with increased overall demand rates and higher peak demand at Duke Energy Progress; and
- an $82 million increase in fuel revenues driven primarily by increased demand at Duke Energy Progress and Duke Energy Florida. Fuel revenues represent sales to retail and wholesale customers.

Partially offset by:

- a $113 decrease in rider revenues primarily due to a decrease in the nuclear cost recovery clause as a result of suspending Levy recovery, a decrease in energy conservation cost recovery clause and environmental cost recovery clause revenues due to lower recovery rates at Duke Energy Florida, partially offset by higher retail pricing and rate riders at Duke Energy Progress, which primarily reflect increased revenues related to the energy efficiency programs and the second year base rate step-up from the 2013 North Carolina retail rate case.

Operating Expenses. The variance was driven primarily by:

- a $29 million increase in fuel used in electric generation and purchased power primarily due to recovery of prior year under-collections of fuel and increased purchased power, partially offset by lower fuel prices at Duke Energy Florida; and

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- a $28 million increase in impairment charges primarily driven by a 2014 reversal of a prior-year impairment at Duke Energy Progress and current year impairments at Duke Energy Florida.

Partially offset by:

- a $37 million decrease in operations and maintenance expenses. For Duke Energy Progress, this was primarily due to a 2014 litigation reserve related to the criminal investigation of the management of North Carolina coal ash basins, lower storm restoration costs and a favorable pension expense adjustment recorded in 2015, partially offset by higher nuclear refueling outage expenses, including the prior-year benefit of the adoption of nuclear outage levelization, due to three refueling outages in 2015 compared to one outage during the same period in 2014, higher nuclear costs related to additional ownership interest in assets acquired from NCEMPA, and severance expenses related to cost savings initiatives. For Duke Energy Florida, this was primarily due to a decrease in expenses related to costs that were recoverable through the energy conservation cost recovery clause and environmental cost recovery clause; a decrease in employee and executive benefits; partially offset by an increase in expenses related to various information technology projects;
- a $25 million decrease in property and other taxes primarily due to the North Carolina Tax Simplification and Rate Reduction Act, which terminated the collection of North Carolina gross receipts tax effective July 1, 2014, at Duke Energy Progress, partially offset by higher property tax rates and higher revenue related taxes at Duke Energy Florida; and
- a $12 million decrease in depreciation and amortization expenses primarily due to reductions in amounts recovered through the nuclear cost recovery clause and the environmental cost recovery clauses at Duke Energy Florida, partially offset by higher depreciation related to additional plant in service at Duke Energy Progress.

Gains on Sales of Other Assets and Other, net. The variance was primarily due to the gain on sale of telecommunication leases.

Other Income and Expenses, net. The variance is due to higher AFUDC equity, primarily due to nuclear plant expenditures at Duke Energy Progress.

Income Tax Expense. The variance was primarily due to a lower effective tax rate. The effective tax rates for the years ended December 31, 2015 and 2014 were 32.9 percent and 38.0 percent, respectively. The decrease in the effective tax rate was primarily due to the non-deductible litigation reserve related to the criminal investigation of the management of the coal ash basins in 2014, an increase in AFUDC equity in 2015, state tax benefits from corporate restructuring in 2015, and the release of tax reserves in 2015 due to expired statutes.

Matters Impacting Future Results

Progress Energy is a party to multiple lawsuits and subject to fines and other penalties related to operations at certain North Carolina facilities with ash basins. The outcome of these lawsuits, fines and penalties could have an adverse impact on Progress Energy’s financial position, results of operations and cash flows. See Note 5 to the Consolidated Financial Statements, “Commitments and Contingencies,” for additional information.

An order from regulatory authorities disallowing recovery of costs related to closure of ash impoundments could have an adverse impact on Progress Energy’s financial position, results of operations and cash flows. See Notes 4 and 9 to the Consolidated Financial Statements, “Regulatory Matters” and "Asset Retirement Obligations," respectively, for additional information.

The FPSC approved an agreement on all securitization-related issues and issued a final financing order to securitize the Crystal River Unit 3 Regulatory asset with low-cost securities. Securitization will replace base rate recovery and result in a lower rate impact to customers. Securitization of the costs of the retired Crystal River Unit 3 Nuclear Plant would result in an initial acceleration of cash, followed by a reduction to Progress Energy's future results of operations and ongoing cash flows as it would no longer earn an equity return on these costs. Under a previous settlement agreement with the FPSC, the allowed return on equity for Crystal River Unit 3 is limited to 70 percent of the approved return on equity, which is currently 10.5 percent. Progress Energy expects the securitization bonds to be issued in the first half of 2016.

On October 23, 2015, the EPA published in the Federal Register the CPP rule for regulating CO_2 emissions from existing fossil fuel-fired EGUs. The CPP establishes CO_2 emission rates and mass cap goals that apply to fossil

fuel-fired generation. Under the CPP, states are required to develop and submit a final compliance plan, or an initial plan with an extension request, to the EPA by September 6, 2016, or no later than September 6, 2018, with an approved extension. These state plans are subject to EPA approval, with a federal plan applied to states that fail to submit a plan to the EPA or if a state plan is not approved. Legal challenges to the CPP have been filed by stakeholders and motions to stay the requirements of the rule pending the outcome of the litigation have been filed. The U.S. Supreme Court granted a Motion to Stay in February 2016, effectively blocking enforcement of the rule until legal challenges are resolved. Final resolution of these legal challenges could take several years. Compliance with CPP could cause the industry to replace coal generation with natural gas and renewables, especially in states that have significant CO_2 reduction targets under the rule. Costs to operate coal-fired generation plants continue to grow due to increasing environmental compliance requirements, including ash management costs unrelated to CPP, and this may result in the retirement of coal-fired generation plants earlier than the current useful lives. Progress Energy continues to evaluate the need to retire generating facilities and plans to seek regulatory recovery, where appropriate, for amounts that have not been recovered upon asset retirements. However, recovery is subject to future regulatory approval, including the recovery of carrying costs on remaining book values, and therefore cannot be assured. In addition, Progress Energy could incur increased fuel, purchased power, operation and maintenance, and other costs for replacement generation as a result of this rule. Progress Energy cannot predict the outcome of these matters.

DUKE ENERGY PROGRESS

Introduction

Management’s Discussion and Analysis should be read in conjunction with the accompanying Consolidated Financial Statements and Notes for the years ended December 31, 2015, 2014 and 2013.

PART II

Basis of Presentation

The results of operations and variance discussion for Duke Energy Progress is presented in a reduced disclosure format in accordance with General Instruction (I)(2)(a) of Form 10-K.

Results of Operations

	Years Ended December 31,		
(in millions)	2015	2014	Variance
Operating Revenues	$5,290	$5,176	$114
Operating Expenses	4,269	4,244	25
Gains on Sales of Other Asset and Other, net	3	3	—
Operating Income	1,024	935	89
Other Income and Expense, net	71	51	20
Interest Expense	235	234	1
Income Before Income Taxes	860	752	108
Income Tax Expense	294	285	9
Net Income	$566	$467	$99

The following table shows the percent changes in GWh sales and average number of customers for Duke Energy Progress. The below percentages for retail customer classes represent billed sales only. Total sales includes billed and unbilled retail sales, and wholesale sales to incorporated municipalities and to public and private utilities and power marketers. Amounts are not weather normalized.

(Decrease) increase over prior year	2015	2014
Residential sales	(1.4)%	5.1 %
General service sales	0.9 %	2.1 %
Industrial sales	(0.3)%	(2.9)%
Wholesale power sales	13.0 %	(2.3)%
Joint dispatch sales	14.1 %	75.3 %
Total sales	3.2 %	4.4 %
Average number of customers	1.4 %	1.1 %

Year Ended December 31, 2015 as Compared to 2014

Operating Revenues. The variance was driven primarily by:

- a $100 million increase in wholesale power revenues primarily due to a new NCEMPA contract effective August 1, 2015, and increased demand rates charged along with higher peak demand;
- a $34 million increase in retail pricing and rate riders, which primarily reflect increased revenues related to the energy efficiency programs and the second year base rate step-up from the 2013 North Carolina retail rate case; and
- a $26 million increase in fuel revenues driven primarily by increased demand from wholesale and retail customers.

Partially offset by:

- a $44 million decrease in revenues to recover gross receipts taxes due to the North Carolina Tax Simplification and Rate Reduction Act, which terminated the collection of North Carolina gross receipts tax effective July 1, 2014.

Operating Expenses. The variance was driven primarily by:

- a $61 million increase in depreciation and amortization expenses primarily due to higher depreciation related to additional plant in service; and
- an $18 million reversal in 2014 of a prior-year impairment. These charges related to planned transmission projects for which recovery is not expected, and certain cost associated with mitigation sales pursuant to merger settlement agreements with the FERC.

Partially offset by:

- a $34 million decrease in property and other taxes primarily due to the termination of the collection of the North Carolina gross receipts tax as mentioned above; and
- an $18 million decrease in operations and maintenance expenses, primarily due to a 2014 litigation reserve related to the criminal investigation of the management of North Carolina coal ash basins, lower storm restoration costs and a

favorable pension expense adjustment recorded in 2015, partially offset by higher nuclear refueling outage expenses, including the prior-year benefit of the adoption of nuclear outage levelization, due to three refueling outages in 2015 compared to one outage during the same period in 2014, higher nuclear costs related to additional ownership interest in assets acquired from NCEMPA, and severance expenses in 2015 related to cost savings initiatives.

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Other Income and Expenses, net. The variance is due to higher AFUDC equity, primarily due to nuclear plant expenditures.

Income Tax Expense. The effective tax rates for the years ended December 31, 2015 and 2014 were 34.2 percent and 37.9 percent, respectively. The decrease in the effective tax rate was primarily due to the non-deductible litigation reserve related to the criminal investigation of the management of the coal ash basins in 2014, an increase in AFUDC equity, and the reduction of the North Carolina statutory corporate state income tax rate.

Matters Impacting Future Results

Duke Energy Progress is a party to multiple lawsuits and subject to fines and other penalties related to operations at certain North Carolina facilities with ash basins. The outcome of these lawsuits, fines and penalties could have an adverse impact on Duke Energy Progress' financial position, results of operations and cash flows. See Note 5 to the Consolidated Financial Statements, "Commitments and Contingencies," for additional information.

An order from regulatory authorities disallowing recovery of costs related to closure of ash impoundments could have an adverse impact on Duke Energy Progress' financial position, results of operations and cash flows. See Notes 4 and 9 to the Consolidated Financial Statements, "Regulatory Matters" and "Asset Retirement Obligations," respectively, for additional information.

On October 23, 2015, the EPA published in the Federal Register the CPP rule for regulating CO_2 emissions from existing fossil fuel-fired EGUs. The CPP establishes CO_2 emission rates and mass cap goals that apply to fossil fuel-fired generation. Under the CPP, states are required to develop and submit a final compliance plan, or an initial plan with an extension request, to the EPA by September 6, 2016, or no later than September 6, 2018, with an approved extension. These state plans are subject to EPA approval, with a federal plan applied to states that fail to submit a plan to the EPA or if a state plan is not approved. Legal challenges to the CPP have been filed by stakeholders and motions to stay the requirements of the rule pending the outcome of the litigation have been filed. The U.S. Supreme Court granted a Motion to Stay in February 2016, effectively blocking enforcement of the rule until legal challenges are resolved. Final resolution of these legal challenges could take several years. Compliance with CPP could cause the industry to replace coal generation with natural gas and renewables, especially in states that have significant CO_2 reduction targets under the rule. Costs to operate coal-fired generation plants continue to grow due to increasing environmental compliance requirements, including ash management costs unrelated to CPP, and this may result in the retirement of coal-fired generation plants earlier than the current useful lives. Duke Energy Progress continues to evaluate the need to retire generating facilities and plans to seek regulatory recovery, where appropriate, for amounts that have not been recovered upon asset retirements. However, recovery is subject to future regulatory approval, including the recovery of carrying costs on remaining book values, and therefore cannot be assured. In addition, Duke Energy Progress could incur increased fuel, purchased power, operation and maintenance, and other costs for replacement generation as a result of this rule. Duke Energy Progress cannot predict the outcome of these matters.

DUKE ENERGY FLORIDA

Introduction

Management's Discussion and Analysis should be read in conjunction with the accompanying Consolidated Financial Statements and Notes for the years ended December 31, 2015, 2014 and 2013.

Basis of Presentation

The results of operations and variance discussion for Duke Energy Florida is presented in a reduced disclosure format in accordance with General Instruction (I)(2)(a) of Form 10-K.

Results of Operations

	Years Ended December 31,		
(in millions)	2015	2014	Variance
Operating Revenues	$4,977	$4,975	$2
Operating Expenses	3,862	3,898	(36)
Gains on Sales of Other Asset and Other, net	—	1	(1)
Operating Income	1,115	1,078	37

Other Income and Expense, net	24	20	4
Interest Expense	198	201	(3)
Income Before Income Taxes	941	897	44
Income Tax Expense	342	349	(7)
Net Income	$599	$548	$51

PART II

The following table shows the percent changes in GWh sales and average number of customers for Duke Energy Florida. The below percentages for retail customer classes represent billed sales only. Wholesale power sales include both billed and unbilled sales. Total sales includes billed and unbilled retail sales, and wholesale sales to incorporated municipalities and to public and private utilities and power marketers. Amounts are not weather normalized.

Increase (decrease) over prior year	2015	2014
Residential sales	4.9 %	2.7 %
General service sales	2.4 %	0.5 %
Industrial sales	0.8 %	1.9 %
Wholesale and other	(2.3)%	(5.9)%
Total sales	3.5 %	1.9 %
Average number of customers	1.5 %	1.5 %

Year Ended December 31, 2015 as Compared to 2014

Operating Revenues. The variance was driven primarily by:

- a $56 million increase in fuel and capacity revenues driven by increased usage. Fuel revenues represent sales to retail and wholesale customers;
- a $37 million increase due to retail sales growth;
- a $34 million increase driven by favorable weather conditions. Weather was also favorable to normal in 2015; and
- an $18 million increase in wholesale power revenues primarily driven by increased capacity rates on contracts.

Partially offset by:

- a $147 million decrease in rider revenues primarily due to a decrease in the nuclear cost recovery clause as a result of suspending Levy recovery, a decrease in energy conservation cost recovery clause and environmental cost recovery clause revenues due to lower recovery rates.

Operating Expenses. The variance was driven primarily by:

- a $72 million decrease in depreciation and amortization expense due to reductions in amounts recovered through the nuclear cost recovery clause and the environmental cost recovery clause; and
- a $15 million decrease in operations and maintenance expense primarily due to a decrease in expenses related to costs that were recoverable through the energy conservation cost recovery clause and environmental cost recovery clause; and a decrease in employee and executive benefits; partially offset by an increase in expenses related to various information technology projects.

Partially offset by:

- a $37 million increase in fuel used in electric generation and purchase power related to recovery of prior year under-collections of fuel expense and increased purchased power, partially offset by lower fuel prices; and
- a $9 million increase in property and other taxes due to higher property tax rates and higher revenue related taxes.

Income Tax Expense. The effective tax rates for the years ended December 31, 2015 and 2014 were 36.3 percent and 38.9 percent, respectively. The decrease in the effective tax rate was primarily due to a release of tax reserves due to expired statutes.

Matters Impacting Future Results

The FPSC approved an agreement on all securitization-related issues and issued a final financing order to securitize the Crystal River Unit 3 Regulatory asset with low-cost securities. Securitization will replace base rate recovery and result in a lower rate impact to customers. Securitization of the costs of the retired Crystal River Unit 3 Nuclear Plant would result in an initial acceleration of cash, followed by a reduction to Duke Energy Florida's future results of operations and ongoing cash flows as it would no longer earn an equity return on these costs. Under a previous settlement agreement with the FPSC, the allowed return on equity for Crystal River Unit 3 is limited to 70 percent of the approved return on equity, which is currently 10.5 percent. Duke Energy Florida expects to issue the securitization bonds in the first half of 2016.

PART II

On October 23, 2015, the EPA published in the Federal Register the CPP rule for regulating CO_2 emissions from existing fossil fuel-fired EGUs. The CPP establishes CO_2 emission rates and mass cap goals that apply to fossil fuel-fired generation. Under the CPP, states are required to develop and submit a final compliance plan, or an initial plan with an extension request, to the EPA by September 6, 2016, or no later than September 6, 2018, with an approved extension. These state plans are subject to EPA approval, with a federal plan applied to states that fail to submit a plan to the EPA or if a state plan is not approved. Legal challenges to the CPP have been filed by stakeholders and motions to stay the requirements of the rule pending the outcome of the litigation have been filed. The U.S. Supreme Court granted a Motion to Stay in February 2016, effectively blocking enforcement of the rule until legal challenges are resolved. Final resolution of these legal challenges could take several years. Compliance with CPP could cause the industry to replace coal generation with natural gas and renewables, especially in states that have significant CO_2 reduction targets under the rule. Costs to operate coal-fired generation plants continue to grow due to increasing environmental compliance requirements, including ash management costs unrelated to CPP, and this may result in the retirement of coal-fired generation plants earlier than the current useful lives. Duke Energy Florida continues to evaluate the need to retire generating facilities and plans to seek regulatory recovery, where appropriate, for amounts that have not been recovered upon asset retirements. However, recovery is subject to future regulatory approval, including the recovery of carrying costs on remaining book values, and therefore cannot be assured. In addition, Duke Energy Florida could incur increased fuel, purchased power, operation and maintenance, and other costs for replacement generation as a result of this rule. Duke Energy Florida cannot predict the outcome of these matters.

DUKE ENERGY OHIO

Introduction

Management’s Discussion and Analysis should be read in conjunction with the accompanying Consolidated Financial Statements and Notes for the years ended December 31, 2015, 2014 and 2013.

Basis of Presentation

The results of operations and variance discussion for Duke Energy Ohio is presented in a reduced disclosure format in accordance with General Instruction (I)(2)(a) of Form 10-K.

Results of Operations

	Years Ended December 31,		
(in millions)	2015	2014	Variance
Operating Revenues	$1,905	$1,913	$(8)
Operating Expenses	1,610	1,727	(117)
Gains on Sales of Other Assets and Other, net	8	1	7
Operating Income	303	187	116
Other Income and Expense, net	6	10	(4)
Interest Expense	79	86	(7)
Income from Continuing Operations Before Income Taxes	230	111	119
Income Tax Expense from Continuing Operations	81	43	38
Income from Continuing Operations	149	68	81
Income (Loss) from Discontinued Operations, net of tax	23	(563)	586
Net Income (Loss)	$172	$(495)	$667

The following table shows the percent changes in Regulated Utilities' GWh sales and average number of customers for Duke Energy Ohio. The below percentages for retail customer classes represent billed sales only. Total sales includes billed and unbilled retail sales, and wholesale sales to incorporated municipalities and to public and private utilities and power marketers. Amounts are not weather normalized.

(Decrease) increase over prior year	2015	2014
Residential sales	(2.2)%	1.3 %
General service sales	(0.1)%	0.8 %
Industrial sales	0.4 %	3.3 %

Wholesale power sales	222.3	%	(24.9	)%
Total sales	2.8	%	0.7	%
Average number of customers	0.7	%	0.6	%

Year Ended December 31, 2015 as Compared to 2014

Operating Revenues. The variance was driven primarily by:

- a $66 million decrease in fuel revenues primarily driven by lower electric fuel and natural gas costs and decreased sales volume;
- an $11 million decrease in electric and natural gas sales to retail customers due to unfavorable weather conditions compared to both the prior year and to normal weather; and
- a $10 million decrease due to an Ohio regulatory order that reduced certain energy efficiency rider revenues (see Note 4 to the Consolidated Financial Statements, "Regulatory Matters.").

PART II

Partially offset by:
- a $29 million increase in Kentucky wholesale revenues primarily due to the purchase of the additional capacity in the East Bend Station in December 2014, the profits from which are shared with Duke Energy Kentucky retail customers;
- a $19 million increase in regulated natural gas rate riders primarily due to rate increases;
- a $19 million increase in Ohio other revenues related to OVEC; and
- a $16 million increase in electric rate riders, excluding Ohio energy efficiency, due to rate increases and 2014 true-ups.

Operating Expenses. The variance was driven primarily by the $94 million pretax impairment related to OVEC in 2014.

Income Tax Expense. The variance was primarily due to an increase in pretax income, partially offset by a decrease in the effective tax rate. The effective tax rates for the years ended December 31, 2015 and 2014 were 35.2 percent and 38.9 percent, respectively. The decrease in the effective tax rate was primarily due to a favorable adjustment in 2015.

Discontinued Operations, Net of Tax. The variance was primarily driven by the 2014 impairment and unrealized mark-to-market losses on economic hedges for the Disposal Group and favorable operating results in 2015, partially offset by a litigation reserve recorded in 2015, as discussed in Note 5, "Commitments and Contingencies," to the Consolidated Financial Statements. Operating results in 2015 were favorable primarily due to higher PJM capacity revenues related to higher average cleared capacity auction pricing, increased generation margins and lower depreciation expense. Included in the variance is the impact of ceasing depreciation on the assets of the Disposal Group beginning in the second quarter of 2014. The foregone depreciation for the year ended December 31, 2015, and December 31, 2014, was approximately $40 million and $121 million, respectively.

Matters Impacting Future Results

In 2013, a FERC ALJ issued an initial decision that Duke Energy Ohio is responsible for costs associated with certain MVP costs, a type of MTEP cost, approved by MISO prior to the date of Duke Energy Ohio’s withdrawal. On October 29, 2015, the FERC issued an order reversing the ALJ's decision. FERC ruled that Duke Energy Ohio has no liability for MVP costs after its withdrawal from MISO. On November 30, 2015, MISO filed with the FERC a request for rehearing. If Duke Energy Ohio is deemed responsible for these costs upon appeal, and if the regulatory commissions disallow recovery of these costs, there would be an adverse impact to Duke Energy Ohio's financial position, results of operations and cash flows. See Note 4 to the Consolidated Financial Statements, “Regulatory Matters,” for additional information.

An order from regulatory authorities disallowing recovery of costs related to closure of ash basins could have an adverse impact on Duke Energy Ohio's financial position, results of operations and cash flows. See Notes 4 and 9 to the Consolidated Financial Statements, “Regulatory Matters” and "Asset Retirement Obligations," respectively, for additional information.

Duke Energy Ohio’s nonregulated Beckjord station, a facility retired during 2014, is not subject to the recently enacted EPA rule related to the disposal of CCR from electric utilities. However, if costs are incurred as a result of environmental regulations or to mitigate risk associated with on-site storage of coal ash at the facility, the costs could have an adverse impact on Duke Energy Ohio's financial position, results of operations and cash flows.

On October 23, 2015, the EPA published in the Federal Register the CPP rule for regulating CO_2 emissions from existing fossil fuel-fired EGUs. The CPP establishes CO_2 emission rates and mass cap goals that apply to fossil fuel-fired generation. Under the CPP, states are required to develop and submit a final compliance plan, or an initial plan with an extension request, to the EPA by September 6, 2016, or no later than September 6, 2018, with an approved extension. These state plans are subject to EPA approval, with a federal plan applied to states that fail to submit a plan to the EPA or if a state plan is not approved. Legal challenges to the CPP have been filed by stakeholders and motions to stay the requirements of the rule pending the outcome of the litigation have been filed. The U.S. Supreme Court granted a Motion to Stay in February 2016, effectively blocking enforcement of the rule until legal challenges are resolved. Final resolution of these legal challenges could take several years. Compliance with CPP could cause the industry to replace coal generation with natural gas and renewables, especially in states that have significant CO_2 reduction targets under the rule. Costs to operate coal-fired generation plants continue to grow due to

increasing environmental compliance requirements, including ash management costs unrelated to CPP, and this may result in the retirement of coal-fired generation plants earlier than the current useful lives. Duke Energy Ohio continues to evaluate the need to retire generating facilities and plans to seek regulatory recovery, where appropriate, for amounts that have not been recovered upon asset retirements. However, recovery is subject to future regulatory approval, including the recovery of carrying costs on remaining book values, and therefore cannot be assured. In addition, Duke Energy Ohio could incur increased fuel, purchased power, operation and maintenance, and other costs for replacement generation as a result of this rule. Duke Energy Ohio cannot predict the outcome of these matters.

DUKE ENERGY INDIANA

Introduction

Management's Discussion and Analysis should be read in conjunction with the accompanying Consolidated Financial Statements and Notes for the years ended December 31, 2015, 2014 and 2013.

Basis of Presentation

The results of operations and variance discussion for Duke Energy Indiana is presented in a reduced disclosure format in accordance with General Instruction (I)(2)(a) of Form 10-K.

PART II

Results of Operations

	Years Ended December 31,		
(in millions)	2015	2014	Variance
Operating Revenues	$2,890	$3,175	$(285)
Operating Expenses	2,247	2,470	(223)
Gains on Sales of Other Assets and Other, net	1	—	1
Operating Income	644	705	(61)
Other Income and Expense, net	11	22	(11)
Interest Expense	176	171	5
Income Before Income Taxes	479	556	(77)
Income Tax Expense	163	197	(34)
Net Income	$316	$359	$(43)

The following table shows the percent changes in GWh sales and average number of customers for Duke Energy Indiana. The below percentages for retail customer classes represent billed sales only. Total sales includes billed and unbilled retail sales, and wholesale sales to incorporated municipalities and to public and private utilities and power marketers. Amounts are not weather normalized.

(Decrease) increase over prior year	2015	2014
Residential sales	(4.1)%	2.1 %
General service sales	(0.5)%	— %
Industrial sales	(1.4)%	2.5 %
Wholesale power sales	9.4 %	(8.8)%
Total sales	0.3 %	(0.8)%
Average number of customers	0.8 %	0.6 %

Year Ended December 31, 2015 as Compared to 2014

Operating Revenues. The variance was driven primarily by:

- a $265 million decrease in fuel revenues primarily due to a decrease in fuel rates as a result of lower fuel and purchased power costs.

Operating Expenses. The variance was driven primarily by:

- a $277 million decrease in fuel used in electric generation and purchased power primarily due to lower fuel prices; and
- a $67 million decrease in property and other taxes, primarily as a result of lower sales and use tax. In 2014, an approximate $40 million other tax reserve was recorded, a portion of which was reversed in 2015 upon settlement of the matter.

Partially offset by:

- an $88 million impairment charge related to the 2015 Edwardsport IGCC settlements. See Note 4 to the Consolidated Financial Statements, “Regulatory Matters,” for additional information.

Other Income and Expense, net. The variance was primarily due to lower AFUDC equity due to Cayuga scrubbers placed into service in July 2015 and a lower rate compared to the prior year, partially offset by favorable interest income.

Income Tax Expense. The variance was primarily due to a decrease in pretax income and in the effective tax rate. The effective tax rates for the years ended December 31, 2015 and 2014 were 34.0 percent and 35.5 percent, respectively. The decrease in the effective tax rate was primarily due to a favorable adjustment in 2015.

Matters Impacting Future Results

Duke Energy Indiana is evaluating converting Wabash River Unit 6 to a natural gas-fired unit or retiring the unit earlier than its current estimated useful life. If Duke Energy Indiana elects early retirement of the unit, recovery of remaining book values and associated carrying costs totaling approximately $40 million could be subject to future regulatory approvals and therefore cannot be assured.

On April 17, 2015, the EPA published in the Federal Register a rule to regulate the disposal of CCR from electric utilities as solid waste. Duke Energy Indiana has interpreted the rule to identify the coal ash basin sites impacted and has assessed the amounts of coal ash subject to the rule and a method of compliance. Duke Energy Indiana's interpretation of the requirements of the CCR rule is subject to potential legal challenges and further regulatory approvals, which could result in additional ash basin closure requirements, higher costs of compliance and greater asset retirement obligations. An order from regulatory authorities disallowing recovery of costs related to closure of ash basins could have an adverse impact on Duke Energy Indiana's financial position, results of operations and cash flows.

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In September 2015, Duke Energy Indiana entered into a settlement agreement with multiple parties that will resolve all disputes, claims and issues from the IURC proceedings regarding the Edwardsport IGCC generating facility. In January 2016, additional parties joined a revised settlement. Pursuant to the terms of the agreement, Duke Energy Indiana recognized an impairment and related charges of $93 million. Additionally, the settlement agreement stipulates the recovery of the remaining regulatory asset over an eight-year period and confirms the conclusion that the in-service date for accounting and ratemaking purposes will remain June 7, 2013. The settlement agreement will also impose a cost cap for recoverable operations and maintenance retail costs of $73 million in 2016 and $77 million in 2017 as well as a cost cap for ongoing capital expenditures through 2017. As part of the settlement, Duke Energy Indiana committed to cease burning coal at Gallagher Station Unit 2 and 4 by the end of 2022. The settlement is subject to IURC approval and, if approved, would resolve and close a number of outstanding issues pending before the IURC related to post commercial operating performance and recovery of ongoing operating and capital costs at Edwardsport. If the settlement is not approved, outstanding issues before the IURC related to Edwardsport would resume, the ultimate resolution of which could have an adverse impact on Duke Energy Indiana's financial position, results of operations and cash flows. In addition, the inability to manage operating and capital costs under caps imposed under the settlement could have an adverse impact on Duke Energy Indiana's financial position, results of operations and cash flows. See Note 4 to the Consolidated Financial Statements, “Regulatory Matters,” for additional information.

On October 23, 2015, the EPA published in the Federal Register the CPP rule for regulating CO_2 emissions from existing fossil fuel-fired EGUs. The CPP establishes CO_2 emission rates and mass cap goals that apply to fossil fuel-fired generation. Under the CPP, states are required to develop and submit a final compliance plan, or an initial plan with an extension request, to the EPA by September 6, 2016, or no later than September 6, 2018, with an approved extension. These state plans are subject to EPA approval, with a federal plan applied to states that fail to submit a plan to the EPA or if a state plan is not approved. Legal challenges to the CPP have been filed by stakeholders and motions to stay the requirements of the rule pending the outcome of the litigation have been filed. The U.S. Supreme Court granted a Motion to Stay in February 2016, effectively blocking enforcement of the rule until legal challenges are resolved. Final resolution of these legal challenges could take several years. Compliance with CPP could cause the industry to replace coal generation with natural gas and renewables, especially in states that have significant CO_2 reduction targets under the rule. Costs to operate coal-fired generation plants continue to grow due to increasing environmental compliance requirements, including ash management costs unrelated to CPP, and this may result in the retirement of coal-fired generation plants earlier than the current useful lives. Duke Energy Indiana continues to evaluate the need to retire generating facilities and plans to seek regulatory recovery, where appropriate, for amounts that have not been recovered upon asset retirements. However, recovery is subject to future regulatory approval, including the recovery of carrying costs on remaining book values, and therefore cannot be assured. In addition, Duke Energy Indiana could incur increased fuel, purchased power, operation and maintenance, and other costs for replacement generation as a result of this rule. Duke Energy Indiana cannot predict the outcome of these matters.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Preparation of financial statements requires the application of accounting policies, judgments, assumptions and estimates that can significantly affect the reported results of operations and the amounts of assets and liabilities reported in the financial statements. Judgments made include the likelihood of success of particular projects, possible legal and regulatory challenges, earnings assumptions on pension and other benefit fund investments and anticipated recovery of costs, especially through regulated operations.

Management discusses these policies, estimates and assumptions with senior members of management on a regular basis and provides periodic updates on management decisions to the Audit Committee of the Board of Directors. Management believes the areas described below require significant judgment in the application of accounting policy or in making estimates and assumptions that are inherently uncertain and that may change in subsequent periods. For further information, see Note 1 to the Consolidated Financial Statements, "Summary of Significant Accounting Policies."

Regulatory Accounting

Regulated Utilities, Duke Energy’s regulated operations, meets the criteria for application of regulatory accounting treatment for substantially all of its operations. As a result, Duke Energy records assets and liabilities that would not be recorded for nonregulated entities. Regulatory assets generally represent incurred costs that have been deferred because such costs are probable of future recovery in customer rates. Regulatory liabilities generally represent obligations to make refunds or reduce rates to customers for previous collections or for costs that have yet to be incurred.

Management continually assesses whether recorded regulatory assets are probable of future recovery by considering factors such as applicable regulatory environment changes, historical regulatory treatment for similar costs in Duke Energy’s jurisdictions, litigation of rate orders, recent rate orders to other regulated entities, levels of actual return on equity compared to approved rates of return on equity, and the status of any pending or potential deregulation legislation. If future recovery of costs ceases to be probable, asset write-offs would be recognized in operating income. Additionally, regulatory agencies can provide flexibility in the manner and timing of the depreciation of property, plant and equipment, recognition of asset retirement costs, and amortization of regulatory assets, or may disallow recovery of all or a portion of certain assets. For further information on regulatory assets and liabilities, see Note 4 to the Consolidated Financial Statements, “Regulatory Matters.”

As required by regulated operations accounting rules, significant judgment can be required to determine if an otherwise recognizable incurred cost, such as closure costs for ash impoundments, qualifies to be deferred for future recovery as a regulatory asset. Significant judgment can also be required to determine if revenues previously recognized are for entity specific costs that are no longer expected to be incurred and are therefore a regulatory liability. See Note 4 to the Consolidated Financial Statements, "Regulatory Matters," for a more in-depth discussion of Regulatory Assets and Liabilities.

PART II

Regulatory accounting rules also require recognition of a disallowance (also called "impairment") loss if it becomes probable that part of the cost of a plant under construction (or a recently completed plant or an abandoned plant) will be disallowed for ratemaking purposes and a reasonable estimate of the amount of the disallowance can be made. For example, if a cost cap is set for a plant still under construction, the amount of the disallowance is a result of a judgment as to the ultimate cost of the plant. Other disallowances can require judgments on allowed future rate recovery. See Note 4 to the Consolidated Financial Statements, “Regulatory Matters,” for a discussion of disallowances recorded related to the Edwardsport IGCC Plant and the retired Crystal River Unit 3 Nuclear Plant.

When it becomes probable that regulated generation, transmission or distribution assets will be abandoned, the cost of the asset is removed from plant in service. The value that may be retained as a regulatory asset on the balance sheet for the abandoned property is dependent upon amounts that may be recovered through regulated rates, including any return. As such, an impairment charge, if any, could be offset by the establishment of a regulatory asset if rate recovery is probable. The impairment for a disallowance of costs for regulated plants under construction, recently completed or abandoned is based on discounted cash flows.

For further information, see Note 4 to the Consolidated Financial Statements, "Regulatory Matters."

Goodwill Impairment Assessments

Duke Energy allocates goodwill to reporting units, which are either the Business Segments listed in Note 3 or one level below based on how the Business Segment is managed. Duke Energy is required to test goodwill for impairment at least annually and more frequently if it is more likely than not that the fair value is less than the carrying value. Duke Energy performs its annual impairment test as of August 31.

Application of the goodwill impairment test requires management judgment, including determining the fair value of the reporting unit, which management estimates using a weighted combination of the income approach, which estimates fair value based on discounted cash flows, and the market approach, which estimates fair value based on market comparables within the utility and energy industries. Significant assumptions used in these fair value analyses include discount and growth rates, future rates of return expected to result from ongoing rate regulation, utility sector market performance and transactions, projected operating and capital cash flows for Duke Energy’s business and the fair value of debt.

Estimated future cash flows under the income approach are based to a large extent on Duke Energy’s internal business plan, and adjusted as appropriate for Duke Energy’s views of market participant assumptions. Duke Energy’s internal business plan reflects management’s assumptions related to customer usage and attrition based on internal data and economic data obtained from third-party sources, projected commodity pricing data and potential changes in environmental regulations. The business plan assumes the occurrence of certain events in the future, such as the outcome of future rate filings, future approved rates of returns on equity, anticipated earnings/returns related to significant future capital investments, continued recovery of cost of service, the renewal of certain contracts and the future of renewable tax credits. Management also makes assumptions regarding operation, maintenance and general and administrative costs based on the expected outcome of the aforementioned events. In estimating cash flows, Duke Energy incorporates expected growth rates, regulatory and economic stability, the ability to renew contracts and other factors, into its revenue and expense forecasts.

One of the most significant assumptions that Duke Energy utilizes in determining the fair value of its reporting units under the income approach is the discount rate applied to the estimated future cash flows. Management determines the appropriate discount rate for each of its reporting units based on the weighted average cost of capital (WACC) for each individual reporting unit. The WACC takes into account both the after-tax cost of debt and cost of equity. A major component of the cost of equity is the current risk-free rate on 20-year U.S. Treasury bonds. In the 2015 impairment tests, Duke Energy considered implied WACCs for certain peer companies in determining the appropriate WACC rates to use in its analysis. As each reporting unit has a different risk profile based on the nature of its operations, including factors such as regulation, the WACC for each reporting unit may differ. Accordingly, the WACCs were adjusted, as appropriate, to account for company specific risk premiums. The discount rates used for calculating the fair values as of August 31, 2015, for each of Duke Energy’s domestic reporting units ranged from 5.9 percent to 7.1 percent.

For Duke Energy’s international operations, a country-specific risk adder based on the average risk premium for each separate country in which International Energy operates was added to the base discount rate to reflect the differing risk profiles. This resulted in a discount rate for the August 31, 2015, goodwill impairment test for the international operations of 10.5 percent.

The underlying assumptions and estimates are made as of a point in time. Subsequent changes, particularly changes in the discount rates, authorized regulated rates of return or growth rates inherent in management’s estimates of future cash flows, could result in future impairment charges.

The majority of Duke Energy’s business is in environments that are either fully or partially rate-regulated. In such environments, revenue requirements are adjusted periodically by regulators based on factors including levels of costs, sales volumes and costs of capital. Accordingly, Duke Energy’s regulated utilities operate to some degree with a buffer from the direct effects, positive or negative, of significant swings in market or economic conditions. However, significant changes in discount rates over a prolonged period may have a material impact on the fair value of equity. As of August 31, 2015, all of the reporting units’ estimated fair value of equity substantially exceeded the carrying value of equity.

For further information, see Note 11 to the Consolidated Financial Statements, "Goodwill and Intangible Assets."

Long-Lived Asset Impairment Assessments, Excluding Regulated Operations

Property, plant and equipment, excluding plant held for sale, is stated at the lower of carrying value (historical cost less accumulated depreciation and previously recorded impairments) or fair value, if impaired. Duke Energy evaluates property, plant and equipment for impairment when events or changes in circumstances (such as a significant change in cash flow projections, the determination that it is more likely than not an asset or asset group will be sold) indicate the carrying value of such assets may not be recoverable. The determination of whether an impairment has occurred is based on an estimate of undiscounted future cash flows attributable to the assets, as compared with their carrying value.

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Performing an impairment evaluation involves a significant degree of estimation and judgment in areas such as identifying circumstances that indicate an impairment may exist, identifying and grouping affected assets, and developing the undiscounted future cash flows. If an impairment has occurred, the amount of the impairment recognized is determined by estimating the fair value and recording a loss if the carrying value is greater than the fair value. Additionally, determining fair value requires probability weighting future cash flows to reflect expectations about possible variations in their amounts or timing and the selection of an appropriate discount rate. Although cash flow estimates are based on relevant information available at the time the estimates are made, estimates of future cash flows are, by nature, highly uncertain and may vary significantly from actual results. For assets identified as held for sale, the carrying value is compared to the estimated fair value less cost to sell to determine if an impairment loss is required. Until the assets are disposed of, their estimated fair value is re-evaluated when circumstances or events change.

When determining whether an asset or asset group has been impaired, management groups assets at the lowest level that has discrete cash flows.

For further information, see Note 2 to the Consolidated Financial Statements, "Acquisition and Dispositions."

Accounting for Loss Contingencies

Preparation of financial statements and related disclosures require judgments regarding the future outcome of contingent events. Duke Energy is involved in certain legal and environmental matters arising in the normal course of business. Estimating probable losses requires analysis of multiple forecasts and scenarios that often depend on judgments about potential actions by third parties, such as federal, state and local courts and regulators. Contingent liabilities are often resolved over long periods of time. Amounts recorded in the consolidated financial statements may differ from the actual outcome once the contingency is resolved, which could have a material impact on future results of operations, financial position and cash flows of Duke Energy.

For further information, see Notes 4 and 5 to the Consolidated Financial Statements, "Regulatory Matters" and “Commitments and Contingencies.”

Revenue Recognition

Revenues on sales of electricity and gas are recognized when either the service is provided or the product is delivered. Operating revenues include unbilled electric and gas revenues earned when service has been delivered but not billed by the end of the accounting period. Unbilled retail revenues are estimated by applying an average revenue per kilowatt-hour (kWh) or per thousand cubic feet (Mcf) for all customer classes to the number of estimated kWh or Mcf delivered but not billed. Unbilled wholesale energy revenues are calculated by applying the contractual rate per MWh to the number of estimated MWh delivered but not yet billed. Unbilled wholesale demand revenues are calculated by applying the contractual rate per MW to the MW volume delivered but not yet billed. The amount of unbilled revenues can vary significantly from period to period as a result of numerous factors, including seasonality, weather, customer usage patterns, customer mix, timing of rendering customer bills, and the average price in effect for customer classes.

Pension and Other Post-Retirement Benefits

The calculation of pension expense, other post-retirement benefit expense and net pension and other post-retirement assets or liabilities require the use of assumptions and election of permissible accounting alternatives. Changes in assumptions can result in different expense and reported asset or liability amounts, and future actual experience can differ from the assumptions. Duke Energy believes the most critical assumptions for pension and other post-retirement benefits are the expected long-term rate of return on plan assets and the assumed discount rate applied to future benefit payments. Additionally, the health care cost trend rate assumption is critical to Duke Energy’s estimate of other post-retirement benefits.

Duke Energy elects to amortize net actuarial gains or losses in excess of the corridor of 10 percent of the greater of the market-related value of plan assets or plan projected benefit obligation, into net pension or other post-retirement benefit expense over the average remaining service period of active covered employees. Prior service cost or credit, which represents the effect on plan liabilities due to plan amendments, is amortized over the average remaining service period of active covered employees.

Duke Energy maintains 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 years of service and current interest credits. Certain employees are covered under plans that use a final average earnings formula. 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 provides some health care and life insurance benefits for retired employees on a contributory and non-contributory basis. Certain employees are eligible for these benefits if they have met age and service requirements at retirement, as defined in the plans.

As of December 31, 2015, Duke Energy assumes pension and other post-retirement plan assets will generate a long-term rate of return of 6.50 percent. The expected long-term rate of return was developed using a weighted average calculation of expected returns based primarily on future expected returns across asset classes considering the use of active asset managers, where applicable. Equity securities are held for their higher expected returns. Debt securities are primarily held to hedge the pension liability. Hedge funds, real estate and other global securities are held for diversification. Investments within asset classes are diversified to achieve broad market participation and reduce the impact of individual managers on investments. In 2013, Duke Energy adopted a de-risking investment strategy for its pension assets. As the funded status of the plans increase, over time 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 pension liability and reduced funded status volatility. Effective January 1, 2016, based on the current funded status of the plans, the asset allocation for the Duke Energy pension plans has been adjusted to 63 percent fixed-income assets and 37 percent return-seeking assets. Duke Energy regularly reviews its actual asset allocation and periodically rebalances its investments to the targeted allocations when considered appropriate.

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The assets for Duke Energy's pension and other post-retirement plans are maintained in a master trust. 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.

Duke Energy discounted its future U.S. pension and other post-retirement obligations using a rate of 4.4 percent as of December 31, 2015. Discount rates used to measure benefit plan obligations for financial reporting purposes reflect rates at which pension benefits could be effectively settled. As of December 31, 2015, Duke Energy determined its discount rate for U.S. pension and other post-retirement obligations using 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 match the timing of projected benefit payments. 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.

Future changes in plan asset returns, assumed discount rates and various other factors related to the participants in Duke Energy's pension and post-retirement plans will impact future pension expense and liabilities. Duke Energy cannot predict with certainty what these factors will be in the future. The following table presents the approximate effect on Duke Energy's 2015 pretax pension expense, pretax other post-retirement expense, pension obligation and other post-retirement benefit obligation if a 0.25 percent change in rates were to occur.

	Qualified and Non-Qualified Pension Plans				Other Post-Retirement Plans			
(in millions)	0.25	%	(0.25	)%	0.25	%	(0.25	)%
Effect on 2015 pretax pension and other post-retirement expense								
Expected long-term rate of return	$(20	)	$20		$(1	)	$1	
Discount rate	(14	)	13		(1	)	1	
Effect on pension and other post-retirement benefit obligation at December 31, 2015								
Discount rate	(200	)	206		(17	)	17	

Duke Energy's U.S. other post-retirement plan uses a health care trend rate covering both pre- and post-age 65 retired plan participants, which is comprised of a medical care trend rate, which reflects the near- and long-term expectation of increases in medical costs, and a prescription drug trend rate, which reflects the near and long-term expectation of increases in prescription drug costs. As of December 31, 2015, the health care trend rate was 7.5 percent, trending down to 4.75 percent by 2023. The following table presents the approximate effect on Duke Energy's 2015 pretax other post-retirement expense and other post-retirement benefit obligation if a 1 percentage point change in the health care trend rate were to occur.

	Other Post-Retirement Plans			
(in millions)	1	%	(1	)%
Effect on 2015 other post-retirement expense	$7		$(6	)
Effect on other post-retirement benefit obligation at December 31, 2015	29		(26	)

For further information, see Note 21 to the Consolidated Financial Statements, "Employee Benefit Plans."

LIQUIDITY AND CAPITAL RESOURCES

Sources and Uses of Cash

Duke Energy relies primarily upon cash flows from operations, debt issuances and its existing cash and cash equivalents to fund its domestic liquidity and capital requirements. Duke Energy's capital requirements arise primarily from capital and investment expenditures, repaying long-term debt and paying dividends to shareholders. Duke Energy's projected primary sources and uses for the next three fiscal years are included in the table below.

(in millions)	2016	2017	2018

Uses[a]:			
Capital expenditures	$8,600-$8,775	$7,300-$8,500	$6,775-$7,800
Debt maturities and reduction in short-term debt[b]	3,885	2,250	2,750
Dividend payments	2,300	2,400	2,500
Sources[a]:			
Cash flows from operations[c]	$7,200	$7,500	$7,900
Debt issuances	7,050	5,200	4,150
Equity issuances	—	—	350

(a) Uses and Sources exclude amounts related to payments for or proceeds from the planned acquisition of Piedmont and possible sale of the International Energy segment.

(b) Excludes capital leases and securitized receivables maturities in 2016 and 2017 expected to be renewed. Amounts represent Duke Energy's financing plan, which accelerates certain contractual maturities.

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(c) Includes expenditures related to ash basin closures.

On October 24, 2015, Duke Energy entered into an Agreement and Plan of Merger (Merger Agreement) with Piedmont Natural Gas Company, Inc., (Piedmont) a North Carolina corporation. Under the terms of the Merger Agreement, Duke Energy will acquire Piedmont for $4.9 billion in cash and will assume Piedmont's existing debt, which was approximately $1.9 billion at October 31, 2015, the end of Piedmont's most recent fiscal year. Duke Energy expects to finance the transaction with a combination of debt, between $500 million and $750 million of newly issued equity and other cash sources. Duke Energy has a fully underwritten bridge facility to support funding of the merger. For further information on the Piedmont acquisition, refer to Note 2 to the Consolidated Financial Statements, “Acquisitions and Dispositions."

During 2014, Duke Energy declared a taxable dividend of foreign earnings in the form of notes payable that was intended to 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 eight years. In 2015, approximately $1.5 billion was remitted. Approximately $300 million is expected to be remitted in 2016, with the remaining amount remitted by 2022. Duke Energy announced on February 18, 2016, it had initiated a process to divest the International Energy business segment, excluding the equity method investment in NMC. Duke Energy is in the preliminary stage and no binding or non-binding offers have been requested or submitted. Duke Energy can provide no assurance that this process will result in a transaction. Additional proceeds from the notes payable or from a successful sale of International Energy will principally be used to fund the operations and growth of its domestic businesses.

The Subsidiary Registrants generally maintain minimal cash balances and use short-term borrowings to meet their working capital needs and other cash requirements. The Subsidiary Registrants, excluding Progress Energy, support their short-term borrowing needs through participation with Duke Energy and certain of its other subsidiaries in a money pool arrangement. The companies with short-term funds may provide short-term loans to affiliates participating under this arrangement. See Note 6 to the Consolidated Financial Statements, “Debt and Credit Facilities,” for additional discussion of the money pool arrangement.

Duke Energy and the Subsidiary Registrants, excluding Progress Energy, may also use short-term debt, including commercial paper and the money pool, as a bridge to long-term debt financings. The levels of borrowing may vary significantly over the course of the year due to the timing of long-term debt financings and the impact of fluctuations in cash flows from operations. From time to time, Duke Energy’s current liabilities exceed current assets resulting from the use of short-term debt as a funding source to meet scheduled maturities of long-term debt, as well as cash needs, which can fluctuate due to the seasonality of its business.

Credit Facilities and Registration Statements

Master Credit Facility Summary

Duke Energy has a Master Credit Facility with a capacity of $7.5 billion through January 2020. The Duke Energy Registrants, excluding Progress Energy (Parent), 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 and as security to meet obligations under the Plea Agreements. The table below includes the current borrowing sublimits and available capacity under the Master Credit Facility.

	December 31, 2015						
(in millions)	Duke Energy	Duke Energy (Parent)	Duke Energy Carolinas	Duke Energy Progress	Duke Energy Florida	Duke Energy Ohio	Duke Energy Indiana
Facility size[a]	$7,500	$3,475	$800	$1,000	$1,200	$425	$600
Reduction to backstop issuances							
Commercial paper[b]	(3,138)	(1,531)	(300)	(333)	(709)	(115)	(150)
Outstanding letters of credit	(72)	(65)	(4)	(2)	(1)	—	—

Tax-exempt bonds	(116)	—	(35)	—	—	—	(81)
Coal ash set-aside[c]	(500)	—	(250)	(250)	—	—	—
Available capacity	$3,674	$1,879	$211	$415	$490	$310	$369

(a) Represents the sublimit of each borrower at December 31, 2015. The Duke Energy Ohio sublimit includes $125 million for Duke Energy Kentucky.

(b) Duke Energy issued $625 million of commercial paper and loaned the proceeds through the money pool to Duke Energy Carolinas, Duke Energy Progress, Duke Energy Ohio and Duke Energy Indiana. The balances are included within Long-Term Debt Payable to Affiliated Companies in the Consolidated Balance Sheets.

(c) On May 14, 2015, the United States District Court for the Eastern District of North Carolina approved the separate Plea Agreements entered into by Duke Energy Carolinas, Duke Energy Progress and Duke Energy Business Services, LLC (DEBS), a wholly owned subsidiary of Duke Energy, in connection with the investigation initiated by the USDOJ. 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. See Note 5 to the Consolidated Financial Statements, “Commitments and Contingencies,” for additional information.

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Piedmont Bridge Facility

In connection with the Merger Agreement with Piedmont, Duke Energy entered into a $4.9 billion Bridge Facility with Barclays. The Bridge Facility, if drawn upon, may be used to (i) fund the cash consideration for the transaction and (ii) pay certain fees and expenses in connection with the transaction. In November 2015, Barclays syndicated its commitment under the Bridge Facility to a broader group of lenders. Duke Energy intends to finance the transaction with proceeds raised through the issuance of debt, equity and other sources as noted above and, therefore, does not expect to draw upon the Bridge Facility.

Short-Term Loan Facility

On February 22, 2016, Duke Energy entered into a six-month term loan facility (Term Loan) with commitments totaling $1 billion to provide additional flexibility in managing short-term liquidity. The Term Loan can be drawn upon in a single borrowing of up to $1 billion, which must occur no later than 45 calendar days following February 22, 2016. As of February 24, 2016, no amounts have been drawn under the Term Loan. Amounts drawn under this facility, if any, will be due on August 19, 2016. The terms and conditions of this Term Loan are generally consistent with those governing the Master Credit Facility discussed above.

Shelf Registration

In September 2013, Duke Energy filed a registration statement (Form S-3) with the 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.

CAPITAL EXPENDITURES

Duke Energy continues to focus on reducing risk and positioning its business for future success and will invest principally in its strongest business sectors. Based on this goal, the majority of Duke Energy’s total projected capital expenditures are allocated to the Regulated Utilities segment. Duke Energy’s projected capital and investment expenditures for the next three fiscal years are included in the table below.

(in millions)	2016	2017	2018
New generation	$1,275	$925	$825
Environmental	350	425	200
Nuclear fuel	525	425	425
Major nuclear	175	200	75
Customer additions	500	575	575
Grid modernization and other transmission and distribution projects	1,300	1,475	1,575
Maintenance	2,700	2,325	2,200
Total Regulated Utilities	6,825	6,350	5,875
Commercial Portfolio, International Energy and Other	1,775	950	900
Total committed expenditures	8,600	7,300	6,775
Discretionary expenditures	175	1,200	1,025
Total projected capital and investment expenditures	$8,775	$8,500	$7,800

DEBT MATURITIES

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, 2015
Unsecured Debt			
Progress Energy (Parent)	January 2016	5.625 %	$300
Duke Energy Indiana	June 2016	6.05 %	325
Duke Energy (Parent)	November 2016	2.150 %	500

First Mortgage Bonds				
Duke Energy Indiana	July 2016	0.670	%	150
Duke Energy Carolinas	December 2016	1.750	%	350
Other				449
Current maturities of long-term debt				$2,074

DIVIDEND PAYMENTS

In 2015, Duke Energy paid quarterly cash dividends for the 90th consecutive year and expects to continue its policy of paying regular cash dividends in the future. There is no assurance as to the amount of future dividends because they depend on future earnings, capital requirements, financial condition and are subject to the discretion of the Board of Directors.

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Through 2020, the dividend payout ratio is expected to be between 70 and 75 percent, based upon adjusted diluted EPS. Over the past several years, Duke Energy's dividend has grown at approximately 2 percent annually, slower than overall adjusted earnings growth. In 2015, Duke Energy increased the dividend payout to grow the dividend at approximately 4 percent annually, better matching expected future earnings growth.

Dividend and Other Funding Restrictions of Duke Energy Subsidiaries

As discussed in Note 4 to the Consolidated Financial Statements, "Regulatory Matters," Duke Energy's wholly owned public utility operating companies have restrictions on the amount of funds that can be transferred to Duke Energy through dividends, advances or loans as a result of conditions imposed by various regulators in conjunction with merger transactions. 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. Additionally, certain other Duke Energy subsidiaries have other restrictions, such as minimum working capital and tangible net worth requirements pursuant to debt and other agreements that limit the amount of funds that can be transferred to Duke Energy. At December 31, 2015, the amount of restricted net assets of wholly owned subsidiaries of Duke Energy that may not be distributed to Duke Energy in the form of a loan or dividend is less than 25 percent of Duke Energy's net assets. Duke Energy does not have any legal or other restrictions on paying common stock dividends to shareholders out of its consolidated equity accounts. Although these restrictions cap the amount of funding the various operating subsidiaries can provide to Duke Energy, management does not believe these restrictions will have a significant impact on Duke Energy's ability to access cash to meet its payment of dividends on common stock and other future funding obligations.

CASH FLOWS FROM OPERATING ACTIVITIES

The relatively stable operating cash flows of Regulated Utilities compose a substantial portion of Duke Energy's cash flows from operations. Regulated Utilities' cash flows from operations are primarily driven by sales of electricity and natural gas and costs of operations. Weather conditions, working capital and commodity price fluctuations, and unanticipated expenses including unplanned plant outages, storms, and legal costs and related settlements can affect the timing and level of cash flows from operations.

Duke Energy believes it has sufficient liquidity resources through the commercial paper markets, and ultimately, the Master Credit Facility, to support these operations. Cash flows from operations are subject to a number of other factors, including, but not limited to, regulatory constraints, economic trends and market volatility (see Item 1A, "Risk Factors," for additional information).

At December 31, 2015, Duke Energy had cash and cash equivalents and short-term investments of $857 million, of which approximately $534 million is held by entities domiciled in foreign jurisdictions. In December 2014, Duke Energy declared a taxable dividend of historical foreign earnings in the form of notes payable that was expected to 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 eight years. In 2015, approximately $1.5 billion was remitted.

As of December 31, 2015, Duke Energy's intention was to indefinitely reinvest undistributed earnings generated by Duke Energy's foreign subsidiaries. As a result, no U.S. tax is recorded on such earnings of approximately $250 million. The amount of unrecognized deferred tax liability related to undistributed earnings was approximately $12 million. On February 18, 2016, Duke Energy announced it had initiated a process to divest the International Energy business segment, excluding the investment in NMC. See Note 2 for further information. Accordingly, Duke Energy no longer intends to indefinitely reinvest the undistributed foreign earnings of International Energy and will therefore record U.S. taxes related to International Energy's undistributed foreign earnings during the first quarter of 2016. Proceeds from the notes payable or from a successful sale of International Energy will principally be used to fund the operations and growth of its domestic businesses.

DEBT ISSUANCES

Depending on availability based on the issuing entity, the credit rating of the issuing entity, and market conditions, the Subsidiary Registrants prefer to issue first mortgage bonds and secured debt, followed by unsecured debt. This preference is the result of generally higher credit ratings for first mortgage bonds and secured debt, which typically result in lower interest costs. Duke Energy Corporation primarily issues unsecured debt.

Duke Energy's capitalization is balanced between debt and equity as shown in the table below.

	Projected 2016		Actual 2015		Actual 2014	
Equity	47	%	48	%	49	%
Debt	53	%	52	%	51	%

Duke Energy's fixed charges coverage ratio, calculated using SEC guidelines, was 3.2 times for 2015, 3.2 times for 2014, and 3.0 times for 2013.

Restrictive Debt Covenants

Duke Energy's debt and credit agreements contain various financial and other covenants. The Master Credit Facility contains a covenant requiring the debt-to-total capitalization ratio to 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 or sublimits thereto. As of December 31, 2015, Duke Energy was in compliance with all covenants related to its debt agreements. In addition, some credit agreements may allow for acceleration of payments or termination of the agreements due to nonpayment, or to the acceleration of other significant indebtedness of the borrower or some of its subsidiaries. None of the debt or credit agreements contain material adverse change clauses.

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Credit Ratings

The Duke Energy Registrants each hold credit ratings by Fitch Ratings, Inc. (Fitch), Moody's Investors Service, Inc. (Moody's) and Standard & Poor's Rating Services (S&P). The following table includes Duke Energy and certain subsidiaries' credit ratings and ratings outlook as of February 2016.

	Fitch	Moody's	S&P
Duke Energy Corporation	Watch-N	Negative	Negative
Issuer Credit Rating	BBB+	Baa1	A-
Senior Unsecured Debt	BBB+	Baa1	BBB+
Commercial Paper	F-2	P-2	A-2
Duke Energy Carolinas	Stable	Stable	Negative
Senior Secured Debt	AA-	Aa2	A
Senior Unsecured Debt	A+	A1	A-
Progress Energy	Stable	Stable	Negative
Senior Unsecured Debt	BBB	Baa2	BBB+
Duke Energy Progress	Stable	Stable	Negative
Issuer Credit Rating	A-	A2	A-
Senior Secured Debt	A+	Aa3	A
Duke Energy Florida	Stable	Stable	Negative
Senior Secured Debt	A	A1	A
Senior Unsecured Debt	A-	A3	A-
Duke Energy Ohio	Stable	Stable	Negative
Senior Secured Debt	A	A2	A
Senior Unsecured Debt	A-	Baa1	A-
Duke Energy Indiana	Positive	Stable	Negative
Senior Secured Debt	A	Aa3	A
Senior Unsecured Debt	A-	A2	A-

Credit ratings are intended to provide credit lenders a framework for comparing the credit quality of securities and are not a recommendation to buy, sell or hold. The Duke Energy Registrants' credit ratings are dependent on the rating agencies' assessments of their ability to meet their debt principal and interest obligations when they come due. If, as a result of market conditions or other factors, the Duke Energy Registrants are unable to maintain current balance sheet strength, or if earnings and cash flow outlook materially deteriorates, credit ratings could be negatively impacted.

Cash Flow Information

The following table summarizes Duke Energy's cash flows for the three most recently completed fiscal years.

	Years Ended December 31,		
(in millions)	2015	2014	2013
Cash flows provided by (used in):			
Operating activities	$6,676	$6,586	$6,382
Investing activities	(5,277)	(5,373)	(4,978)
Financing activities	(2,578)	(678)	(1,327)
Net (decrease) increase in cash and cash equivalents	(1,179)	535	77
Cash and cash equivalents at beginning of period	2,036	1,501	1,424
Cash and cash equivalents at end of period	$857	$2,036	$1,501

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OPERATING CASH FLOWS

The following table summarizes key components of Duke Energy's operating cash flows for the three most recently completed fiscal year.

	Years Ended December 31,		
(in millions)	2015	2014	2013
Net income	$2,831	$1,889	$2,676
Non-cash adjustments to net income	4,800	5,366	4,876
Contributions to qualified pension plans	(302)	—	(250)
Payments for asset retirement obligations	(346)	(68)	(12)
Working capital	(307)	(601)	(908)
Net cash provided by operating activities	$6,676	$6,586	$6,382

For the year ended December 31, 2015 compared to 2014, the variance was driven primarily by:

- a $376 million increase in net income after non-cash adjustments resulting from increased retail pricing due to rate riders and higher base rates, increased wholesale net margins due to higher contracted amounts and prices, a new wholesale contract with NCEMPA, retail sales growth and
- a $294 million increase in cash flows from a working capital decrease primarily due to lower current year receivables resulting from unseasonably warmer weather in December 2015 and prior year under collection of fuel and purchased power due to increased consumption.

Partially offset by:

- a $302 million increase in contributions to qualified pension plans and
- a $278 million increase in payments for asset retirement obligations.

For the year ended December 31, 2014 compared to 2013, the variance was driven primarily by:

- a $204 million increase due to prior year contributions to qualified pension plans, favorable retail pricing and rate riders and favorable weather, partially offset by current year under collection of fuel and purchased power costs and timing of cash payments for operations and maintenance expenses.

INVESTING CASH FLOWS

The following table summarizes key components of Duke Energy's investing cash flows for the three most recently completed fiscal years.

	Years Ended December 31,		
(in millions)	2015	2014	2013
Capital, investment and acquisition expenditures	$(8,363)	$(5,528)	$(5,607)
Available for sale securities, net	3	23	173
Net proceeds from the sale of Midwest generation business and sales of equity investments and other assets	2,968	179	277
Other investing items	115	(47)	179
Net cash used in investing activities	$(5,277)	$(5,373)	$(4,978)

The primary use of cash related to investing activities is capital, investment and acquisition expenditures, detailed by reportable business segment in the following table.

	Years Ended December 31,		
(in millions)	2015	2014	2013
Regulated Utilities	$6,974	$4,744	$5,049
Commercial Portfolio	1,131	555	268
International Energy	45	67	67
Other	213	162	223
Total capital, investment and acquisition expenditures	$8,363	$5,528	$5,607

For the year ended December 31, 2015 compared to 2014, the variance was driven primarily by:

- a $2,789 million increase in proceeds mainly due to sale of the nonregulated Midwest generation business to Dynegy and

- a $202 million return of collateral related to the Chilean acquisition in 2013. The collateral was used to repay a secured loan.

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Partially offset by:

- a $2,835 million increase in capital, investment and acquisition expenditures mainly due to the acquisition of NCEMPA ownership interests in certain generating assets, fuel and spare parts inventory jointly owned with and operated by Duke Energy Progress and growth initiatives in electric and natural gas infrastructure, solar projects and natural-gas fired generation.

For the year ended December 31, 2014 compared to 2013, the variance was driven primarily by:

- a $192 million return of collateral related to the Chilean hydro acquisition in 2013 and
- a $150 million decrease in net proceeds from sales and maturities of available for sale securities, net of purchases.

FINANCING CASH FLOWS

The following table summarizes key components of Duke Energy's financing cash flows for the three most recently completed fiscal years.

	Years Ended December 31,		
(in millions)	2015	2014	2013
Issuance of common stock related to employee benefit plans	$17	$25	$9
(Repayments) Issuances of long-term debt, net	(74)	(123)	840
Notes payable and commercial paper	1,245	1,688	93
Dividends paid	(2,254)	(2,234)	(2,188)
Repurchase of common shares	(1,500)	—	—
Other financing items	(12)	(34)	(81)
Net cash used in financing activities	$(2,578)	$(678)	$(1,327)

For the year ended December 31, 2015 compared to 2014, the variance was driven primarily by:

- a $1,500 million increase in cash outflows due to the repurchase of 19.8 million common shares under the ASR and
- a $443 million decrease in proceeds from net issuances of notes payable and commercial paper, primarily due to prior year financing with short-term debt in advance of the 2015 receipt of proceeds from the sale of the nonregulated Midwest generation business to Dynegy, net of current year financing with short-term debt used to repay long-term debt maturities at Duke Energy Florida in advance of the 2016 proceeds from the proposed issuance of securitization bonds related to Crystal River Unit 3.

For the year ended December 31, 2014 compared to 2013, the variance was driven primarily by:

- a $1,595 million increase in proceeds from net issuances of notes payable and commercial paper, primarily due to funding a larger proportion of total financing needs with short-term debt in advance of the receipt in 2015 of proceeds from the sale of the Midwest Generation business.

Partially offset by:

- a $963 million decrease in net issuances of long-term debt, primarily due to funding a larger proportion of total financing needs with short-term debt in 2014 than in 2013.

Summary of Significant Debt Issuances

			Year Ended December 31, 2015			
Issuance Date	Maturity Date	Interest Rate	Duke Energy	Duke Energy (Parent)	Duke Energy Carolinas	Duke Energy Progress
Unsecured Debt						
November 2015[a][b]	April 2024	3.750 %	$400	$400	$—	$—
November 2015[a][b]	December 2045	4.800 %	600	600	—	—
First Mortgage Bonds						
March 2015[c]	June 2045	3.750 %	500	—	500	—
August 2015[a][d]	August 2025	3.250 %	500	—	—	500
August 2015[a][d]	August 2045	4.200 %	700	—	—	700
Total issuances			$2,700	$1,000	$500	$1,200

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				Year Ended December 31, 2014			
Issuance Date	Maturity Date	Interest Rate		Duke Energy	Duke Energy (Parent)	Duke Energy Progress	Duke Energy Florida
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				$2,922	$1,000	$1,350	$225

(a) Proceeds were used to repay short-term money pool and commercial paper borrowing issued to fund a portion of the NCEMPA acquisition, see Note 2 to the Consolidated Financial Statements, "Acquisitions, Dispositions and Sales of Other Assets", for further information.

(b) Proceeds were used to refinance at maturity $300 million of unsecured notes at Progress Energy due January 2016.

(c) Proceeds were used to redeem at maturity $500 million of first mortgage bonds due October 2015.

(d) Proceeds were used to refinance at maturity $400 million of first mortgage bonds due December 2015.

(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 to the Consolidated Financial Statements, "Related Party Transactions" 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. The interest rates include country specific risk premiums.

(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 to the Consolidated Financial Statements, "Variable Interest Entities" 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 were used to repay to redeem $450 million of tax-exempt bonds, repay short-term borrowings under the intercompany money pool borrowing arrangement and for general corporate purposes.

Off-Balance Sheet Arrangements

Duke Energy and certain of its subsidiaries enter into guarantee arrangements in the normal course of business to facilitate commercial transactions with third parties. These arrangements include performance guarantees, stand-by letters of credit, debt guarantees, surety bonds and indemnifications.

Most of the guarantee arrangements entered into by Duke Energy enhance the credit standing of certain subsidiaries, non-consolidated entities or less than wholly owned entities, enabling them to conduct business. As such, these guarantee arrangements involve elements of performance and credit risk, which are not always included on the Consolidated Balance Sheets. The possibility of Duke Energy, either on its own or on behalf of Spectra Energy Capital, LLC (Spectra Capital) through indemnification agreements entered into as part of the January 2, 2007, spin-off of Spectra Energy Corp (Spectra Energy), having to honor its contingencies is largely dependent upon the future operations of the subsidiaries, investees and other third parties, or the occurrence of certain future events.

Duke Energy performs ongoing assessments of their respective guarantee obligations to determine whether any liabilities have been incurred as a result of potential increased non-performance risk by third parties for which Duke Energy has issued guarantees.

See Note 7 to the Consolidated Financial Statements, “Guarantees and Indemnifications,” for further details of the guarantee arrangements.

Issuance of these guarantee arrangements is not required for the majority of Duke Energy’s operations. Thus, if Duke Energy discontinued issuing these guarantees, there would not be a material impact to the consolidated results of operations, cash flows or financial position.

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Other than the guarantee arrangements discussed above, normal operating lease arrangements and off-balance sheet debt related to non-consolidated VIEs, Duke Energy does not have any material off-balance sheet financing entities or structures. For additional information, see Note 5 and Note 17 to the Consolidated Financial Statements, “Commitments and Contingencies” and "Variable Interest Entities," respectively.

Contractual Obligations

Duke Energy enters into contracts that require payment of cash at certain specified periods, based on certain specified minimum quantities and prices. The following table summarizes Duke Energy’s contractual cash obligations as of December 31, 2015.

	Payments Due By Period				
(in millions)	Total	Less than 1 year (2016)	2-3 years (2017 & 2018)	4-5 years (2019 & 2020)	More than 5 years (2021 & beyond)
Long-Term debt[a]	$36,376	$1,970	$5,687	$4,858	$23,861
Interest payments on long-term debt[b]	24,846	1,619	3,041	2,557	17,629
Capital leases[c]	2,060	173	351	360	1,176
Operating leases[c]	1,699	219	343	273	864
Purchase obligations:[d]					
Fuel and purchased power[e][f]	19,852	4,457	5,731	2,860	6,804
Other purchase obligations[g]	10,737	8,467	1,564	258	448
Nuclear decommissioning trust annual funding[h]	270	42	29	26	173
Total contractual cash obligations[i][j]	$95,840	$16,947	$16,746	$11,192	$50,955

(a) See Note 6 to the Consolidated Financial Statements, “Debt and Credit Facilities.”

(b) Interest payments on variable rate debt instruments were calculated using December 31, 2015, interest rates and holding them constant for the life of the instruments.

(c) See Note 5 to the Consolidated Financial Statements, “Commitments and Contingencies.” Amounts in the table above include the interest component of capital leases based on the interest rates stated in the lease agreements and exclude certain related executory costs.

(d) Current liabilities, except for current maturities of long-term debt, and purchase obligations reflected on the Consolidated Balance Sheets have been excluded from the above table.

(e) Includes firm capacity payments that provide Duke Energy with uninterrupted firm access to electricity transmission capacity and natural gas transportation contracts, as well as undesignated contracts and contracts that qualify as normal purchase/normal sale (NPNS). For contracts where the price paid is based on an index, the amount is based on market prices at December 31, 2015, or the best projections of the index. For certain of these amounts, Duke Energy may settle on a net cash basis since Duke Energy has entered into payment netting arrangements with counterparties that permit Duke Energy to offset receivables and payables with such counterparties.

(f) Amounts exclude obligations under the OVEC purchase power agreement. See Note 17 to the Consolidated Financial Statements for additional information.

(g) Includes contracts for software, telephone, data and consulting or advisory services. Amount also includes contractual obligations for engineering, procurement and construction costs for new generation plants and nuclear plant refurbishments, environmental projects on fossil facilities, maintenance and day to day contract work at certain wind and solar facilities and commitments to buy wind and combustion turbines. Amount excludes certain open purchase orders for services that are provided on demand, for which the timing of the purchase cannot be determined.

(h) Related to future annual funding obligations to NDTF through nuclear power stations' re-licensing dates. Amounts through 2017 include North Carolina jurisdictional amounts that Duke Energy Progress retained internally and is

transitioning to its external decommissioning funds per a 2008 NCUC order. The transition of the original $131 million must be complete by December 31, 2017, and at least 10 percent must be transitioned each year. See Note 9 to the Consolidated Financial Statements, "Asset Retirement Obligations."

(i) Unrecognized tax benefits of $88 million are not reflected in this table as Duke Energy cannot predict when open income tax years will close with completed examinations. See Note 22 to the Consolidated Financial Statements, "Income Taxes."

(j) The table above excludes reserves for litigation, environmental remediation, asbestos-related injuries and damages claims and self-insurance claims (see Note 5 to the Consolidated Financial Statements, “Commitments and Contingencies”) because Duke Energy is uncertain as to the timing and amount of cash payments that will be required. Additionally, the table above excludes annual insurance premiums that are necessary to operate the business, including nuclear insurance (see Note 5 to the Consolidated Financial Statements, “Commitments and Contingencies”), funding of pension and other post-retirement benefit plans (see Note 21 to the Consolidated Financial Statements, "Employee Benefit Plans"), asset retirement obligations, including ash management expenditures (see Note 9 to the Consolidated Financial Statements, "Asset Retirement Obligations") and regulatory liabilities (see Note 4 to the Consolidated Financial Statements, “Regulatory Matters”) because the amount and timing of the cash payments are uncertain. Also excluded are Deferred Income Taxes and Investment Tax Credits recorded on the Consolidated Balance Sheets since cash payments for income taxes are determined based primarily on taxable income for each discrete fiscal year.

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QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Risk Management Policies

Duke Energy is exposed to market risks associated with commodity prices, interest rates, equity prices and foreign currency exchange rates. Duke Energy has established comprehensive risk management policies to monitor and manage these market risks. Duke Energy's Chief Executive Officer and Chief Financial Officer are responsible for the overall approval of market risk management policies and the delegation of approval and authorization levels. The Finance and Risk Management Committee of the Board of Directors receives periodic updates from the Chief Risk Officer and other members of management on market risk positions, corporate exposures, and overall risk management activities. The Chief Risk Officer is responsible for the overall governance of managing commodity price risk, including monitoring exposure limits.

The following disclosures about market risk contain forward-looking statements that involve estimates, projections, goals, forecasts, assumptions, risks and uncertainties that could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements. Please review Item 1A, "Risk Factors," and "Cautionary Statement Regarding Forward-Looking Information" for a discussion of the factors that may impact any such forward-looking statements made herein.

Commodity Price Risk

Duke Energy is exposed to the impact of market fluctuations in the prices of electricity, coal, natural gas and other energy-related products marketed and purchased as a result of its ownership of energy related assets. Duke Energy's exposure to these fluctuations is limited by the cost-based regulation of its operations in its Regulated Utilities segment as these operations are typically allowed to recover substantially all of these costs through various cost-recovery clauses, including fuel clauses. While there may be a delay in timing between when these costs are incurred and when they are recovered through rates, changes from year to year generally do not have a material impact on operating results of these regulated operations.

Price risk represents the potential risk of loss from adverse changes in the market price of electricity or other energy commodities. Duke Energy's exposure to commodity price risk is influenced by a number of factors, including contract size, length, market liquidity, location and unique or specific contract terms. Duke Energy employs established policies and procedures to manage risks associated with these market fluctuations, which may include using various commodity derivatives, such as swaps, futures, forwards and options. For additional information, see Note 14 to the Consolidated Financial Statements, "Derivatives and Hedging."

The inputs and methodologies used to determine the fair value of contracts are validated by an internal group separate from Duke Energy's deal origination function. While Duke Energy uses common industry practices to develop its valuation techniques, changes in its pricing methodologies or the underlying assumptions could result in significantly different fair values and income recognition.

Hedging Strategies

Duke Energy closely monitors risks associated with commodity price changes on its future operations and, where appropriate, uses various commodity instruments such as electricity, coal and natural gas forward contracts to mitigate the effect of such fluctuations on operations. Duke Energy's primary use of energy commodity derivatives is to hedge the generation portfolio against exposure to the prices of power and fuel.

The majority of instruments used to manage Duke Energy's commodity price exposure are either not designated as hedges or do not qualify for hedge accounting. These instruments are referred to as undesignated contracts.

Mark-to-market changes for undesignated contracts entered into by regulated businesses are reflected as regulatory assets or liabilities on the Consolidated Balance Sheets. Undesignated contracts entered into by unregulated businesses are marked-to-market each period, with changes in the fair value of the derivative instruments reflected in earnings.

Duke Energy may also enter into other contracts that qualify for the normal purchase/normal sale (NPNS) exception. When a contract meets the criteria to qualify as an NPNS, Duke Energy applies such exception. Income recognition and realization related to NPNS contracts generally coincide with the physical delivery of the commodity. For contracts qualifying for the NPNS exception, no recognition of the contract's fair value in the Consolidated Financial Statements is required until settlement of the contract as long as the transaction remains probable of occurring.

Generation Portfolio Risks

Duke Energy is primarily exposed to market price fluctuations of wholesale power, natural gas, and coal prices in the Regulated Utilities segment. The Duke Energy Registrants optimize the value of their generation portfolios, which include generation assets, fuel, and emission allowances. Modeled forecasts of future generation output and fuel requirements are based on forward power and fuel markets. The component pieces of the portfolio are bought and sold based on models and forecasts of generation in order to manage the economic value of the portfolio in accordance with the strategies of the business units.

For the Regulated Utilities segment, the generation portfolio not utilized to serve retail operations or committed load is subject to commodity price fluctuations. However, the impact on the Consolidated Statements of Operations is partially offset by mechanisms in these regulated jurisdictions that result in the sharing of net profits from these activities with retail customers.

International Energy generally hedges their expected generation using long-term bilateral power sales contracts when favorable market conditions exist and are subject to wholesale commodity price risks for electricity not sold under such contracts. International Energy dispatches electricity not sold under long-term bilateral contracts into unregulated markets and receives wholesale energy margins and capacity revenues from national system operators.

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Interest Rate Risk

Duke Energy is exposed to risk resulting from changes in interest rates as a result of its issuance of variable and fixed-rate debt and commercial paper. Duke Energy manages interest rate exposure by limiting variable-rate exposures to a percentage of total debt and by monitoring the effects of market changes in interest rates. Duke Energy also enters into financial derivative instruments, which may include instruments such as, but not limited to, interest rate swaps, swaptions and U.S. Treasury lock agreements to manage and mitigate interest rate risk exposure. See Notes 1, 6, 14, and 16 to the Consolidated Financial Statements, “Summary of Significant Accounting Policies,” “Debt and Credit Facilities,” “Derivatives and Hedging,” and “Fair Value Measurements.”

At December 31, 2015, Duke Energy had $727 million notional amount of floating-to-fixed swaps outstanding, $500 million notional amount of fixed-to-floating swaps outstanding and $1,300 million forward-starting swaps outstanding. In the first quarter of 2016, Duke Energy entered into an additional $500 million notional amount of forward-starting swaps. Duke Energy had $7.9 billion of unhedged long- and short-term floating interest rate exposure at December 31, 2015. The impact of a 100 basis point change in interest rates on pretax income is approximately $79 million at December 31, 2015. This amount was estimated by considering the impact of the hypothetical interest rates on variable-rate securities outstanding, adjusted for interest rate hedges as of December 31, 2015.

See Notes 2 and 14, "Acquisitions and Dispositions" and Derivatives and Hedging," respectively, to the Consolidated Financial Statements for additional information about the forward-starting interest rate swaps related to the Piedmont acquisition.

Credit Risk

Credit risk represents the loss that the Duke Energy Registrants would incur if a counterparty fails to perform under its contractual obligations. Where exposed to credit risk, the Duke Energy Registrants analyze the counterparty's financial condition prior to entering into an agreement and monitor exposure on an on-going basis. The Duke Energy Registrants establish credit limits where appropriate in the context of contractual arrangements and monitor such limits.

To reduce credit exposure, the Duke Energy Registrants seek to include netting provisions with counterparties which permit the offset of receivables and payables with such counterparties. The Duke Energy Registrants also frequently use master agreements with credit support annexes to further mitigate certain credit exposures. The master agreements provide for a counterparty to post cash or letters of credit to the exposed party for exposure in excess of an established threshold. The threshold amount represents a negotiated unsecured credit limit for each party to the agreement, determined in accordance with the Duke Energy Registrants’ internal corporate credit practices and standards. Collateral agreements generally also provide that the inability to post collateral is sufficient cause to terminate contracts and liquidate all positions.

The Duke Energy Registrants also obtain cash or letters of credit from certain counterparties to provide credit support outside of collateral agreements, where appropriate, based on a financial analysis of the counterparty and the regulatory or contractual terms and conditions applicable to each transaction. See Note 14 to the Consolidated Financial Statements, “Derivatives and Hedging,” for additional information regarding credit risk related to derivative instruments.

The Duke Energy Registrants’ principal counterparties for its electric and gas businesses are regional transmission organizations, distribution companies, municipalities, electric cooperatives and utilities located throughout the U.S. and Latin America. The Duke Energy Registrants have concentrations of receivables from such entities throughout these regions. These concentrations of receivables may affect the Duke Energy Registrants’ overall credit risk in that risk factors can negatively impact the credit quality of the entire sector.

The Duke Energy Registrants are also subject to credit risk from transactions with their suppliers that involve pre-payments in conjunction with outsourcing arrangements, major construction projects and certain commodity purchases. The Duke Energy Registrants’ credit exposure to such suppliers may take the form of increased costs or project delays in the event of non-performance. The Duke Energy Registrants' frequently require guarantees or letters of credit from suppliers to mitigate this credit risk.

Credit risk associated with the Duke Energy Registrants' service to residential, commercial and industrial customers is generally limited to outstanding accounts receivable. The Duke Energy Registrants mitigate this credit risk by requiring customers to provide a cash deposit, letter of credit or surety bond until a satisfactory payment history is established, subject to the rules and regulations in effect in each retail jurisdiction, at which time the deposit is typically refunded. Charge-offs for retail customers have historically been insignificant to the operations of the Duke Energy Registrants and are typically recovered through retail rates. Management continually monitors customer charge-offs and payment patterns to ensure the adequacy of bad debt reserves. Duke Energy Ohio and Duke Energy Indiana sell certain of their accounts receivable and related collections through Cinergy Receivables Company, LLC (CRC), a Duke Energy consolidated variable interest entity. Losses on collection are first absorbed by the equity of CRC and next by the subordinated retained interests held by Duke Energy Ohio, Duke Energy Kentucky and Duke Energy Indiana. See Note 17 to the Consolidated Financial Statements, "Variable Interest Entities."

Duke Energy Carolinas has third-party insurance to cover certain losses related to asbestos-related injuries and damages above an aggregate self-insured retention. 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 indemnification and medical cost claim payments is $847 million in excess of the self-insured retention. Receivables for insurance recoveries were $599 million and $616 million at December 31, 2015 and 2014, respectively. 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.

The Duke Energy Registrants also have credit risk exposure through issuance of performance guarantees, letters of credit and surety bonds on behalf of less than wholly owned entities and third parties. Where the Duke Energy Registrants have issued these guarantees, it is possible that they could be required to perform under these guarantee obligations in the event the obligor under the guarantee fails to perform. Where the Duke Energy Registrants have issued guarantees related to assets or operations that have been disposed of via sale, they attempt to secure indemnification from the buyer against all future performance obligations under the guarantees. See Note 7 to the Consolidated Financial Statements, "Guarantees and Indemnifications," for further information on guarantees issued by the Duke Energy Registrants.

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Based on the Duke Energy Registrants' policies for managing credit risk, their exposures and their credit and other reserves, the Duke Energy Registrants do not currently anticipate a materially adverse effect on their consolidated financial position or results of operations as a result of non-performance by any counterparty.

Marketable Securities Price Risk

As described further in Note 15 to the Consolidated Financial Statements, "Investments in Debt and Equity Securities," Duke Energy invests in debt and equity securities as part of various investment portfolios to fund certain obligations. The vast majority of investments in equity securities are within the NDTF and assets of the various pension and other post-retirement benefit plans.

Pension Plan Assets

Duke Energy maintains investments to facilitate funding the costs of providing non-contributory defined benefit retirement and other post-retirement benefit plans. These investments are exposed to price fluctuations in equity markets and changes in interest rates. The equity securities held in these pension plans are diversified to achieve broad market participation and reduce the impact of any single investment, sector or geographic region. Duke Energy has established asset allocation targets for its pension plan holdings, which take into consideration the investment objectives and the risk profile with respect to the trust in which the assets are held.

A significant decline in the value of plan asset holdings could require Duke Energy to increase funding of its pension plans in future periods, which could adversely affect cash flows in those periods. Additionally, a decline in the fair value of plan assets, absent additional cash contributions to the plan, could increase the amount of pension cost required to be recorded in future periods, which could adversely affect Duke Energy's results of operations in those periods.

Nuclear Decommissioning Trust Funds

As required by the NRC, NCUC, PSCSC and FPSC, subsidiaries of Duke Energy maintain trust funds to fund the costs of nuclear decommissioning. As of December 31, 2015, these funds were invested primarily in domestic and international equity securities, debt securities, cash and cash equivalents and short-term investments. Per the NRC, Internal Revenue Code, NCUC, PSCSC and FPSC requirements, these funds may be used only for activities related to nuclear decommissioning. These investments are exposed to price fluctuations in equity markets and changes in interest rates. Duke Energy actively monitors its portfolios by benchmarking the performance of its investments against certain indices and by maintaining, and periodically reviewing, target allocation percentages for various asset classes. Accounting for nuclear decommissioning recognizes that costs are recovered through retail and wholesale rates; therefore, fluctuations in equity prices do not materially affect the Consolidated Statements of Operations as changes in the fair value of these investments are primarily deferred as regulatory assets or regulatory liabilities pursuant to Orders by the NCUC, PSCSC and FPSC. Earnings or losses of the fund will ultimately impact the amount of costs recovered through retail and wholesale rates. See Note 9 to the Consolidated Financial Statements, "Asset Retirement Obligations" for additional information regarding nuclear decommissioning costs. See Note 15 to the Consolidated Financial Statements, "Investments in Debt and Equity Securities" for additional information regarding NDTF assets.

Foreign Currency Risk

Duke Energy is exposed to foreign currency risk from investments in international businesses owned and operated in countries outside the U.S. and from certain commodity-related transactions within domestic operations that are denominated in foreign currencies. To mitigate risks associated with foreign currency fluctuations, contracts may be denominated in or indexed to the U.S. dollar and/or local inflation rates, or investments may be naturally hedged through debt denominated or issued in the foreign currency. Duke Energy may also use foreign currency derivatives, where possible, to manage its risk related to foreign currency fluctuations. To monitor its currency exchange rate risks, Duke Energy uses sensitivity analysis, which measures the impact of devaluation of the foreign currencies to which it has exposure.

Duke Energy's primary foreign currency rate exposure is to the Brazilian real. The table below summarizes the potential effect of foreign currency devaluations on Duke Energy's Consolidated Statement of Operations and Consolidated Balance Sheets, based on a sensitivity analysis performed as of December 31, 2015 and December 31,

2014.

Summary of Sensitivity Analysis for Foreign Currency Risks

	Assuming 10 percent devaluation in the currency exchange rates in all exposure currencies	
	As of December 31,	
(in millions)	2015	2014
Income Statement impact[a]	$(17)	$(20)
Balance Sheet impact[b]	(74)	(98)

(a) Amounts represent the potential annual net pretax loss on the translation of local currency earnings to the U.S. dollar in 2015 and 2014, respectively.

(b) Amounts represent the potential impact to the currency translation through Accumulated Other Comprehensive Income (AOCI) on the Consolidated Balance Sheets.

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OTHER MATTERS

Ratios of Earnings to Fixed Charges

The Duke Energy Registrants' ratios of earnings to fixed charges, as calculated using SEC guidelines, are included in the table below.

	Years Ended December 31,		
	2015	2014	2013
Duke Energy	3.2	3.2	3.0
Duke Energy Carolinas	4.7	4.6	4.4
Progress Energy	2.9	2.7	2.2
Duke Energy Progress	3.7	3.5	3.7
Duke Energy Florida	4.3	4.1	2.9
Duke Energy Ohio	3.6	2.1	2.2
Duke Energy Indiana	3.6	4.1	4.1

Environmental Regulations

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 and result in new obligations of the Duke Energy Registrants. The following sections outline various proposed and recently enacted regulations that may impact the Duke Energy Registrants. Refer to Note 4 to the Consolidated Financial Statements, "Regulatory Matters," for further information regarding potential plant retirements and regulatory filings related to the Duke Energy Registrants.

Coal Combustion Residuals

On April 17, 2015, the EPA published in the Federal Register a rule to regulate the disposal of CCR from electric utilities as solid waste. The federal regulation, which became effective in October 2015, classifies CCR as nonhazardous waste under Subtitle D of the Resource Conservation and Recovery Act and allows for beneficial use of CCR with some restrictions. The regulation applies to all new and existing landfills, new and existing surface impoundments receiving CCR and existing surface impoundments that are no longer receiving CCR but contain liquid located at stations currently generating electricity (regardless of fuel source). 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 Carolinas, Progress Energy, Duke Energy Progress, Duke Energy Ohio and Duke Energy Indiana recorded asset retirement obligation amounts during 2015. Cost recovery for future expenditures will be pursued through the normal ratemaking process with federal and state utility commissions and via wholesale contracts, which permit recovery of necessary and prudently incurred costs associated with Duke Energy's regulated operations. For more information, see Note 9 to the Consolidated Financial Statements, "Asset Retirement Obligations."

Duke Energy Ohio's nonregulated Beckjord station, a facility retired during 2014, is not subject to the recently enacted EPA rule related to the disposal of CCR from electric utilities. However, if costs are incurred as a result of environmental regulations or to mitigate risk associated with on-site storage of coal ash at the facility, the costs could have an adverse impact on Duke Energy Ohio's financial position, results of operations and cash flows. Costs incurred by OVEC related to environmental regulations could also have an adverse impact on Duke Energy Ohio's financial position, results of operations and cash flows.

North Carolina Coal Ash Management Act of 2014

On September 20, 2014, the Coal Ash Act became law and was amended on June 24, 2015, by the North Carolina Mountain Energy Act. The Coal Ash Act, as amended, established regulations regarding the use and closure of existing ash impoundments, the disposal of ash at active coal plants and the handling of surface and groundwater impacts from ash basins in North Carolina. The Coal Ash Act, as amended, deemed eight ash impoundments at four

facilities to be high priority and requires closure no later than August 1, 2019, with a potential extension for closure of the Asheville impoundment until 2022. The Coal Ash Act requires state regulators to provide risk ranking classifications for the remaining 25 ash impoundments at 10 North Carolina facilities. The method and timing of closure of these ash impoundments will be determined by the specific risk classifications, with closure no later than December 31, 2029.

Other than the high priority sites specifically delineated by the Coal Ash Act, the NCDEQ has issued either preliminary draft risk rankings or has yet to designate specific risk classifications. These risk rankings were generally determined based on three primary criteria: structural integrity of impoundments and impact to both surface and groundwaters. NCDEQ categorized 12 basins at four sites as intermediate risk and four basins at three plants as low risk. NCDEQ also categorized nine basins at six plants as "low-to-intermediate" risk, thereby not assigning a proposed risk ranking at this time. The risk rankings of these sites will be based upon receipt of additional data primarily related to groundwater quality and the completion of specific modifications and repairs to the impoundments. NCDEQ is expected to finalize its risk classifications after a public comment process. Final proposed classifications are subject to Coal Ash Commission adjustments and approval but may become law if the Commission fails to act within 60 days of receiving the final proposed classifications. Estimated asset retirement obligations have been recognized based on the assigned risk categories or, if not assigned, based on a probability weighting of potential closure methods. Actual closure costs incurred could be materially different from current estimates that form the basis of the recorded asset retirement obligations. For further information on asset retirement obligations, refer to Note 9 to the Consolidated Financial Statements, “Asset Retirement Obligations.”

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Mercury and Air Toxics Standards

The final Mercury and Air Toxics Standards (MATS) rule was issued on February 16, 2012. The rule establishes emission limits for hazardous air pollutants from new and existing coal-fired and oil-fired steam electric generating units. The rule required sources to comply with emission limits by April 16, 2015. Under the Clean Air Act (CAA), permitting authorities have the discretion to grant up to a one-year compliance extension, on a case-by-case basis, to sources that are unable to complete the installation of emission controls before the compliance deadline. The Duke Energy Registrants have requested and received compliance extensions for a number of plants. The rule requirements currently apply where a compliance extension was not received. Strategies to achieve compliance include installation of new air emission control equipment, development of monitoring processes, fuel switching and acceleration of retirement for some coal-fired electric-generation units. For additional information, refer to Note 4 of the Consolidated Financial Statements, “Regulatory Matters,” regarding potential plant retirements.

In April 2014, several petitions for review of the final rule were denied by the U.S. Court of Appeals for the District of Columbia (D.C. Circuit Court). On November 25, 2014, the Supreme Court granted a petition for review based on the issue of whether the EPA unreasonably refused to consider costs in determining whether it is appropriate and necessary to regulate hazardous air pollutants from coal-fired and oil-fired steam electric generating units. In June 2015, the Supreme Court reversed the D.C. Circuit Court's decision and remanded the case to the D.C. Circuit Court for further proceedings, finding that the EPA erred in refusing to consider costs when deciding whether it was appropriate and necessary to regulate emissions of hazardous air pollutants from steam electric generating units. In December 2015, the D.C. Circuit Court granted the EPA's request to keep the rule in effect while the agency completes the rulemaking in response to the Supreme Court's ruling. On December 1, 2015 the EPA proposed a supplemental finding to address the cost issue raised by the Supreme Court in its June 2015 ruling. If finalized as proposed, the finding would result in no changes to the current MATS regulatory requirements. The EPA has committed to complete its rulemaking by April 2016. The Duke Energy Registrants cannot predict the results of these proceedings.

Clean Water Act 316(b)

The EPA published the final 316(b) cooling water intake structure rule on August 15, 2014, with an effective date of October 14, 2014. The rule applies to 26 of the electric generating facilities the Duke Energy Registrants own and operate. The rule allows for several options to demonstrate compliance and provides flexibility to the state environmental permitting agencies to make determinations on controls, if any, that will be required for cooling water intake structures. Any required intake structure modifications and/or retrofits are expected to be installed in the 2019 to 2022 time frame. Petitions challenging the rule have been filed by several groups. It is unknown at this time when the courts will rule on the petitions.

Steam Electric Effluent Limitations Guidelines

On January 4, 2016, the final Steam Electric Effluent Limitations Guidelines (ELG) rule became effective. The rule establishes new requirements for wastewater streams associated with steam electric power generation and includes more stringent controls for any new coal plants that may be built in the future. Affected facilities must comply between 2018 and 2023, depending on timing of new Clean Water Act permits. Most, if not all, of the steam electric generating facilities the Duke Energy Registrants own are likely affected sources. The Duke Energy Registrants are well positioned to meet the requirements of the rule due to current efforts to convert to dry ash handling. Petitions challenging the rule have been filed by several groups. It is unknown at this time when the courts will rule on the petitions.

Estimated Cost and Impacts of Rulemakings

Duke Energy will incur capital expenditures to comply with the environmental regulations and rules discussed above. The following five-year table provides estimated costs, excluding AFUDC, of new control equipment that may need to be installed on existing power plants primarily to comply with the Coal Ash Act requirements for conversion to dry disposal of bottom ash and fly ash, MATS, Clean Water Act 316(b) and ELGs, through December 31, 2020. The table excludes ash basin closure costs recorded as Asset retirement obligations on the Consolidated Balance Sheets. For more information related to asset retirement obligations, see Note 9 to the Consolidated Financial Statements.

(in millions)	Five-Year Estimated Costs
Duke Energy	$1,350
Duke Energy Carolinas	625
Progress Energy	350
Duke Energy Progress	300
Duke Energy Florida	50
Duke Energy Ohio	100
Duke Energy Indiana	275

The Duke Energy Registrants also expect to incur increased fuel, purchased power, operation and maintenance and other expenses, in addition to costs for replacement generation for potential coal-fired power plant retirements, as a result of these regulations. Actual compliance costs incurred may be materially different from these estimates due to reasons such as the timing and requirements of EPA regulations and the resolution of legal challenges to the rules. The Duke Energy Registrants intend to seek rate recovery of necessary and prudently incurred costs associated with regulated operations to comply with these regulations.

Cross-State Air Pollution Rule

On August 8, 2011, the final Cross-State Air Pollution Rule (CSAPR) was published in the Federal Register. The CSAPR established state-level annual sulfur dioxide (SO_2) budgets and annual and seasonal nitrogen oxide (NO_x) budgets that were to take effect on January 1, 2012.

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On August 21, 2012, the D.C. Circuit Court vacated the CSAPR. The court also directed the EPA to continue administering the Clean Air Interstate Rule (CAIR), which required additional reductions in SO_2 and NO_X emissions beginning in 2015. On April 29, 2014, the U.S. Supreme Court (Supreme Court) reversed the D.C. Circuit Court's decision, finding that with CSAPR the EPA reasonably interpreted the good neighbor provision of the CAA. The case was remanded to the D.C. Circuit Court for further proceedings consistent with the Supreme Court's opinion. On October 23, 2014, the D.C. Circuit Court lifted the CSAPR stay, which allowed Phase 1 of the rule to take effect on January 1, 2015, terminating the CAIR. Where the CSAPR requirements are constraining, actions to meet the requirements could include purchasing emission allowances, power purchases, curtailing generation and utilizing low sulfur fuel. The CSAPR will not result in Duke Energy Registrants adding new emission controls.

Additional legal challenges to the CSAPR filed in 2012, not addressed by the D.C. Circuit Court decision to vacate the CSAPR, are still ongoing. Oral arguments were held February 25, 2015. On July 28, 2015, the court issued decisions finding certain Phase 1 and 2 emissions budgets invalid, which impact South Carolina, North Carolina and Florida. The court remanded the CSAPR to the EPA for reconsideration of the budgets in question. On December 3, 2015 the EPA proposed a rule to lower the current CSAPR Phase 2 state ozone season NO_X emission budgets for 23 Eastern states, including North Carolina, Ohio, Kentucky and Indiana. The EPA also proposed to eliminate the CSAPR Phase 2 ozone season state NO_X budgets for Florida and South Carolina. The EPA proposed that these changes to state budgets take effect on May 1, 2017. The Duke Energy Registrants cannot predict the outcome of these proceedings.

Carbon Pollution Standards for New, Modified and Reconstructed Power Plants

On October 23, 2015, the EPA published a final rule in the Federal Register establishing carbon dioxide (CO_2) emissions limits for new, modified and reconstructed power plants. The requirements for new plants do not apply to any facility that Duke Energy currently has in operation, but would apply to any plants that will be constructed going forward. The EPA set an emissions standard for coal units of 1,400 lbs. of CO_2 per gross MWh. While this limit is higher than the EPA's proposed standard of 1,100 lbs. per MWh, it would still require the application of partial carbon capture and storage (CCS) technology for a coal unit to be able to meet the limit. Utility-scale CCS is not currently a demonstrated and commercially available technology for coal-fired electric generating units, and therefore the final standard effectively bars the development of new coal-fired generation. The final standard of 1,000 lbs. of CO_2 per gross MWh for new natural gas combined-cycle units is the same as the proposed limit. The Duke Energy Registrants do not expect the impacts of the final standards will be material to Duke Energy's financial position, results of operations or cash flows.

Clean Power Plan

On October 23, 2015, the EPA published in the Federal Register the CPP rule that regulates CO_2 emissions from existing fossil fuel-fired EGUs. The CPP establishes CO_2 emission rates and mass cap goals that apply to fossil fuel-fired generation. Under the CPP, states are required to develop and submit a final compliance plan, or an initial plan with an extension request, to the EPA by September 6, 2016. States that receive an extension must submit a final completed plan to the EPA by September 6, 2018. The EPA intends to review and approve or disapprove state plans within 12 months of receipt. The CPP does not directly impose regulatory requirements on the Duke Energy Registrants. State implementation plans will include the regulatory requirements that will apply to the Duke Energy Registrants. The EPA also published a proposed federal plan for public comment. A federal plan would be applied to states that fail to submit a plan to EPA or where a state plan is not approved by the EPA. Comments on the proposed federal plan were due by January 21, 2016.

Legal challenges to the final CPP have been filed by stakeholders. On January 21, 2016 the U.S. Court of Appeals for the District of Columbia denied motions from petitioners to stay the Clean Power Plan pending court review. The court did grant petitioner requests for expedited briefing in the case. Oral arguments are scheduled in June 2016. The court ordered that final briefs in the case be filed by April 22, 2016. On February 9, 2016, the U.S. Supreme Court granted a stay in the matter, halting enforcement until legal challenges are resolved.

Compliance with CPP could cause the industry to replace coal generation with natural gas and renewables. Costs to operate coal-fired generation plants continue to grow due to increasing environmental compliance requirements, including ash management costs unrelated to CPP, which may result in the retirement of coal-fired generation plants

earlier than the current useful lives. The Duke Energy Registrants are studying the CPP rule and are working with states to identify the best approach for developing state plans that will establish the regulatory requirements applicable to the Duke Energy Registrants. The Duke Energy Registrants could incur increased fuel, purchased power, operation and maintenance and other costs for replacement generation as a result of this rule. Due to the uncertainties related to the implementation of the CPP, the Duke Energy Registrants cannot predict the outcome of these matters.

Global Climate Change

The Duke Energy Registrants' greenhouse gas (GHG) emissions consist primarily of CO_2 with most coming from their fleet of coal-fired power plants in the U.S. In 2015, the Duke Energy Registrants' power plants in the U.S. emitted approximately 108 million tons of CO_2. Duke Energy's international operations emitted approximately 2 million tons of CO_2 in 2015. The Duke Energy Registrants' future CO_2 emissions will be influenced by variables including new regulations, economic conditions that affect electricity demand and the Duke Energy Registrants' decisions regarding generation technologies deployed to meet customer electricity needs.

The Duke Energy Registrants have taken actions that has resulted in reduced CO_2 emissions over time. Between 2005 and 2015, the Duke Energy Registrants have collectively lowered the CO_2 emissions from their electricity generation in the U.S. by more than 25 percent. These actions will lower the exposure to any future mandatory CO_2 emission reduction requirements or carbon tax, whether as a result of federal legislation or the final CPP regulation. Under any future scenario involving mandatory CO_2 limitations, the Duke Energy Registrants would plan to seek recovery of their compliance costs through appropriate regulatory mechanisms.

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The Duke Energy Registrants recognize certain groups associate severe weather events with climate change, and forecast the possibility these weather events could have a material impact on future results of operations should they occur more frequently and with greater severity. However, the uncertain nature of potential changes of extreme weather events (such as increased frequency, duration and severity), the long period of time over which any potential changes might take place and the inability to predict these with any degree of accuracy, make estimating any potential future financial risk to the Duke Energy Registrants' operations impossible. Currently, the Duke Energy Registrants plan and prepare for potential extreme weather events, such as ice storms, tornadoes, hurricanes, severe thunderstorms, high winds and droughts.

The Duke Energy Registrants routinely take steps to reduce the potential impact of severe weather events on their electric distribution systems. The Duke Energy Registrants' electric generating facilities are designed to withstand extreme weather events without significant damage. The Duke Energy Registrants maintain an inventory of coal and oil on-site to mitigate the effects of any potential short-term disruption in fuel supply so they can continue to provide customers with an uninterrupted supply of electricity. The Subsidiary Registrants have programs in place to effectively manage the impact of future droughts on U.S. operations.

Nuclear Matters

Following the events at the Fukushima Daiichi nuclear power station in Japan, Duke Energy conducted thorough inspections at each of its seven nuclear sites during 2011. The initial inspections did not identify any significant vulnerabilities; however, Duke Energy is reviewing designs to evaluate safety margins to external events. Emergency-response capabilities, written procedures and engineering specifications were reviewed to verify each site's ability to respond in the unlikely event of a beyond design-basis event. Duke Energy is working within the nuclear industry to improve safety standards and margin using the three layers of safety approach used in the U.S.: protection, mitigation and emergency response. Emergency equipment has been added or is in the process of being added at each station to perform key safety functions in the event that backup power sources are lost and are not expected to be restored within a specified period of time. These improvements are in addition to the numerous layers of safety measures and systems previously in place.

In March 2011, the NRC formed a task force to conduct a comprehensive review of processes and regulations to determine whether the agency should make additional improvements to the nuclear regulatory system. On July 13, 2011, the task force proposed a set of improvements designed to ensure protection, enhance accident mitigation, strengthen emergency preparedness and improve efficiency of NRC programs. The recommendations were further prioritized into three tiers based on the safety enhancement level. On March 12, 2012, the NRC issued three regulatory orders requiring safety enhancements related to mitigation strategies to respond to extreme natural events resulting in the loss of power at a plant, ensuring reliable hardened containment vents and enhancing spent fuel pool instrumentation.

On August 30, 2012, the NRC issued implementation guidance to enable power plants to achieve compliance with the orders issued in March 2012. Plants were required to submit implementation plans to the NRC by February 28, 2013, and complete implementation of the safety enhancements within two refueling outages or by December 31, 2016, whichever comes first. Each plant is also required to reassess their seismic and flooding hazards using present-day methods and information, conduct inspections to ensure protection against hazards in the current design basis and re-evaluate emergency communications systems and staffing levels.

Duke Energy is committed to compliance with all safety enhancements ordered by the NRC in connection with the March 12, 2012, regulatory orders noted above, the cost of which could be material. Until such time as the NRC-mandated reassessment of flooding and seismic hazards is complete, the exact scope and cost of compliance modifications to Duke Energy's sites will not be known. With the NRC's continuing review of the remaining recommendations, Duke Energy cannot predict to what extent the NRC will impose additional licensing and safety-related requirements or the costs of complying with such requirements. Upon receipt of additional guidance from the NRC and a collaborative industry review, Duke Energy will be able to determine an implementation plan and associated costs. See Item 1A, "Risk Factors," for further discussion of applicable risk factors.

New Accounting Standards

See Note 1 to the Consolidated Financial Statements, “Summary of Significant Accounting Policies,” for a discussion of the impact of new accounting standards.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See “Management’s Discussion and Analysis of Results of Operations and Financial Condition – Quantitative and Qualitative Disclosures About Market Risk.”

PART II

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

PART II

Combined Notes to Consolidated Financial Statements

PART II

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
To the Board of Directors and Stockholders of
Duke Energy Corporation
Charlotte, North Carolina

We have audited the accompanying consolidated balance sheets of Duke Energy Corporation and subsidiaries (the "Company") as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2015. We also have audited the Company's internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Annual Report On Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Duke Energy Corporation and subsidiaries as of December 31, 2015 and 2014, and the results of

their operations and their cash flows for each of the three years in the period ended December 31, 2015, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

As discussed in Note 22 to the consolidated financial statements, Duke Energy Corporation and subsidiaries adopted ASU 2015-17, Income Taxes (Topic 740); Balance Sheet Classification of Deferred Taxes effective December 31, 2015 on a prospective basis.

/s/ Deloitte & Touche LLP

Charlotte, North Carolina
February 25, 2016

PART II

DUKE ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31,		
(in millions, except per share amounts)	2015	2014	2013
Operating Revenues			
Regulated electric	$21,379	$21,550	$20,329
Nonregulated electric and other	1,544	1,802	1,916
Regulated natural gas	536	573	511
Total operating revenues	23,459	23,925	22,756
Operating Expenses			
Fuel used in electric generation and purchased power – regulated	7,308	7,686	7,108
Fuel used in electric generation and purchased power – nonregulated	354	533	540
Cost of natural gas	195	248	224
Operation, maintenance and other	5,871	5,856	5,673
Depreciation and amortization	3,144	3,066	2,668
Property and other taxes	1,135	1,213	1,274
Impairment charges	120	81	399
Total operating expenses	18,127	18,683	17,886
Gains (Losses) on Sales of Other Assets and Other, net	35	16	(16)
Operating Income	5,367	5,258	4,854
Other Income and Expenses			
Equity in earnings of unconsolidated affiliates	69	130	122
Gains on sales of unconsolidated affiliates	7	17	100
Other income and expenses, net	307	351	262
Total other income and expenses	383	498	484
Interest Expense	1,613	1,622	1,543
Income From Continuing Operations Before Income Taxes	4,137	4,134	3,795
Income Tax Expense From Continuing Operations	1,326	1,669	1,205
Income From Continuing Operations	2,811	2,465	2,590
Income (Loss) From Discontinued Operations, net of tax	20	(576)	86
Net Income	2,831	1,889	2,676
Less: Net Income Attributable to Noncontrolling Interests	15	6	11
Net Income Attributable to Duke Energy Corporation	$2,816	$1,883	$2,665
Earnings Per Share – Basic and Diluted			
Income from continuing operations attributable to Duke Energy Corporation common stockholders			
Basic	$4.02	$3.46	$3.64
Diluted	$4.02	$3.46	$3.63
Income (Loss) from discontinued operations attributable to Duke Energy Corporation common stockholders			
Basic	$0.03	$(0.80)	$0.13
Diluted	$0.03	$(0.80)	$0.13
Net Income attributable to Duke Energy Corporation common stockholders			
Basic	$4.05	$2.66	$3.77
Diluted	$4.05	$2.66	$3.76
Weighted average shares outstanding			
Basic	694	707	706

Diluted	694	707	706

See Notes to Consolidated Financial Statements

PART II

DUKE ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31,		
(in millions)	2015	2014	2013
Net Income	$2,831	$1,889	$2,676
Other Comprehensive Loss, net of tax			
Foreign currency translation adjustments	(264)	(124)	(197)
Pension and OPEB adjustments[a]	(13)	4	38
Net unrealized (losses) gains on cash flow hedges[b]	—	(26)	59
Reclassification into earnings from cash flow hedges	9	7	1
Unrealized (losses) gains on available-for-sale securities	(6)	3	(4)
Reclassification into earnings from available-for-sale securities	—	—	4
Other Comprehensive Loss, net of tax	(274)	(136)	(99)
Comprehensive Income	2,557	1,753	2,577
Less: Comprehensive Income Attributable to Noncontrolling Interests	4	14	5
Comprehensive Income Attributable to Duke Energy Corporation	$2,553	$1,739	$2,572

(a) Net of insignificant tax expense in 2015, 2014 and $17 million tax expense in 2013. See Note 21 for additional information.

(b) Net of insignificant tax expense in 2015, $13 million tax benefit in 2014 and $20 million tax expense in 2013.

See Notes to Consolidated Financial Statements

PART II

DUKE ENERGY CORPORATION
CONSOLIDATED BALANCE SHEETS

(in millions)	December 31, 2015	2014
ASSETS		
Current Assets		
Cash and cash equivalents	$857	$2,036
Receivables (net of allowance for doubtful accounts of $18 at December 31, 2015 and $17 at December 31, 2014)	703	791
Restricted receivables of variable interest entities (net of allowance for doubtful accounts of $53 at December 31, 2015 and $51 at December 31, 2014)	1,748	1,973
Inventory	3,810	3,459
Assets held for sale	—	364
Regulatory assets	877	1,115
Other	327	1,837
Total current assets	8,322	11,575
Investments and Other Assets		
Investments in equity method unconsolidated affiliates	499	358
Nuclear decommissioning trust funds	5,825	5,546
Goodwill	16,343	16,321
Assets held for sale	—	2,642
Other	3,042	3,008
Total investments and other assets	25,709	27,875
Property, Plant and Equipment		
Cost	112,826	104,861
Accumulated depreciation and amortization	(37,665)	(34,824)
Generation facilities to be retired, net	548	9
Net property, plant and equipment	75,709	70,046
Regulatory Assets and Deferred Debits		
Regulatory assets	11,373	11,042
Other	43	19
Total regulatory assets and deferred debits	11,416	11,061
Total Assets	$121,156	$120,557
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable	$2,400	$2,271
Notes payable and commercial paper	3,633	2,514
Taxes accrued	348	569
Interest accrued	430	418
Current maturities of long-term debt	2,074	2,807
Liabilities associated with assets held for sale	—	262
Regulatory liabilities	400	204
Other	2,115	2,188
Total current liabilities	11,400	11,233
Long-Term Debt	37,495	37,061
Deferred Credits and Other Liabilities		
Deferred income taxes	12,705	13,423
Investment tax credits	472	427

Accrued pension and other post-retirement benefit costs	1,088	1,145
Liabilities associated with assets held for sale	—	35
Asset retirement obligations	10,264	8,466
Regulatory liabilities	6,255	6,193
Other	1,706	1,675
Total deferred credits and other liabilities	32,490	31,364
Commitments and Contingencies		
Equity		
Common stock, $0.001 par value, 2 billion shares authorized; 688 million and 707 million shares outstanding at December 31, 2015 and 2014, respectively	1	1
Additional paid-in capital	37,968	39,405
Retained earnings	2,564	2,012
Accumulated other comprehensive loss	(806)	(543)
Total Duke Energy Corporation stockholders' equity	39,727	40,875
Noncontrolling interests	44	24
Total equity	39,771	40,899
Total Liabilities and Equity	$121,156	$120,557

See Notes to Consolidated Financial Statements

PART II

DUKE ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
(in millions)	2015	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$2,831	$1,889	$2,676
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, amortization and accretion (including amortization of nuclear fuel)	3,613	3,507	3,229
Equity component of AFUDC	(164)	(135)	(157)
FERC mitigation costs	—	(15)	—
Community support and charitable contributions expense	—	—	34
Gains on sales of other assets	(48)	(33)	(79)
Impairment charges	153	915	400
Deferred income taxes	1,244	1,149	1,264
Equity in earnings of unconsolidated affiliates	(69)	(130)	(122)
Accrued pension and other post-retirement benefit costs	71	108	307
Contributions to qualified pension plans	(302)	—	(250)
Payments for asset retirement obligations	(346)	(68)	(12)
(Increase) decrease in			
Net realized and unrealized mark-to-market and hedging transactions	(29)	44	1
Receivables	359	58	(281)
Inventory	(237)	(269)	(31)
Other current assets	(65)	(414)	(35)
Increase (decrease) in			
Accounts payable	(6)	(30)	73
Taxes accrued	(38)	(14)	77
Other current liabilities	168	(201)	24
Other assets	(216)	16	(384)
Other liabilities	(243)	209	(352)
Net cash provided by operating activities	6,676	6,586	6,382
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures	(6,766)	(5,384)	(5,526)
Investment expenditures	(263)	(90)	(81)
Acquisitions, net of cash acquired	(1,334)	(54)	—
Purchases of available-for-sale securities	(4,037)	(4,110)	(6,142)
Proceeds from sales and maturities of available-for-sale securities	4,040	4,133	6,315
Net proceeds from the sale of Midwest generation business and sales of equity investments and other assets	2,968	179	277
Change in restricted cash	191	9	167
Other	(76)	(56)	12
Net cash used in investing activities	(5,277)	(5,373)	(4,978)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from the:			
Issuance of long-term debt	2,955	2,914	3,601
Issuance of common stock related to employee benefit plans	17	25	9
Payments for the:			

Redemption of long-term debt	(3,029)	(3,037)	(2,761)
Redemption of preferred stock of a subsidiary	—	—	(96)
Proceeds from the issuance of short-term debt with original maturities greater than 90 days	379	1,066	—
Payments for the redemption of short-term debt with original maturities greater than 90 days	(931)	(564)	—
Notes payable and commercial paper	1,797	1,186	93
Distributions to noncontrolling interests	(9)	(65)	(15)
Contributions from noncontrolling interests	—	—	9
Dividends paid	(2,254)	(2,234)	(2,188)
Repurchase of common shares	(1,500)	—	—
Other	(3)	31	21
Net cash used in financing activities	(2,578)	(678)	(1,327)
Net (decrease) increase in cash and cash equivalents	(1,179)	535	77
Cash and cash equivalents at beginning of period	2,036	1,501	1,424
Cash and cash equivalents at end of period	$857	$2,036	$1,501
Supplemental Disclosures:			
Cash paid for interest, net of amount capitalized	$1,607	$1,659	$1,665
Cash paid for (received from) income taxes	170	158	(202)
Significant non-cash transactions:			
Accrued capital expenditures	771	664	594

See Notes to Consolidated Financial Statements

PART II

DUKE ENERGY CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

				Duke Energy Corporation Stockholders' Accumulated Other Comprehensive Loss						
(in millions)	Common Stock Shares	Common Stock	Additional Paid-in Capital	Retained Earnings	Foreign Currency Translation Adjustments	Net Losses on Cash Flow Hedges	Net Unrealized Gains (Losses) on Available-for-Sale Securities	Pension and OPEB Adjustments	Total Duke Energy Corporation Stockholders' Equity	Noncontrolling Interests	Total Equity
Balance at December 31, 2012	704	$1	$39,279	$1,889	$(116)	$(100)	$—	$(90)	$40,863	$78	$40,941
Net income	—	—	—	2,665	—	—	—	—	2,665	11	2,676
Other comprehensive (loss) income	—	—	—	—	(191)	60	—	38	(93)	(6)	(99)
Common stock issuances, including dividend reinvestment and employee benefits	2	—	86	—	—	—	—	—	86	—	86
Common stock dividends	—	—	—	(2,188)	—	—	—	—	(2,188)	—	(2,188)
Premium on the redemption of preferred stock of subsidiaries	—	—	—	(3)	—	—	—	—	(3)	—	(3)
Contribution from noncontrolling interest	—	—	—	—	—	—	—	—	—	9	9
Changes in noncontrolling interest in subsidiaries[(a)]	—	—	—	—	—	—	—	—	—	(14)	(14)
Balance at December 31, 2013	706	$1	$39,365	$2,363	$(307)	$(40)	$—	$(52)	$41,330	$78	$41,408
Net income	—	—	—	1,883	—	—	—	—	1,883	6	1,889
	—	—	—	—	(132)	(19)	3	4	(144)	8	(136)

Other comprehensive (loss) income											
Common stock issuances, including dividend reinvestment and employee benefits	1	—	40	—	—	—	—	—	40	—	40
Common stock dividends	—	—	—	(2,234)	—	—	—	—	(2,234)	—	(2,234)
Changes in noncontrolling interest in subsidiaries[a]	—	—	—	—	—	—	—	—	—	(65)	(65)
Other	—	—	—	—	—	—	—	—	—	(3)	(3)
Balance at December 31, 2014	707	$1	$39,405	$2,012	$(439)	$(59)	$3	$(48)	$40,875	$24	$40,899
Net income	—	—	—	2,816	—	—	—	—	2,816	15	2,831
Other comprehensive (loss) income	—	—	—	—	(253)	9	(6)	(13)	(263)	(11)	(274)
Common stock issuances, including dividend reinvestment and employee benefits	1	—	63	—	—	—	—	—	63	—	63
Stock repurchase	(20)	(1,500)	—	—	—	—	—	(1,500)	—	(1,500)	
Common stock dividends	—	—	—	(2,254)	—	—	—	—	(2,254)	—	(2,254)
Distributions to noncontrolling interests in subsidiaries	—	—	—	—	—	—	—	—	—	(9)	(9)
Other[b]	—	—	—	(10)	—	—	—	—	(10)	25	15
Balance at December 31, 2015	688	$1	$37,968	$2,564	$(692)	$(50)	$(3)	$(61)	$39,727	$44	$39,771

(a) This decrease primarily relates to cash distributions to noncontrolling interests.

(b) The $25 million change in Noncontrolling Interests is primarily related to the acquisitions of a majority interest in a provider of energy management systems and services for commercial customers and a solar company.

See Notes to Consolidated Financial Statements

PART II

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
To the Board of Directors of
Duke Energy Carolinas, LLC
Charlotte, North Carolina

We have audited the accompanying consolidated balance sheets of Duke Energy Carolinas, LLC and subsidiaries (the "Company") as of December 31, 2015 and 2014, and the related consolidated statements of operations and comprehensive income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Duke Energy Carolinas, LLC and subsidiaries at December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 22 to the consolidated financial statements, Duke Energy Carolinas, LLC and subsidiaries adopted ASU 2015-17, Income Taxes (Topic 740); Balance Sheet Classification of Deferred Taxes effective December 31, 2015 on a prospective basis.

/s/ Deloitte & Touche LLP

Charlotte, North Carolina
February 25, 2016

PART II

DUKE ENERGY CAROLINAS, LLC
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

	Years Ended December 31,		
(in millions)	2015	2014	2013
Operating Revenues	$7,229	$7,351	$6,954
Operating Expenses			
Fuel used in electric generation and purchased power	1,881	2,133	1,982
Operation, maintenance and other	2,066	1,995	1,868
Depreciation and amortization	1,051	1,009	921
Property and other taxes	269	316	374
Impairment charges	1	3	—
Total operating expenses	5,268	5,456	5,145
Losses on Sales of Other Assets and Other, net	(1)	—	—
Operating Income	1,960	1,895	1,809
Other Income and Expenses, net	160	172	120
Interest Expense	412	407	359
Income Before Income Taxes	1,708	1,660	1,570
Income Tax Expense	627	588	594
Net Income	$1,081	$1,072	$976
Other Comprehensive Income, net of tax			
Reclassification into earnings from cash flow hedges	1	2	1
Unrealized gain on available-for-sale securities	1	—	—
Other Comprehensive Income, net of tax	2	2	1
Comprehensive Income	$1,083	$1,074	$977

See Notes to Consolidated Financial Statements

PART II

DUKE ENERGY CAROLINAS, LLC
CONSOLIDATED BALANCE SHEETS

(in millions)	December 31, 2015	2014
ASSETS		
Current Assets		
Cash and cash equivalents	$13	$13
Receivables (net of allowance for doubtful accounts of $3 at December 31, 2015 and December 31, 2014)	142	129
Restricted receivables of variable interest entities (net of allowance for doubtful accounts of $7 at December 31, 2015 and $6 at December 31, 2014)	596	647
Receivables from affiliated companies	107	75
Notes receivable from affiliated companies	163	150
Inventory	1,276	1,124
Regulatory assets	305	399
Other	128	77
Total current assets	2,730	2,614
Investments and Other Assets		
Nuclear decommissioning trust funds	3,050	3,042
Other	999	959
Total investments and other assets	4,049	4,001
Property, Plant and Equipment		
Cost	39,398	37,372
Accumulated depreciation and amortization	(13,521)	(12,700)
Net property, plant and equipment	25,877	24,672
Regulatory Assets and Deferred Debits		
Regulatory assets	2,766	2,465
Other	4	4
Total regulatory assets and deferred debits	2,770	2,469
Total Assets	$35,426	$33,756
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable	$753	$709
Accounts payable to affiliated companies	229	154
Taxes accrued	25	146
Interest accrued	95	95
Current maturities of long-term debt	356	507
Regulatory liabilities	39	34
Other	519	434
Total current liabilities	2,016	2,079
Long-Term Debt	7,711	7,546
Long-Term Debt Payable to Affiliated Companies	300	300
Deferred Credits and Other Liabilities		
Deferred income taxes	6,146	5,812
Investment tax credits	199	204
Accrued pension and other post-retirement benefit costs	107	111
Asset retirement obligations	3,918	3,428
Regulatory liabilities	2,802	2,710

Other	621	642
Total deferred credits and other liabilities	13,793	12,907
Commitments and Contingencies		
Equity		
Member's Equity	11,617	10,937
Accumulated other comprehensive loss	(11)	(13)
Total equity	11,606	10,924
Total Liabilities and Equity	$35,426	$33,756

See Notes to Consolidated Financial Statements

PART II

DUKE ENERGY CAROLINAS, LLC
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
(in millions)	2015	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$1,081	$1,072	$976
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization (including amortization of nuclear fuel)	1,361	1,273	1,167
Equity component of AFUDC	(96)	(91)	(91)
FERC mitigation costs	—	3	14
Losses on sales of other assets and other, net	1	—	—
Impairment charges	1	—	—
Deferred income taxes	397	376	534
Accrued pension and other post-retirement benefit costs	15	22	38
Contributions to qualified pension plans	(91)	—	—
Payments for asset retirement obligations	(167)	—	—
(Increase) decrease in			
Net realized and unrealized mark-to-market and hedging transactions	—	—	(9)
Receivables	42	48	(12)
Receivables from affiliated companies	(32)	—	(72)
Inventory	(157)	(60)	(9)
Other current assets	(51)	(236)	(1)
Increase (decrease) in			
Accounts payable	(4)	10	58
Accounts payable to affiliated companies	75	(7)	33
Taxes accrued	(128)	(15)	4
Other current liabilities	127	(10)	(40)
Other assets	76	17	(102)
Other liabilities	(77)	(22)	(77)
Net cash provided by operating activities	2,373	2,380	2,411
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures	(1,933)	(1,879)	(1,695)
Purchases of available-for-sale securities	(2,555)	(2,064)	(2,405)
Proceeds from sales and maturities of available-for-sale securities	2,555	2,044	2,363
Notes receivable from affiliated companies	(13)	72	160
Other	(35)	(18)	(24)
Net cash used in investing activities	(1,981)	(1,845)	(1,601)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from the issuance of long-term debt	516	—	100
Payments for the redemption of long-term debt	(506)	(45)	(405)
Distributions to parent	(401)	(500)	(499)
Other	(1)	—	(2)
Net cash used in financing activities	(392)	(545)	(806)
Net (decrease) increase in cash and cash equivalents	—	(10)	4
Cash and cash equivalents at beginning of period	13	23	19
Cash and cash equivalents at end of period	$13	$13	$23
Supplemental Disclosures:			

Cash paid for interest, net of amount capitalized	$389	$388	$336
Cash paid for (received from) income taxes	342	305	(7)
Significant non-cash transactions:			
Accrued capital expenditures	239	194	199

See Notes to Consolidated Financial Statements

PART II

DUKE ENERGY CAROLINAS, LLC
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

		Accumulated Other Comprehensive Loss		
(in millions)	Member's Equity	Net Losses on Cash Flow Hedges	Net Losses Available-for-Sale Securities	Total Equity
Balance at December 31, 2012	$9,888	$(15)	$(1)	$9,872
Net income	976	—	—	976
Other comprehensive income		1	—	1
Distributions to parent	(499)	—	—	(499)
Balance at December 31, 2013	$10,365	$(14)	$(1)	$10,350
Net income	1,072	—	—	1,072
Other comprehensive income		2	—	2
Distributions to parent	(500)	—	—	(500)
Balance at December 31, 2014	$10,937	$(12)	$(1)	$10,924
Net income	1,081	—	—	1,081
Other comprehensive income		1	1	2
Distributions to parent	(401)	—	—	(401)
Balance at December 31, 2015	$11,617	$(11)	$—	$11,606

See Notes to Consolidated Financial Statements

PART II

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of
Progress Energy, Inc.
Charlotte, North Carolina

We have audited the accompanying consolidated balance sheets of Progress Energy, Inc. and subsidiaries (the "Company") as of December 31, 2015 and 2014, and the related consolidated statements of operations and comprehensive income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Progress Energy, Inc. and subsidiaries at December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 22 to the consolidated financial statements, Progress Energy Inc. and subsidiaries adopted ASU 2015-17, Income Taxes (Topic 740); Balance Sheet Classification of Deferred Taxes effective December 31, 2015 on a prospective basis.

/s/ Deloitte & Touche LLP

Charlotte, North Carolina
February 25, 2016

PART II

PROGRESS ENERGY, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

	Years Ended December 31,		
(in millions)	2015	2014	2013
Operating Revenues	$10,277	$10,166	$9,533
Operating Expenses			
Fuel used in electric generation and purchased power	4,224	4,195	3,851
Operation, maintenance and other	2,298	2,335	2,247
Depreciation and amortization	1,116	1,128	883
Property and other taxes	492	517	557
Impairment charges	12	(16)	380
Total operating expenses	8,142	8,159	7,918
Gains on Sales of Other Assets and Other, net	25	11	3
Operating Income	2,160	2,018	1,618
Other Income and Expenses, net	97	77	94
Interest Expense	670	675	680
Income From Continuing Operations Before Income Taxes	1,587	1,420	1,032
Income Tax Expense From Continuing Operations	522	540	373
Income From Continuing Operations	1,065	880	659
(Loss) Income From Discontinued Operations, net of tax	(3)	(6)	16
Net Income	1,062	874	675
Less: Net Income Attributable to Noncontrolling Interests	11	5	3
Net Income Attributable to Parent	$1,051	$869	$672
Net Income	$1,062	$874	$675
Other Comprehensive (Loss) Income, net of tax			
Pension and OPEB adjustments	(10)	9	9
Reclassification into earnings from cash flow hedges	4	8	(1)
Unrealized (losses) gains on investments in available-for-sale securities	(1)	1	—
Other Comprehensive (Loss) Income, net of tax	(7)	18	8
Comprehensive Income	1,055	892	683
Less: Comprehensive Income Attributable to Noncontrolling Interests	11	5	3
Comprehensive Income Attributable to Parent	$1,044	$887	$680

See Notes to Consolidated Financial Statements

PART II

PROGRESS ENERGY, INC.
CONSOLIDATED BALANCE SHEETS

(in millions)	December 31, 2015	2014
ASSETS		
Current Assets		
Cash and cash equivalents	$44	$42
Receivables (net of allowance for doubtful accounts of $6 at December 31, 2015 and $8 at December 31, 2014)	151	129
Restricted receivables of variable interest entities (net of allowance for doubtful accounts of $8 at December 31, 2015 and 2014)	658	741
Receivables from affiliated companies	375	59
Notes receivable from affiliated companies	—	220
Inventory	1,751	1,590
Regulatory assets	362	491
Other	156	1,285
Total current assets	3,497	4,557
Investments and Other Assets		
Nuclear decommissioning trust funds	2,775	2,503
Goodwill	3,655	3,655
Other	834	670
Total investments and other assets	7,264	6,828
Property, Plant and Equipment		
Cost	42,666	38,650
Accumulated depreciation and amortization	(14,867)	(13,506)
Generation facilities to be retired, net	548	—
Net property, plant and equipment	28,347	25,144
Regulatory Assets and Deferred Debits		
Regulatory assets	5,435	5,408
Other	5	5
Total regulatory assets and deferred debits	5,440	5,413
Total Assets	$44,548	$41,942
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable	$722	$847
Accounts payable to affiliated companies	311	203
Notes payable to affiliated companies	1,308	835
Taxes accrued	53	114
Interest accrued	195	184
Current maturities of long-term debt	315	1,507
Regulatory liabilities	286	106
Other	891	1,021
Total current liabilities	4,081	4,817
Long-Term Debt	13,999	13,161
Long-Term Debt Payable to Affiliated Companies	150	—
Deferred Credits and Other Liabilities		
Deferred income taxes	4,790	4,759
Accrued pension and other post-retirement benefit costs	536	533

Asset retirement obligations	5,369	4,711
Regulatory liabilities	2,387	2,379
Other	383	406
Total deferred credits and other liabilities	13,465	12,788
Commitments and Contingencies		
Equity		
Common stock, $0.01 par value, 100 shares authorized and outstanding at December 31, 2015 and 2014	—	—
Additional paid-in capital	8,092	7,467
Retained earnings	4,831	3,782
Accumulated other comprehensive loss	(48)	(41)
Total Progress Energy, Inc. stockholders' equity	12,875	11,208
Noncontrolling interests	(22)	(32)
Total equity	12,853	11,176
Total Liabilities and Equity	$44,548	$41,942

See Notes to Consolidated Financial Statements

PART II

PROGRESS ENERGY, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)	Years Ended December 31, 2015	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$1,062	$874	$675
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, amortization and accretion (including amortization of nuclear fuel)	1,312	1,313	1,041
Equity component of AFUDC	(54)	(26)	(50)
FERC mitigation costs	—	(18)	—
Community support and charitable contributions expense	—	—	20
(Gains) losses on sales of other assets	(31)	(6)	2
Impairment charges	12	2	380
Deferred income taxes	714	1,014	616
Accrued pension and other post-retirement benefit costs	(5)	27	172
Contributions to qualified pension plans	(83)	—	(250)
Payments for asset retirement obligations	(156)	(68)	(12)
(Increase) decrease in			
Net realized and unrealized mark-to-market and hedging transactions	(6)	12	55
Receivables	105	(31)	(148)
Receivables from affiliated companies	(316)	(56)	11
Inventory	(67)	(101)	17
Other current assets	553	(934)	(156)
Increase (decrease) in			
Accounts payable	(193)	6	(81)
Accounts payable to affiliated companies	108	80	93
Taxes accrued	(63)	(20)	22
Other current liabilities	136	(144)	61
Other assets	(167)	(14)	(243)
Other liabilities	(112)	56	(103)
Net cash provided by operating activities	2,749	1,966	2,122
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures	(2,698)	(1,940)	(2,490)
Asset acquisition	(1,249)	—	—
Purchases of available-for-sale securities	(1,174)	(1,689)	(2,558)
Proceeds from sales and maturities of available-for-sale securities	1,211	1,652	2,513
Proceeds from the sale of nuclear fuel	102	—	—
Notes receivable from affiliated companies	220	(145)	(75)
Other	(34)	(44)	13
Net cash used in investing activities	(3,622)	(2,166)	(2,597)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from the issuance of long-term debt	1,186	1,572	845
Payments for the:			
Redemption of long-term debt	(1,553)	(931)	(1,196)
Redemption of preferred stock of subsidiaries	—	—	(96)
Notes payable to affiliated companies	623	(378)	758

Distributions to noncontrolling interests	(4)	(37)	(3)
Capital contribution from parent	625	—	—
Other	(2)	(42)	(6)
Net cash provided by financing activities	875	184	302
Net increase (decrease) in cash and cash equivalents	2	(16)	(173)
Cash and Cash Equivalents at Beginning of Period	42	58	231
Cash and Cash Equivalents at End of Period	44	42	58
Supplemental Disclosures:			
Cash paid for interest, net of amount capitalized	$649	$664	$678
Cash (received from) paid for income taxes	(426)	141	(167)
Significant non-cash transactions:			
Accrued capital expenditures	329	294	255

See Notes to Consolidated Financial Statements

PART II

PROGRESS ENERGY, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

				Accumulated Other Comprehensive Loss					
(in millions)	Common Stock	Additional Paid-in Capital	Retained Earnings	Net Losses on Cash Flow Hedges	Net Unrealized Gains on Available-for-Sale Securities	Pension and OPEB Adjustments	Total Progress Energy, Inc. Stockholders' Equity	Noncontrolling Interests	Total Equity
Balance at December 31, 2012	$ —	$ 7,465	$ 2,783	$ (42)	$ —	$ (25)	$ 10,181	$ 4	$ 10,185
Net income	—	—	672	—	—	—	672	3	675
Other comprehensive (loss) income	—	—	—	(1)	—	9	8	—	8
Premium on the redemption of preferred stock of subsidiaries	—	—	(3)	—	—	—	(3)	—	(3)
Distributions to noncontrolling interests	—	—	—	—	—	—	—	(3)	(3)
Other	—	2	—	—	—	—	2	—	2
Balance at December 31, 2013	$ —	$ 7,467	$ 3,452	$ (43)	$ —	$ (16)	$ 10,860	$ 4	$ 10,864
Net income	—	—	869	—	—	—	869	5	874
Other comprehensive income	—	—	—	8	1	9	18	—	18
Distributions to noncontrolling interests	—	—	—	—	—	—	—	(37)	(37)
Transfer of service company net assets to Duke Energy	—	—	(539)	—	—	—	(539)	—	(539)
Other	—	—	—	—	—	—	—	(4)	(4)
Balance at December 31, 2014	$ —	$ 7,467	$ 3,782	$ (35)	$ 1	$ (7)	$ 11,208	$ (32)	$ 11,176
Net income	—	—	1,051	—	—	—	1,051	11	1,062
Other comprehensive income (loss)	—	—	—	4	(1)	(10)	(7)	—	(7)
Distributions to noncontrolling interests	—	—	—	—	—	—	—	(4)	(4)
Capital contribution from parent	—	625	—	—	—	—	625	—	625
Other	—	—	(2)	—	—	—	(2)	3	1
Balance at December 31, 2015	$ —	$ 8,092	$ 4,831	$ (31)	$ —	$ (17)	$ 12,875	$ (22)	$ 12,853

See Notes to Consolidated Financial Statements

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PART II

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
To the Board of Directors of
Duke Energy Progress, LLC
Charlotte, North Carolina

We have audited the accompanying consolidated balance sheets of Duke Energy Progress, LLC and subsidiaries (the "Company") (formerly Duke Energy Progress, Inc. and subsidiaries) as of December 31, 2015 and 2014, and the related consolidated statements of operations and comprehensive income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Duke Energy Progress, LLC and subsidiaries (formerly Duke Energy Progress, Inc.) at December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 22 to the consolidated financial statements, Duke Energy Progress, LLC and subsidiaries adopted ASU 2015-17, Income Taxes (Topic 740); Balance Sheet Classification of Deferred Taxes effective December 31, 2015 on a prospective basis.

/s/ Deloitte & Touche LLP

Charlotte, North Carolina
February 25, 2016

PART II

DUKE ENERGY PROGRESS, LLC (formerly DUKE ENERGY PROGRESS, INC.)
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

	Years Ended December 31,		
(in millions)	2015	2014	2013
Operating Revenues	$5,290	$5,176	$4,992
Operating Expenses			
Fuel used in electric generation and purchased power	2,029	2,036	1,925
Operation, maintenance and other	1,452	1,470	1,357
Depreciation and amortization	643	582	534
Property and other taxes	140	174	223
Impairment charges	5	(18)	22
Total operating expenses	4,269	4,244	4,061
Gains on Sales of Other Assets and Other, net	3	3	1
Operating Income	1,024	935	932
Other Income and Expenses, net	71	51	57
Interest Expense	235	234	201
Income Before Income Taxes	860	752	788
Income Tax Expense	294	285	288
Net Income and Comprehensive Income	$566	$467	$500

See Notes to Consolidated Financial Statements

PART II

DUKE ENERGY PROGRESS, LLC (formerly DUKE ENERGY PROGRESS, INC.)
CONSOLIDATED BALANCE SHEETS

(in millions)	December 31, 2015	2014
ASSETS		
Current Assets		
Cash and cash equivalents	$15	$9
Receivables (net of allowance for doubtful accounts of $4 at December 31, 2015 and $7 at December 31, 2014)	87	43
Restricted receivables of variable interest entities (net of allowance for doubtful accounts of $5 at December 31, 2015 and December 31, 2014)	349	436
Receivables from affiliated companies	16	10
Notes receivable from affiliated companies	—	237
Inventory	1,088	966
Regulatory assets	264	287
Other	121	384
Total current assets	1,940	2,372
Investments and Other Assets		
Nuclear decommissioning trust funds	2,035	1,701
Other	486	412
Total investments and other assets	2,521	2,113
Property, Plant and Equipment		
Cost	27,313	24,207
Accumulated depreciation and amortization	(10,141)	(9,021)
Generation facilities to be retired, net	548	—
Net property, plant and equipment	17,720	15,186
Regulatory Assets and Deferred Debits		
Regulatory assets	2,710	2,675
Other	3	3
Total regulatory assets and deferred debits	2,713	2,678
Total Assets	$24,894	$22,349
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable	$399	$481
Accounts payable to affiliated companies	190	120
Notes payable to affiliated companies	209	—
Taxes accrued	15	47
Interest accrued	96	81
Current maturities of long-term debt	2	945
Regulatory liabilities	85	71
Other	412	409
Total current liabilities	1,408	2,154
Long-Term Debt	6,366	5,225
Long-Term Debt Payable to Affiliated Companies	150	—
Deferred Credits and Other Liabilities		
Deferred income taxes	3,027	2,908
Investment tax credits	132	79
Accrued pension and other post-retirement benefit costs	262	290

Asset retirement obligations	4,567	3,905
Regulatory liabilities	1,878	1,832
Other	45	89
Total deferred credits and other liabilities	9,911	9,103
Commitments and Contingencies		
Equity		
Member's Equity	7,059	—
Common stock, no par; 200 million shares authorized; 160 million shares outstanding at December 31, 2014	—	2,159
Retained earnings	—	3,708
Total equity	7,059	5,867
Total Liabilities and Equity	$24,894	$22,349

See Notes to Consolidated Financial Statements

PART II

DUKE ENERGY PROGRESS, LLC (formerly DUKE ENERGY PROGRESS, INC.)
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
(in millions)	2015	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	566	467	500
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, amortization and accretion (including amortization of nuclear fuel)	821	761	685
Equity component of AFUDC	(47)	(25)	(42)
FERC mitigation costs	—	(18)	—
Community support and charitable contributions expense	—	—	20
Gains on sales of other assets and other, net	(7)	(3)	(1)
Impairment charges	5	—	22
Deferred income taxes	354	455	368
Accrued pension and other post-retirement benefit costs	(14)	(7)	72
Contributions to qualified pension plans	(42)	—	(63)
Payments for asset retirement obligations	(109)	—	—
(Increase) decrease in			
Net realized and unrealized mark-to-market and hedging transactions	(3)	13	(9)
Receivables	43	78	(88)
Receivables from affiliated companies	(6)	(8)	3
Inventory	(50)	(65)	(26)
Other current assets	185	(416)	(39)
Increase (decrease) in			
Accounts payable	(65)	27	(18)
Accounts payable to affiliated companies	70	17	27
Taxes accrued	(34)	10	15
Other current liabilities	76	(68)	(86)
Other assets	(83)	48	(74)
Other liabilities	(66)	(21)	(78)
Net cash provided by operating activities	1,594	1,245	1,188
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures	(1,669)	(1,241)	(1,567)
Asset acquisition	(1,249)	—	—
Purchases of available-for-sale securities	(727)	(499)	(901)
Proceeds from sales and maturities of available-for-sale securities	672	458	856
Notes receivable from affiliated companies	237	(237)	—
Other	(30)	(12)	4
Net cash used in investing activities	(2,766)	(1,531)	(1,608)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from the issuance of long-term debt	1,186	1,347	845
Payments for the:			
Redemption of long-term debt	(991)	(379)	(451)
Redemption of preferred stock	—	—	(62)
Notes payable to affiliated companies	359	(462)	98
Capital contribution from parent	626	—	—

Dividends to parent	—	(225)	—
Other	(2)	(7)	(7)
Net cash provided by financing activities	1,178	274	423
Net increase (decrease) in cash and cash equivalents	6	(12)	3
Cash and Cash Equivalents at Beginning of Period	9	21	18
Cash and Cash Equivalents at End of Period	$15	$9	$21
Supplemental Disclosures:			
Cash paid for interest, net of amount capitalized	$218	$220	$217
Cash (received from) paid for income taxes	(197)	81	(94)
Significant non-cash transactions:			
Accrued capital expenditures	143	194	166

See Notes to Consolidated Financial Statements

PART II

DUKE ENERGY PROGRESS, LLC (formerly DUKE ENERGY PROGRESS, INC.)
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in millions)	Common Stock	Retained Earnings	Member's Equity	Total Equity
Balance at December 31, 2012	$2,159	$2,968	$—	$5,127
Net income	—	500	—	500
Premium on the redemption of preferred stock	—	(2)	—	(2)
Balance at December 31, 2013	$2,159	$3,466	$—	$5,625
Net income	—	467	—	467
Dividends to parent	—	(225)	—	(225)
Balance at December 31, 2014	$2,159	$3,708	$—	$5,867
Net income	—	355	211	566
Transfer to Member's Equity	(2,159)	(4,063)	6,222	—
Capital contribution from parent	—	—	626	626
Balance at December 31, 2015	$—	$—	$7,059	$7,059

See Notes to Consolidated Financial Statements

PART II

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
To the Board of Directors of
Duke Energy Florida, LLC
Charlotte, North Carolina

We have audited the accompanying consolidated balance sheets of Duke Energy Florida, LLC and subsidiaries (the "Company") (formerly Duke Energy Florida, Inc. and subsidiaries) as of December 31, 2015 and 2014, and the related consolidated statements of operations and comprehensive income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Duke Energy Florida, LLC and subsidiaries (formerly Duke Energy Florida, Inc.) at December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 22 to the consolidated financial statements, Duke Energy Florida, LLC and subsidiaries adopted ASU 2015-17, Income Taxes (Topic 740); Balance Sheet Classification of Deferred Taxes effective December 31, 2015 on a prospective basis.

/s/ Deloitte & Touche LLP

Charlotte, North Carolina
February 25, 2016

PART II

DUKE ENERGY FLORIDA, LLC (formerly DUKE ENERGY FLORIDA, INC.)
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

	Years Ended December 31,		
(in millions)	2015	2014	2013
Operating Revenues	$4,977	$4,975	$4,527
Operating Expenses			
Fuel used in electric generation and purchased power	2,195	2,158	1,927
Operation, maintenance and other	835	850	898
Depreciation and amortization	473	545	330
Property and other taxes	352	343	327
Impairment charges	7	2	358
Total operating expenses	3,862	3,898	3,840
Gains on Sales of Other Assets and Other, net	—	1	1
Operating Income	1,115	1,078	688
Other Income and Expenses, net	24	20	30
Interest Expense	198	201	180
Income Before Income Taxes	941	897	538
Income Tax Expense	342	349	213
Net Income	$599	$548	$325
Other Comprehensive Income (Loss), net of tax			
Net unrealized loss on cash flow hedges	—	—	(1)
Reclassification into earnings from cash flow hedges	—	1	—
Other Comprehensive Income (Loss), net of tax	—	1	(1)
Comprehensive Income	$599	$549	$324

See Notes to Consolidated Financial Statements

PART II

DUKE ENERGY FLORIDA, LLC (formerly DUKE ENERGY FLORIDA, INC.)
CONSOLIDATED BALANCE SHEETS

(in millions)	December 31, 2015	2014
ASSETS		
Current Assets		
Cash and cash equivalents	$8	$8
Receivables (net of allowance for doubtful accounts of $2 at December 31, 2015 and 2014)	60	84
Restricted receivables of variable interest entities (net of allowance for doubtful accounts of $3 at December 31, 2015 and 2014)	308	305
Receivables from affiliated companies	84	40
Inventory	663	623
Regulatory assets	98	203
Other	21	521
Total current assets	1,242	1,784
Investments and Other Assets		
Nuclear decommissioning trust funds	740	803
Other	292	204
Total investments and other assets	1,032	1,007
Property, Plant and Equipment		
Cost	15,343	14,433
Accumulated depreciation and amortization	(4,720)	(4,478)
Net property, plant and equipment	10,623	9,955
Regulatory Assets and Deferred Debits		
Regulatory assets	2,725	2,733
Other	2	2
Total regulatory assets and deferred debits	2,727	2,735
Total Assets	$15,624	$15,481
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable	$322	$365
Accounts payable to affiliated companies	116	70
Notes payable to affiliated companies	813	84
Taxes accrued	132	65
Interest accrued	43	47
Current maturities of long-term debt	13	562
Regulatory liabilities	200	35
Other	452	586
Total current liabilities	2,091	1,814
Long-Term Debt	4,253	4,261
Deferred Credits and Other Liabilities		
Deferred income taxes	2,460	2,452
Accrued pension and other post-retirement benefit costs	242	221
Asset retirement obligations	802	806
Regulatory liabilities	509	547
Other	146	158
Total deferred credits and other liabilities	4,159	4,184
Commitments and Contingencies		

Equity		
Member's equity	5,121	—
Common Stock, no par; 60 million shares authorized; 100 shares outstanding at December 31, 2014	—	1,762
Retained earnings	—	3,460
Total equity	5,121	5,222
Total Liabilities and Equity	$15,624	$15,481

See Notes to Consolidated Financial Statements

PART II

DUKE ENERGY FLORIDA, LLC (formerly DUKE ENERGY FLORIDA, INC.)
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
(in millions)	2015	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$599	$548	$325
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, amortization and accretion	480	550	335
Equity component of AFUDC	(7)	—	(8)
Gains on sales of other assets and other, net	—	(1)	(1)
Impairment charges	7	2	358
Deferred income taxes	348	400	368
Accrued pension and other post-retirement benefit costs	5	29	79
Contributions to qualified pension plans	(40)	—	(133)
Payments for asset retirement obligations	(47)	(68)	(12)
(Increase) decrease in			
Net realized and unrealized mark-to-market and hedging transactions	(3)	(9)	55
Receivables	61	(33)	(44)
Receivables from affiliated companies	(44)	(37)	17
Inventory	(17)	(36)	42
Other current assets	116	(269)	(109)
Increase (decrease) in			
Accounts payable	(127)	18	(22)
Accounts payable to affiliated companies	46	32	(6)
Taxes accrued	67	(31)	18
Other current liabilities	57	(80)	159
Other assets	(84)	(59)	(154)
Other liabilities	(44)	10	(62)
Net cash provided by operating activities	1,373	966	1,205
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures	(1,029)	(699)	(915)
Purchases of available-for-sale securities	(447)	(1,189)	(1,656)
Proceeds from sales and maturities of available-for-sale securities	538	1,195	1,658
Proceeds from the sale of nuclear fuel	102	—	—
Notes receivable from affiliated companies	—	—	207
Other	(3)	(31)	—
Net cash used in investing activities	(839)	(724)	(706)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from the issuance of long-term debt	—	225	—
Payments for the:			
Redemption of long-term debt	(562)	(252)	(435)
Redemption of preferred stock	—	—	(34)
Notes payable to affiliated companies	729	(97)	181
Dividends to parent	(350)	(124)	(325)
Distribution to parent	(350)	—	—
Other	(1)	(2)	(1)
Net cash used in financing activities	(534)	(250)	(614)

Net decrease in cash and cash equivalents	—	(8)	(115)
Cash and Cash Equivalents at Beginning of Period	8	16	131
Cash and Cash Equivalents at End of Period	$8	$8	$16
Supplemental Disclosures:			
Cash paid for interest, net of amount capitalized	$205	$203	$201
Cash (received from) paid for income taxes	(229)	59	(84)
Significant non-cash transactions:			
Accrued capital expenditures	186	100	88

See Notes to Consolidated Financial Statements

PART II

DUKE ENERGY FLORIDA, LLC (formerly DUKE ENERGY FLORIDA, INC.)
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in millions)	Common Stock	Retained Earnings	Member's Equity	Accumulated Other Comprehensive Loss Net Losses on Cash Flow Hedges	Total Equity
Balance at December 31, 2012	$1,762	$3,037	$—	$—	$4,799
Net income	—	325	—	—	325
Other comprehensive loss	—	—	—	(1)	(1)
Dividend to parent	—	(325)	—	—	(325)
Premium on the redemption of preferred stock	—	(1)	—	—	(1)
Balance at December 31, 2013	$1,762	$3,036	$—	$(1)	$4,797
Net income	—	548		—	548
Other comprehensive income	—	—		1	1
Dividend to parent	—	(124)		—	(124)
Balance at December 31, 2014	$1,762	$3,460	$—	$—	$5,222
Net income	—	351	248	—	599
Dividends to parent	—	(350)	—	—	(350)
Distribution to parent	—	—	(350)	—	(350)
Transfer to Member's Equity	(1,762)	(3,461)	5,223	—	—
Balance at December 31, 2015	$—	$—	$5,121	$—	$5,121

See Notes to Consolidated Financial Statements

PART II

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
To the Board of Directors of
Duke Energy Ohio, Inc.
Charlotte, North Carolina

We have audited the accompanying consolidated balance sheets of Duke Energy Ohio, Inc. and subsidiaries (the "Company") as of December 31, 2015 and 2014, and the related consolidated statements of operations and comprehensive income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting.

Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Duke Energy Ohio, Inc. and subsidiaries at December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 22 to the consolidated financial statements, Duke Energy Ohio, Inc. and subsidiaries adopted ASU 2015-17, Income Taxes (Topic 740); Balance Sheet Classification of Deferred Taxes effective December 31, 2015 on a prospective basis.

/s/ Deloitte & Touche LLP

Charlotte, North Carolina
February 25, 2016

PART II

DUKE ENERGY OHIO, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

	Years Ended December 31,		
(in millions)	2015	2014	2013
Operating Revenues			
Regulated electric	$1,331	$1,316	$1,258
Nonregulated electric and other	33	19	34
Regulated natural gas	541	578	513
Total operating revenues	1,905	1,913	1,805
Operating Expenses			
Fuel used in electric generation and purchased power – regulated	446	459	428
Fuel used in electric generation and purchased power – nonregulated	47	25	41
Cost of natural gas	141	185	152
Operation, maintenance and other	495	516	546
Depreciation and amortization	227	214	213
Property and other taxes	254	234	242
Impairment charges	—	94	5
Total operating expenses	1,610	1,727	1,627
Gains on Sales of Other Assets and Other, net	8	1	4
Operating Income	303	187	182
Other Income and Expenses, net	6	10	2
Interest Expense	79	86	74
Income From Continuing Operations Before Income Taxes	230	111	110
Income Tax Expense From Continuing Operations	81	43	43
Income From Continuing Operations	149	68	67
Income (Loss) From Discontinued Operations, net of tax	23	(563)	35
Net Income (Loss)	$172	$(495)	$102
Other Comprehensive Income, net of tax			
Pension and OPEB adjustments	—	—	1
Comprehensive Income (Loss)	$172	$(495)	$103

See Notes to Consolidated Financial Statements

PART II

DUKE ENERGY OHIO, INC.
CONSOLIDATED BALANCE SHEETS

(in millions)	December 31, 2015	2014
ASSETS		
Current Assets		
Cash and cash equivalents	$14	$20
Receivables (net of allowance for doubtful accounts of $2 at December 31, 2015 and December 31, 2014)	66	93
Receivables from affiliated companies	84	107
Notes receivable from affiliated companies	—	145
Inventory	105	97
Assets held for sale	—	316
Regulatory assets	36	49
Other	110	167
Total current assets	415	994
Investments and Other Assets		
Goodwill	920	920
Assets held for sale	—	2,605
Other	20	23
Total investments and other assets	940	3,548
Property, Plant and Equipment		
Cost	7,750	7,141
Accumulated depreciation and amortization	(2,507)	(2,213)
Generation facilities to be retired, net	—	9
Net property, plant and equipment	5,243	4,937
Regulatory Assets and Deferred Debits		
Regulatory assets	497	512
Other	2	2
Total regulatory assets and deferred debits	499	514
Total Assets	$7,097	$9,993
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable	$207	$209
Accounts payable to affiliated companies	53	74
Notes payable to affiliated companies	103	491
Taxes accrued	171	163
Interest accrued	18	19
Current maturities of long-term debt	106	157
Liabilities associated with assets held for sale	—	246
Regulatory liabilities	12	10
Other	153	66
Total current liabilities	823	1,435
Long-Term Debt	1,467	1,578
Long-Term Debt Payable to Affiliated Companies	25	25
Deferred Credits and Other Liabilities		
Deferred income taxes	1,407	1,765
Accrued pension and other post-retirement benefit costs	56	48

Liabilities associated with assets held for sale	—	34
Asset retirement obligations	125	27
Regulatory liabilities	245	241
Other	165	166
Total deferred credits and other liabilities	1,998	2,281
Commitments and Contingencies		
Equity		
Common stock, $8.50 par value, 120,000,000 shares authorized; 89,663,086 shares outstanding at December 31, 2015 and 2014	762	762
Additional paid-in capital	2,720	4,782
Accumulated deficit	(698)	(870)
Total equity	2,784	4,674
Total Liabilities and Equity	$7,097	$9,993

See Notes to Consolidated Financial Statements

PART II

DUKE ENERGY OHIO, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
(in millions)	2015	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss)	$172	$(495)	$102
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation, amortization and accretion	230	258	357
Equity component of AFUDC	(3)	(4)	(1)
Gains on sales of other assets and other, net	(8)	(1)	(5)
Impairment charges	40	941	5
Deferred income taxes	206	(219)	98
Accrued pension and other post-retirement benefit costs	9	8	17
Contributions to qualified pension plans	(8)	—	—
Payments for asset retirement obligations	(4)	—	—
(Increase) decrease in			
Net realized and unrealized mark-to-market and hedging transactions	(10)	27	17
Receivables	23	(56)	(15)
Receivables from affiliated companies	23	14	(39)
Inventory	—	8	(3)
Other current assets	—	(5)	(1)
Increase (decrease) in			
Accounts payable	(1)	27	13
Accounts payable to affiliated companies	(21)	(3)	15
Taxes accrued	(21)	(9)	1
Other current liabilities	88	27	14
Other assets	25	(4)	(6)
Other liabilities	(73)	(33)	(73)
Net cash provided by operating activities	667	481	496
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures	(399)	(322)	(434)
Net proceeds from the sales of other assets	—	—	11
Notes receivable from affiliated companies	145	(88)	(56)
Other	(15)	(12)	1
Net cash used in investing activities	(269)	(422)	(478)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from the issuance of long-term debt	—	—	450
Payments for the redemption of long-term debt	(157)	(449)	(258)
Notes payable to affiliated companies	(95)	473	(202)
Dividends to parent	(150)	(100)	—
Other	(2)	1	(3)
Net cash used in financing activities	(404)	(75)	(13)
Net (decrease) increase in cash and cash equivalents	(6)	(16)	5
Cash and cash equivalents at beginning of period	20	36	31
Cash and cash equivalents at end of period	14	20	36
Supplemental Disclosures:			
Cash paid for interest, net of amount capitalized	$76	$76	$71

Cash paid for (received from) income taxes	410	(5)	9
Significant non-cash transactions:			
Accrued capital expenditures	20	24	27
Distribution of membership interest of Duke Energy SAM, LLC to parent	1,912	—	—

See Notes to Consolidated Financial Statements

PART II

DUKE ENERGY OHIO, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in millions)	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss Pension and OPEB Related Adjustments	Total Equity
Balance at December 31, 2012	$762	$4,882	$(477)	$ (1)	$5,166
Net income	—	—	102	—	102
Other comprehensive income	—	—	—	1	1
Balance at December 31, 2013	$762	$4,882	$(375)	$ —	$5,269
Net loss	—	—	(495)	—	(495)
Dividends to parent	—	(100)	—	—	(100)
Balance at December 31, 2014	$762	$4,782	$(870)	$ —	$4,674
Net income	—	—	172	—	172
Dividends to parent	—	(150)	—	—	(150)
Distribution of membership interest of Duke Energy SAM, LLC to parent	—	(1,912)	—	—	(1,912)
Balance at December 31, 2015	$762	$2,720	$(698)	—	$2,784

See Notes to Consolidated Financial Statements

PART II

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
To the Board of Directors of
Duke Energy Indiana, LLC
Charlotte, North Carolina

We have audited the accompanying consolidated balance sheets of Duke Energy Indiana, Inc. and subsidiary (the "Company") (subsequently Duke Energy Indiana, LLC and subsidiary effective as of January 1, 2016) as of December 31, 2015 and 2014, and the related consolidated statements of operations and comprehensive income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Duke Energy Indiana, Inc. and subsidiary at December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 22 to the consolidated financial statements, Duke Energy Indiana, Inc. and subsidiary adopted ASU 2015-17, Income Taxes (Topic 740); Balance Sheet Classification of Deferred Taxes effective December 31, 2015 on a prospective basis.

/s/ Deloitte & Touche LLP

Charlotte, North Carolina
February 25, 2016

PART II

DUKE ENERGY INDIANA, INC. (subsequently DUKE ENERGY INDIANA, LLC)
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

	Years Ended December 31,		
(in millions)	2015	2014	2013
Operating Revenues	$2,890	$3,175	$2,926
Operating Expenses			
Fuel used in electric generation and purchased power	982	1,259	1,131
Operation, maintenance and other	682	670	649
Depreciation and amortization	434	413	342
Property and other taxes	61	128	71
Impairment charges	88	—	—
Total operating expenses	2,247	2,470	2,193
Gains on Sales of Other Assets and Other, net	1	—	—
Operating Income	644	705	733
Other Income and Expenses, net	11	22	18
Interest Expense	176	171	170
Income Before Income Taxes	479	556	581
Income Tax Expense	163	197	223
Net Income	$316	$359	$358
Other Comprehensive Loss, net of tax			
Reclassification into earnings from cash flow hedges	(2)	—	(2)
Comprehensive Income	$314	$359	$356

See Notes to Consolidated Financial Statements

PART II

DUKE ENERGY INDIANA, INC. (subsequently DUKE ENERGY INDIANA, LLC)
CONSOLIDATED BALANCE SHEETS

(in millions)	December 31, 2015	2014
ASSETS		
Current Assets		
Cash and cash equivalents	$9	$6
Receivables (net of allowance for doubtful accounts of $1 at December 31, 2015 and December 31, 2014)	96	87
Receivables from affiliated companies	71	115
Notes receivable from affiliated companies	83	—
Inventory	570	537
Regulatory assets	102	93
Other	15	326
Total current assets	946	1,164
Investments and Other Assets	212	251
Property, Plant and Equipment		
Cost	14,007	13,034
Accumulated depreciation and amortization	(4,484)	(4,219)
Net property, plant and equipment	9,523	8,815
Regulatory Assets and Deferred Debits		
Regulatory assets	716	685
Other	2	2
Total regulatory assets and deferred debits	718	687
Total Assets	$11,399	$10,917
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable	$189	$179
Accounts payable to affiliated companies	83	58
Notes payable to affiliated companies	—	71
Taxes accrued	89	54
Interest accrued	56	56
Current maturities of long-term debt	547	5
Regulatory liabilities	62	54
Other	97	98
Total current liabilities	1,123	575
Long-Term Debt	3,071	3,614
Long-Term Debt Payable to Affiliated Companies	150	150
Deferred Credits and Other Liabilities		
Deferred income taxes	1,657	1,591
Investment tax credits	138	139
Accrued pension and other post-retirement benefit costs	80	82
Asset retirement obligations	525	32
Regulatory liabilities	754	796
Other	65	90
Total deferred credits and other liabilities	3,219	2,730
Commitments and Contingencies		
Equity		

Common Stock, no par; $0.01 stated value, 60,000,000 shares authorized; 53,913,701 shares outstanding at December 31, 2015 and December 31, 2014	1	1
Additional paid-in capital	1,384	1,384
Retained earnings	2,450	2,460
Accumulated other comprehensive income	1	3
Total equity	3,836	3,848
Total Liabilities and Equity	$11,399	$10,917

See Notes to Consolidated Financial Statements

PART II

DUKE ENERGY INDIANA, INC. (subsequently DUKE ENERGY INDIANA, LLC)
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
(in millions)	2015	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$316	$359	$358
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	439	416	346
Equity component of AFUDC	(11)	(14)	(15)
Gains on sales of other assets and other, net	(1)	—	—
Impairment charges	88	—	—
Deferred income taxes	262	308	304
Accrued pension and other post-retirement benefit costs	13	16	25
Contributions to qualified pension plans	(19)	—	—
Payments for asset retirement obligations	(19)	—	—
(Increase) decrease in			
Net realized and unrealized mark-to-market and hedging transactions	—	—	(30)
Receivables	(7)	(35)	3
Receivables from affiliated companies	44	36	(47)
Inventory	(21)	(103)	(53)
Other current assets	90	(8)	(40)
Increase (decrease) in			
Accounts payable	33	(41)	32
Accounts payable to affiliated companies	25	2	(4)
Taxes accrued	35	(32)	(30)
Other current liabilities	26	5	(5)
Other assets	(82)	(21)	(16)
Other liabilities	(35)	17	(84)
Net cash provided by operating activities	1,176	905	744
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures	(690)	(625)	(545)
Purchases of available-for-sale securities	(9)	(20)	(11)
Proceeds from sales and maturities of available-for-sale securities	11	16	7
Proceeds from the sales of other assets	17	—	—
Notes receivable from affiliated companies	(83)	96	(96)
Other	(17)	4	(3)
Net cash used in investing activities	(771)	(529)	(648)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from the issuance of long-term debt	—	—	498
Payments for the redemption of long-term debt	(5)	(5)	(405)
Notes payable to affiliated companies	(71)	71	(81)
Dividends to parent	(326)	(450)	(125)
Other	—	(1)	(4)
Net cash used in financing activities	(402)	(385)	(117)
Net increase (decrease) in cash and cash equivalents	3	(9)	(21)
Cash and cash equivalents at beginning of period	6	15	36
Cash and cash equivalents at end of period	$9	$6	$15

Supplemental Disclosures:			
Cash paid for interest, net of amount capitalized	$175	$169	$194
Cash (received from) paid for income taxes	(253)	(61)	46
Significant non-cash transactions:			
Accrued capital expenditures	64	87	73

See Notes to Consolidated Financial Statements

PART II

DUKE ENERGY INDIANA, INC. (subsequently DUKE ENERGY INDIANA, LLC)
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in millions)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income Net Gains on Cash Flow Hedges	Total Equity
Balance at December 31, 2012	$1	$1,384	$2,318	$5	$3,708
Net income	—	—	358	—	358
Other comprehensive loss	—	—	—	(2)	(2)
Dividend to parent	—	—	(125)	—	(125)
Balance at December 31, 2013	$1	$1,384	$2,551	$3	$3,939
Net income	—	—	359	—	359
Dividend to parent	—	—	(450)	—	(450)
Balance at December 31, 2014	$1	$1,384	$2,460	$3	$3,848
Net income	—	—	316	—	316
Other comprehensive loss	—	—	—	(2)	(2)
Dividends to parent	—	—	(326)	—	(326)
Balance at December 31, 2015	$1	$1,384	$2,450	$1	$3,836

See Notes to Consolidated Financial Statements

PART II

DUKE ENERGY CORPORATION – DUKE ENERGY CAROLINAS, LLC – PROGRESS ENERGY, INC. – DUKE ENERGY PROGRESS, INC. – DUKE ENERGY FLORIDA, INC. – DUKE ENERGY OHIO, INC. – DUKE ENERGY INDIANA, INC.

Combined Notes To Consolidated Financial Statements

For the Years Ended December 31, 2015, 2014 and 2013

Index to Combined Notes To Consolidated Financial Statements

The notes to the consolidated financial statements are a combined presentation. The following list indicates the registrants to which the notes apply. Tables within the notes may not sum across due to Progress Energy's consolidation of Duke Energy Progress, Duke Energy Florida and other subsidiaries that are not registrants as the Duke Energy amounts include balances from subsidiaries that are not registrants.

	Applicable Notes																
Registrant	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17