SCHEDULE 38

MTEP Project Cost Recovery for DEO and DEK

I. Definitions

Any capitalized terms not defined in this Schedule 38 shall have the meaning as defined in Module A of the Tariff. Definitions for this Schedule 38 are as follows:

A. ATSI – American Transmission Systems, Incorporated, which exited MISO effective June 1, 2011.

B. DEI – Duke Energy Indiana, LLC

C. DEI Zone – the transmission system that will comprise the Duke Energy Indiana, LLC Zone within MISO following the withdrawal of DEO and DEK from MISO, including the transmission facilities owned by DEI, Indiana Municipal Power Agency, Wabash Valley Power Association, and their successors and/or assigns. While this zone will be formally identified as the Duke Energy Indiana, LLC Zone, for purposes of this Schedule 38 alone, it is referred to as the DEI Zone, to distinguish it from the Cinergy Services, Inc. Zone of MISO as it existed prior to the withdrawal of DEO and DEK.

D. DEK – Duke Energy Kentucky, Inc.

E. DEO – Duke Energy Ohio, Inc.

F. Duke MTEP Project Cost Allocator Percentage – has the meaning given to it in Section II.A in Appendix 1 to this Schedule 38.

G. Historic Duke Zone – the Cinergy Services, Inc. pricing zone within MISO as it existed on December 31, 2011, which includes the transmission facilities of the DEI Zone, DEO and DEK.

H. MISO – The Midcontinent Independent System Operator, Inc.

I. MISO Tariff or Tariff – the Open Access Transmission, Energy and Operating Reserve Markets Tariff, including all schedules or attachments thereto, of the Transmission Provider as amended from time to time. The term Tariff shall endure to include any successor tariff or rate schedule approved by the Commission.

J. MISO Transmission Owner – for purposes of this Schedule 38, any Transmission Owner or ITC in MISO as of January 1, 2012 and responsible for the construction of MTEP Projects under the MISO Tariff, including DEI, but not including DEO, DEK or ATSI.

K. MISO Transmission Pricing Zones – the Transmission Pricing Zones MISO uses to develop transmission rates and allocate revenues.

L. MTEP – the MISO Transmission Expansion Plan established pursuant to the ISO Agreement and MISO Tariff.

M. MTEP Project – a transmission project approved by the MISO Board of Directors prior to DEO and DEK's January 1, 2012 exit from MISO and listed in Section V of this Schedule. The projects listed in Section V of this Schedule include only projects listed in Appendix A of the MTEP approved by the MISO Board of Directors prior to DEO and DEK's January 1, 2012 exit from MISO. MTEP Projects of DEO and DEK are those set forth in Sections V.C and V.D., respectively. MTEP Projects of MISO Transmission Owners are those set forth in Sections V.A and V.E. MTEP Projects of ATSI are those set forth in Section V.B, which are the same ATSI projects identified in Schedule 37. For purposes of this Schedule 38 and its Appendix 1, MTEP Projects do not and will not include Multi-Value Projects.

II. Introduction and Purpose

A. Transmission Customers taking transmission service in MISO, as well as ATSI (pursuant to Schedule 37), shall pay for a portion of the MTEP Projects of DEO and DEK listed in Sections V.C and V.D of this Schedule 38, effective January 1, 2012. Likewise, effective January 1, 2012, DEO and DEK shall pay for, or cause to be paid, a portion of the MTEP Projects of MISO Transmission Owners and ATSI listed in Sections V.A, V.B and V.E of this Schedule 38.

B. This Schedule 38 sets forth: (i) the method by which Transmission Customers taking transmission service in MISO, as well as ATSI (pursuant to Schedule 37), will be charged for a portion of the MTEP Projects of DEO and DEK; (ii) the method by which MISO will transmit the revenues received from Transmission Customers, as well as ATSI (pursuant to Schedule 37), for the MTEP Projects of DEO and DEK; (iii) the method by which DEO and DEK shall be charged a portion of the MTEP Projects of MISO Transmission Owners and ATSI (pursuant to Schedule 37); and (iv) the method by which MISO will transmit the revenues received from DEO and DEK for the MTEP Projects of MISO Transmission Owners and ATSI (pursuant to Schedule 37).

C. This Schedule 38 also addresses the manner in which the annual revenue requirements will be derived for purposes of determining the charges described in Section II.B.

D. Finally, Appendix 1 to this Schedule 38 addresses the division of the Historic Duke Zone, which includes the DEI Zone, DEO and DEK. This is needed because costs for MTEP Projects currently are allocated to the Historic Duke Zone as a whole. DEI is not withdrawing from MISO. Consequently, cost and revenue allocation to the DEI Zone needs to be separated from cost and revenue allocation to DEO and DEK. Appendix 1 sets forth the methodology for this division.

III. <u>MTEP Project Revenue Requirements Allocated to DEO and DEK</u>

A. Derivation of MISO Transmission Owner Annual Revenue Requirements

MISO Transmission Owners shall periodically update the annual revenue requirements, using the methodology provided under Attachment GG of the MISO Tariff, for MTEP Projects of the MISO Transmission Owners having a portion of revenue requirements allocated to DEO and DEK. These updates will follow the timing of the MISO annual rate updates that are effective January 1 and June 1 of each year, or as needed. The list of MTEP Projects for purposes of this Section III.A is provided in Sections V.A and V.E.

B. Derivation of ATSI Annual Revenue Requirement

As a result of ATSI's withdrawal from MISO, effective June 1, 2011, the portion of the revenue requirements of MTEP Projects of ATSI is calculated pursuant to Schedule 37. The list of MTEP Projects for purposes of this Section III.B is provided in Section V.B.

C. Allocation of Annual Revenue Requirements to DEO and DEK

For each MTEP Project, MISO shall calculate the monthly portion of the annual revenue requirements under Section III.A and Section III.B separately attributable to each of DEO and DEK. This will be calculated as:

(A+B) times C divided by D, where

A = The portion of each MTEP Project's revenue requirement derived pursuant to Section III.A allocated to the Historic Duke Zone in accordance with the cost allocation methodology specified in Sections II and III of Attachment FF of the MISO Tariff;

B = The portion of each MTEP Project's revenue requirement derived pursuant to Section III.B allocated to the Historic Duke Zone in accordance with Schedule 37;

C = the Duke MTEP Project Cost Allocator Percentage of DEO or DEK (as applicable) set forth in Section II.A of Appendix 1; and

D = 12.

D. Monthly Revenue Requirements Owed from DEO and DEK

MISO shall bill PJM, as the designated agent of DEO and DEK solely for purposes of this Schedule 38, the monthly amount of the annual revenue requirements as calculated in Section III.C of this Schedule 38 and in accordance with, and subject to, the billing and payment provisions described in Section 7 of the MISO Tariff. In the event that PJM cannot or does not remit the required amounts, MISO shall bill DEO and DEK directly.

E. Revenue Distribution from Payments Made by DEO and DEK

Upon PJM's (or DEO and DEK's) remittance to MISO of amounts billed in Section III.D of this Schedule 38 pursuant to agreed upon settlement procedures, MISO shall distribute the remitted amounts in accordance with the billing and payment provisions of the Tariff to:

1. MISO Transmission Owners in proportion to their pro-rata share of the total Network Upgrade Charge revenue requirements as called for in Schedule 26 of the MISO Tariff;
2. PJM as the designated agent of DEO and DEK under this Schedule 38 in accordance with Appendix 1 of this Schedule 38; and
3. PJM as the designated agent of ATSI in accordance with the terms of Schedule 37.

IV. <u>DEO and DEK MTEP Project Revenue Requirements Allocated to MISO Transmission Pricing Zones and ATSI</u>

A. Derivation of Annual Revenue Requirements

By May 1 of each year, DEO and DEK shall provide to MISO the annual revenue requirements for MTEP Projects of DEO and DEK listed in Sections V.C and V.D of this Schedule 38, for the upcoming June 1 through May 31 rate year.

B. Allocation of Annual Revenue Requirements to MISO Transmission Pricing Zones, DEO and DEK

MISO shall calculate the allocation of the annual revenue requirements for the MTEP Projects of DEO and DEK to MISO Transmission Pricing Zones and ATSI by multiplying each MTEP Project's revenue requirements derived in Section IV.A of this Schedule 38 by the percentage assigned to each applicable MISO Transmission Pricing Zone and ATSI in accordance with the cost allocation methodology identified in Sections II and III of Attachment FF of the MISO Tariff in effect at the time the MTEP Project was approved by the MISO Board of Directors. Allocations to the Historic Duke Zone will be further subdivided between DEO, DEK, and the DEI Zone in accordance with Appendix 1.

C. Recovery of Annual Revenue Requirements for DEO and DEK MTEP Projects

MISO shall include the portion of the annual revenue requirements for MTEP Projects of DEO and DEK listed in Sections V.C and V.D as calculated in Section IV.B in the development of the Schedule 26 transmission rates for each applicable MISO Transmission Pricing Zone and charges to ATSI pursuant to Schedule 37. The portion of this revenue requirement (as determined in Section IV.A) that would have been allocated to DEO or DEK (as determined in accordance with Section IV.B) will be removed from the Schedule 26 rate calculation.

D. Revenue Distribution from Payments Made by ATSI and Transmission Customers in MISO

Each month, and pursuant to agreed upon settlement procedures, MISO shall remit an amount to PJM, for and on behalf of DEO and DEK, (or DEO and DEK as appropriate) from payments made by ATSI and Transmission Customers in MISO, as described in Section II.C of Appendix 1 to this Schedule 38.

V. MTEP Projects

A. MTEP Projects of MISO Transmission Owners (excluding DEI)

To the extent that additional qualifying MTEP Projects are approved by the MISO Board of Directors prior to January 1, 2012, the list below may be amended. Any such amendment shall be subject to FERC approval.

Project ID	MTEP Year	Project Name	Construction Owner
2068	2008	Latham - Oreana 345 kV line	Ameren Illinois
2069	2008	South Bloomington - Install new 560 MVA 345 / 138 Xfmr	Ameren Illinois
2472	2009	New 345kV Supply at Fargo	Ameren Illinois
2829	2009	Coffeen Plant-Coffeen, North - 2nd. Bus tie	Ameren Illinois
345	2006	Morgan - Werner West 345 kV line (includes Clintonville-Werner West 138)	American Transmission Company LLC
356	2008	Rockdale-West Middleton 345 kV	American Transmission Company LLC
2793	2010	G883/4 Uprate Point Beach Sheboygan EC 345 kV	American Transmission Company LLC
2837	2010	Uprate Cypress-Arcadian 345 kV line	American Transmission

			Company LLC
2846	2011	Straits Power Flow Control	American Transmission Company LLC
3104	2010	G514 Heartland Wind	Great River Energy
286	2008	Fargo, ND - St. Cloud/Monticello MN area 345 kV project	Great River Energy, Northern States Power Company, Otter Tail Power Company, Minnesota Power & Missouri River Energy Services
1749	2008	G172 Mitchell County Substation	ITC Midwest
686	2006	Majestic 345/120 kV switching station	International Transmission Company
911	2006	Placid 345/120 kV transformer #2	International Transmission Company
910	2006	Conventry Station upgrade	International Transmission Company
481	2006	Tallmadge 345/138 kV TB3 transformer #3	Michigan Electric Transmission Company, LLC
1817	2007	Midland	Michigan Electric Transmission Company, LLC
1828	2009	Argenta-Palisades 345 kV ckt. 1 & 2	Michigan Electric Transmission Company, LLC

612	2007	Hiple-Add 2nd 345-138 kV Transformer	Northern Indiana Public Service Company LLC
1457	2006	G287 - 200 MW wind generation, Nobles County, MN	Northern States Power Company
1458	2006	G349, 37774-01. Upgrades for G349	Northern States Power Company
1024	2008	SE Twin Cities - Rochester, MN Power LaCrosse, WI 345 kV project	Northern States Company & Southern Minnesota Municipal Power Agency
1257	2006	New Transmission Line Gibson (Cinergy) to AB Brown (Vectren) to Reid (BREC)	Vectren Energy
1004	2006	New 345/138 kV Substation at Francisco	Vectren Energy
988	2006	Simpson-Batavia 138 kV Line	Michigan Electric Transmission Company, LLC
1259	2006	New 138 kV transmission line, Dubois to Newtonville	Vectren Energy
1615	2007	G439-Benton County Wind	Northern Indiana Public Service Company LLC
870	2007	Sidney-Paxton 138 kV	Ameren Illinois
1970	2008	New 345/138 kV Substation at AB Brown	Vectren Energy
2053	2009	Petersburg 345/138 kV West Autotransformers and 138 kV breaker	Indianapolis Power & Light

2306	2011	Northwest Cape Area 345/161 kV Substation	Ameren Missouri
3191	2011	G164-Lakefield Jct 345 kV Breaker & Half	ITC Midwest
3206	2011	G833-4_J022-3 Long Term Solution	American Transmission Company LLC

B. MTEP Projects of ATSI

Project ID	MTEP Year	Project Name	Constructing Owner
890	2006	North Medina 345/138 kV Substation	American Transmission Systems, Inc.
1326	2006	Add Capacitor Banks at Harding and Juniper 345 kV substations	American Transmission Systems, Inc.

C. MTEP Project of DEO

Project ID	MTEP Year	Project Name	Constructing Owner
91	2006	Hillcrest 345/138	Duke Energy Ohio

D. MTEP Projects of DEK

None

E. MTEP Projects of DEI

Project ID	MTEP Year	Project Name	Constructing Owner
1263	2007	G431-Edwardsport	Duke Energy Indiana
852	2007	Crawfordsville to Tipmont Concord to Lafayette SE 138 Reconductor	Duke Energy Indiana
2050	2010	Dresser 345/138 kV Bank 3 addition	Duke Energy Indiana

VI. Dispute Resolution

Any controversy, claim or dispute of whatsoever nature or kind arising out of or in connection with this Schedule 38 or its interpretation shall be resolved pursuant to the dispute resolution procedures outlined in Attachment HH of the MISO Tariff.

APPENDIX 1 TO SCHEDULE 38 – DIVISION OF THE HISTORIC DUKE ZONE

I. <u>Status of DEI; Purpose of this Appendix; Scope and Limitations</u>

DEI is a MISO Transmission Owner, and shall remain so after the withdrawal of DEO and DEK. Consequently, all references in Schedule 38 to MISO Transmission Owners include DEI unless otherwise noted.

The costs associated with MTEP Projects (as defined in this Schedule 38) are allocated to each MISO Transmission Pricing Zone in accordance with the applicable provisions of Sections II and III of Attachment FF of the MISO Tariff. In accordance with MISO policy, the allocations for these MTEP Projects (as defined in this Schedule 38) become fixed percentages at the time of the project's approval by the MISO Board of Directors, and do not change over time. Because a fixed allocation percentage for each MTEP Project was assigned for the Historic Duke Zone, a method must be established to subdivide this allocation percentage between the DEI Zone, DEO and DEK after DEO and DEK withdraw from MISO, effective January 1, 2012. This Appendix sets forth the methodology for subdividing the historic allocation percentages assigned to the Historic Duke Zone among the DEI Zone, DEO and DEK. This subdivision of allocation percentages shall occur on a one-time basis and is applicable only to the MTEP Projects identified in Schedule 38, Section V.

The allocations in this Appendix 1 and in Schedule 38 are intended to appropriately divide the responsibilities of the Historic Duke Zone. Thus, for the DEI Zone, the subdivision of historic allocation percentages set forth here shall establish new allocation percentages, for each MTEP Project, to be used in establishing Schedule 26 rates for customers taking service in the

DEI Zone. Such revised rates shall become applicable for transmission service in the DEI Zone starting January 1, 2012.

Allocations in this Appendix 1 and in Schedule 38 to DEO and DEK are direct allocations to each of DEO and DEK, and DEO and DEK shall themselves be responsible, at the wholesale level, for paying the costs identified in such allocations in accordance with the methodology established in Schedule 38. Provided, however, that DEO and DEK have indicated that they have sought authorization from FERC to allocate MTEP Project costs and revenues to FERC-jurisdictional transmission customers within the Duke zone to be created in PJM following integration of DEO and DEK into PJM ("PJM's DEOK Zone"), and nothing in this Appendix or Schedule 38 is intended to limit their ability to do so. Accordingly it is expressly contemplated that, solely to the extent authorized by FERC, allocations of costs and revenues to DEO and DEK under this Appendix 1 and Schedule 38 shall instead be treated as allocations to FERC-jurisdictional transmission customers taking service in PJM's DEOK Zone, without the need to amend or modify Schedule 38 to enable such treatment, and that in such circumstances PJM will act as agent to DEO and DEK, solely for purposes of effectuating such allocations via the PJM tariff and for purposes of transmitting the appropriate revenues between PJM and MISO. In such circumstances, allocations to customers within the Duke PJM Zone shall be conducted pursuant to the PJM tariff, and amounts remitted between MISO and PJM pursuant to Schedule 38 shall be the aggregate amounts attributed in Schedule 38 to DEO and DEK. Similarly, in such circumstances, references in Attachment GG to allocations or charges to, or payments from, DEO or DEK, shall instead be treated as references to allocations or charges to, or payments from, FERC-jurisdictional transmission customers taking service in PJM's DEOK Zone solely to the extent authorized by FERC.

The applicability of this Appendix and of Schedule 38 is expressly limited to the subject matter identified in each. Nothing in this Appendix or in Schedule 38 is intended to, or does, preempt or limit any applicable retail rate settlement.

II. Cost and Revenue Allocation among DEI, DEO and DEK

A. Duke MTEP Project Cost Allocator Percentages

The Duke MTEP Project Cost Allocator Percentages have been determined using calendar year 2010 load data from the DEI Zone, DEO, DEK and total Historic Duke Zone Attachment Os. For the DEI Zone, DEO and DEK the Duke MTEP Project Cost Allocator Percentage is the relative percentage of the 2010 Attachment O load of DEI Zone, DEO, and DEK to the 2010 Attachment O load of the Historic Duke Zone. The Duke MTEP Project Cost Allocator Percentages are as follows:

DEI Zone – 57.9%

DEO – 35%

DEK – 7.1%

B. Application of MTEP Project Cost Allocator Percentages

Section III.B of Schedule 38 uses a formula for allocation of revenue requirements to DEO and DEK that includes, as one variable, "the Duke MTEP Project Cost Allocator

Percentage." On and after January 1, 2012, the percentages allocated to the Historic Duke Zone for projects identified in Schedule 38, Section V will be subdivided between the DEI Zone, DEO and DEK by applying the Duke MTEP Project Cost Allocator Percentage.

For example, assume that 5% of the cost responsibility for a hypothetical MTEP Project was assigned to the Historic Duke Zone. For this hypothetical MTEP Project, revenue requirement allocations would be as follows:

1. DEI Zone = 57.9% of 5% = 2.90%

2. DEO = 35.0% of 5% = 1.75%

3. DEK = 7.1% of 5% = 0.35%

The percentages thus derived for each MTEP Project shall be, for DEO and DEK, the percentages used in the calculation to be performed under Section III.C of Schedule 38.

The percentages thus derived for each MTEP Project shall, for the DEI Zone, become the fixed percentages used in calculating the revenue requirement allocated to the DEI Zone in determining the rate for the DEI Zone under Schedule 26 of the MISO Tariff (including with respect to projects listed in Sections V.B and V.C of Schedule 38 and allocated pursuant to Section IV of Schedule 38).

C. Revenue Distributions

The Duke MTEP Project Cost Allocator Percentages shall not be employed for determining revenue distributions to the DEI Zone, DEO or DEK with respect to revenues collected under Schedules 26, 37, and 38 for the MTEP Projects identified in Sections V.C, V.D, and V.E of Schedule 38. Rather:

1. Revenue distribution for MTEP Projects of DEI identified in Section V.E of Schedule 38 shall be performed in accordance with Schedule 26.

2. Revenue requirements for the MTEP Project of DEO identified in Section V.C of Schedule 38 shall be determined in accordance with Schedule 38, Section IV.A. For revenue distribution purposes, this revenue requirement will be reduced by the portion of revenue requirement that would have been allocated to DEO and DEK under Schedule 38, Section IV.B. MISO will use this reduced amount to calculate DEO's pro-rata share of the total Network Upgrade Charge revenues determined under Schedule 26, Section 8. Revenues for the MTEP Project of DEO that historically would have been distributed to the Historic Duke Zone shall, as of January 1, 2012, be distributed entirely to DEO.

3. There shall be no revenue distributions for MTEP Projects of DEK because, as set forth in Section V.D of Schedule 38, there are no MTEP Projects of DEK.