



DUKE ENERGY CORPORATION  
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July 27, 2011

Mr. James L. Kroeker, Chief Accountant  
Securities & Exchange Commission  
100 F Street, N.E.  
Washington, DC 20549

**Re: Work Plan For the Consideration of Incorporating International Financial Reporting Standards into the Financial Reporting System for U.S. Issuers: Exploring a Possible Method of Incorporation**

Dear Mr. Kroeker:

Duke Energy Corporation is pleased to comment on the SEC's Staff Paper entitled "Work Plan For the Consideration of Incorporating International Financial Reporting Standards into the Financial Reporting System for U.S. Issuers: Exploring a Possible Method of Incorporation" (the "Staff Paper").

Duke Energy Corporation ("Duke Energy", "we" or the "Company") is one of the largest electric power holding companies in the United States. Our regulated utility operations serve approximately 4 million customers located in five states in the Southeast and Midwest, representing a population of approximately 12 million people. Duke Energy's commercial power and international business segments own and operate diverse power generation assets in North America and Latin America, including a growing portfolio of renewable energy assets in the United States. Headquartered in Charlotte, N.C., Duke Energy generates more than \$14 billion in annual revenues and is a Fortune 500 company traded on the New York Stock Exchange under the symbol DUK.

The Company's wholly-owned regulated subsidiaries, Duke Energy Carolinas, Duke Energy Indiana, Duke Energy Ohio, and Duke Energy Kentucky, collectively the Utilities, are primarily engaged in the generation, transmission, distribution and sale of electricity in their respective states. As regulated entities, rates charged to regulated customers are subject to cost-based regulation by the Federal Energy Regulatory Commission and the respective state utility regulatory commissions.

**General Comments on a Single Set of Globally Accepted Accounting Standards**

We are not convinced that International Financial Reporting Standards ("IFRS") are preferable over current U.S. Generally Accepted Accounting Principles ("GAAP"). We do, however, support continued convergence efforts as a way to ultimately achieve a single set of globally accepted accounting standards versus a mandated adoption of IFRS. As discussed below, if the

Commission requires all U.S. issuers to adopt IFRS at some point in the future, we support the staggered, phased-in approach described in the Staff Paper.

### **Comments on Proposed Condorsement Approach**

*Cost and effort.* The Staff Paper addresses various concerns related to cost, effort and other transition issues of incorporating IFRS into the U.S. financial reporting system by exploring a method of incorporation termed “condorsement.”

As described in the Staff Paper, the phased-in approach under the condorsement method of incorporation of IFRS into U.S. GAAP provides the mechanisms to mitigate the significant costs and burdens that would be required to transition to IFRS. We also believe that the suggested period for this transition of 5-7 years is appropriate. We would further support allowing for prospective application of IFRS where possible. Prospective application within the framework of the condorsement approach is important to the reduction in both costs and efforts that the SEC proposes to achieve. While the Staff Paper mentions various options as to how prospective application could be applied or defined, we support the option allowing for prospective application of standards to all transactions entered into subsequent to the incorporation effective date. Any approach that involves any level of prior year restatements, coupled with a 5-7 year transition period, could result in companies restating their prior years’ financial statements multiple times within the transition period. This would result in not only an increase in costs and difficulties for U.S. companies, but also confusion among the users of financial statements.

*FASB role.* As discussed in the Staff Paper, there are many benefits to the condorsement method, including the ongoing, prominent role of the FASB. We see the FASB’s continued authority to modify, interpret, or add to the requirements of IFRS that are incorporated into U.S. GAAP as critical to maintaining the high quality of standards that currently exist in U.S. GAAP. There is a clear need for a strong standard setting presence in the U.S. in the form of the FASB, which would maintain a vigilance over US-centric financial reporting issues and will be a voice at the global standard setting table that ensures that U.S. needs are not overlooked. It also provides a fall-back position to restore a full US standard setting function in the event the global standard-setting process proves to be unworkable or is incapable of meeting US requirements.

For the condorsement approach to be operational, we believe the role of the FASB should be more formal and more fully defined than as described in the Staff Paper. The FASB will need formal authority through the development of a framework by which they can evaluate the sufficiency of IFRS for U.S. interests. We are not convinced that the situations where the FASB might consider modifying IFRS would necessarily be “rare”, as it is characterized in the Staff Paper. We believe those situations could occur more frequently than on the rare occasion as the FASB should be expected to take action when necessary to maintain vigilance over US-centric financial reporting issues. Therefore, we believe that it would be more appropriate for the SEC to characterize these potential modifications to IFRS as *when necessary* rather than *rare*. We are concerned that a stated expectation by the SEC that FASB modifications would be rare might unintentionally restrain the FASB in the exercise of its authority in this area to the detriment of U.S. issuers and their investors.

*Regulatory accounting and reporting requirements.* We would like to stress to the Commission how vital it is for our company, and our industry as a whole, to be able to continue to present to our investors and analysts the effects of our regulatory environment in our financial statements. At present, our U.S. GAAP financial statements reflect the effects of rate regulation in accordance with FASB ASC 980, *Regulated Operations* (formerly FASB Financial Accounting Standard No. 71) (“ASC 980”). In addition to the substantial costs that we would incur if required to adopt IFRS, we anticipate that companies within our industry would also experience significant ongoing costs related to regulatory reporting. As discussed above, the electric utility industry is regulated by both federal and state regulators. These regulators rely almost exclusively on financial information prepared in accordance with U.S. GAAP. Under the typical cost-of-service model prevalent in our industry, regulators use this information to set the rates that can be charged to customers for electricity and other services. If the Commission eventually requires the incorporation of IFRS into U.S. GAAP without an ASC 980 equivalent, there is a high likelihood that our regulators will require us to keep an additional set of books based on accounting standards that differ from U.S. GAAP, in order to maintain the rate-making structure that is currently in place.

Within our industry, regulatory accounting principles are critical in ensuring the true economic performance of utilities operating under cost-based regulation are reflected within their financial reports. It is our belief that the cost and revenue recognition currently required under ASC 980 best depicts our results of operations in light of the regulatory environments in which we operate. Specifically, under ASC 980, we are required to defer and capitalize costs incurred in providing service to our customers until those costs are reflected in the rates charged to customers for electricity and defer revenues currently collected from customers that will be applied to future costs, as prescribed by our regulators. We believe this matching of costs with the associated revenues provides the most meaningful presentation of our operating results for investors and analysts. In the absence of the regulatory accounting required under ASC 980, our earnings would be extremely volatile due to the timing mismatch between the incurrence of costs and their inclusion in rates. The discontinuation of cost-based regulatory accounting would likely require us to spend considerable time and effort to explain to our investors the ongoing volatility in our operating results and could potentially result in the distortion of revenue trends in our businesses.

Regulated entities are an important sector of the U.S. economy, and we believe any set of accounting standards employed by regulated U.S. entities should incorporate appropriate industry guidance for our sector. Regulatory assets and liabilities recorded under U.S. GAAP represent a significant percentage of total assets and liabilities for regulated entities, including Duke Energy. Without an equivalent standard under IFRS, regulated utilities in the U.S. will have significant write-offs of regulatory assets and liabilities currently recorded in the financial statements as well as an increase in volatility in the income statement going forward that is not justified by the underlying economics of a relatively stable regulated industry.

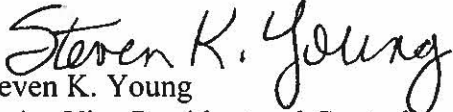
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## Conclusion

If the Commission chooses to require all U.S. issuers to adopt IFRS, we believe that the proposed work plan outlined in the Staff Paper is a reasonable approach provided that the FASB and the SEC continue to allow for specific U.S. GAAP, where needed to meet the needs of U.S. investors and other constituents, as in the case of ASC 980. We believe that it is critically important for the Commission to continue to allow for the continued use of rate-regulated accounting for the benefit of our current and future investors.

We appreciate the opportunity to express our views and we would be happy to discuss them with the SEC at your convenience.

Sincerely,

  
Steven K. Young  
Senior Vice President and Controller