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RECEIVED
JUN 27 2011
PUBLIC SERVICE
COMMISSION

June 27, 2011

VIA HAND-DELIVERY

Mr. Jeff Derouen
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, KY 40601

RE: *The Joint Application of Duke Energy Corporation, Cinergy Corp., Duke Energy Ohio, Inc., Duke Energy Kentucky, Inc., Diamond Acquisition Corporation and Progress Energy, Inc. for Approval of the Indirect Transfer of Control of Duke Energy Kentucky, Inc.*, Case No. 2011-00124

Dear Mr. Derouen,

Enclosed, please find an original and ten copies of the Joint Applicants' supplemental direct testimony supporting the Stipulation and Settlement Agreement to be filed in the record of the above-captioned matter. Please return a file-stamped copy of the supplemental direct testimony to our office

Sincerely,

Mark David Goss

cc: Dennis Howard
Larry Cook

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COMMONWEALTH OF KENTUCKY

BEFORE THE KENTUCKY PUBLIC SERVICE COMMISSION

RECEIVED

JUN 27 2011

PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

THE JOINT APPLICATION OF DUKE ENERGY CORPORATION, CINERGY CORP., DUKE ENERGY OHIO, INC., DUKE ENERGY KENTUCKY, INC., DIAMOND ACQUISITION CORPORATION, AND PROGRESS ENERGY, INC., FOR APPROVAL OF THE INDIRECT TRANSFER OF CONTROL OF DUKE ENERGY KENTUCKY, INC.	)	**Case No. 2011-00124**

SUPPLEMENTAL DIRECT TESTIMONY OF

WILLIAM D. JOHNSON

ON BEHALF OF

JOINT APPLICANTS

June 24, 2011

TABLE OF CONTENTS

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is William D. Johnson, and my business address is 411 Fayetteville Street Mall, P.O. Box 1551, Raleigh, North Carolina 27602-1551.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed as Chairman, President and Chief Executive Officer of Progress Energy, Inc. ("Progress Energy").

Q. HAVE YOU PREVIOUSLY OFFERED TESTIMONY IN THIS CASE?

A. Yes. I offered direct testimony in support of the Joint Applicants' application for approval of the indirect transfer of control of Duke Energy Kentucky, Inc. ("Duke Energy Kentucky") by the Kentucky Public Service Commission ("Commission"). My testimony was attached as Exhibit K to the application and broadly covered three topics. First, I introduced Progress Energy to the Commission. Second, I explained the strategic rationale underlying the merger transaction. Third, I generally described what the new Duke Energy Corporation ("Duke Energy") will look like once the merger transaction is completed.

Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY IN THIS PROCEEDING?

A. My testimony consists of two elements. First, I will describe the terms of the Stipulation and Settlement Agreement entered into by and between the Attorney General and the Joint Applicants. Second, I will describe why the merger transaction satisfies the standards of Kentucky law necessary for the approval of the indirect transfer of control of Duke Energy Kentucky.

I am also sponsoring the Stipulation and Settlement Agreement that was filed on June 24, 2011. I have personally reviewed the Stipulation and Settlement Agreement and aff[illegible] that it accurately reflects the agreement that the Joint Applicants have reached with the Attorney General.

II. THE STIPULATION AND SETTLEMENT AGREEMENT

Q. PLEASE BROADLY DESCRIBE THE TERMS OF THE STIPULATION AND SETTLEMENT AGREEMENT.

A. The Stipulation and Settlement Agreement is the product of much negotiation and compromise by the Joint Applicants and the Attorney General. We are appreciative of the Attorney General's willingness to view this case on its own facts and to fashion an agreement accordingly. We are also appreciative of the Commission Staff accommodating the parties by hosting two settlement conferences and providing helpful comment and insight into various issues in the case.

The Stipulation and Settlement Agreement provides for a base rate case stay out of two years, shareholder contributions to low income weatherization and local economic development, observance of forty-six (46) merger commitments to protect customers and approval of five affiliate agreements that give Duke Energy Kentucky appropriate and favorable access to the combined resources of the new Duke Energy.

Q. PLEASE EXPLAIN THE RATE CASE STAY OUT PROVISION.

A. Duke Energy Kentucky will not file an application to increase its base rates for either its electric or natural gas businesses for two years from the date of the Commission's entry of a final order approving the indirect transfer of control of Duke Energy Kentucky in this case. Duke Energy Kentucky may file its notice of intent to file a base rate application sooner than two years from the date of the Commission's final order in this case, however. This commitment will become effective upon the Commission's approval of the Joint Applicants' application in this case and the Stipulation and Settlement Agreement. In the event the merger is not completed, the rate case stay out provision will no longer be effective.

Consistent with prior Commission orders, the base rate case stay out will not have any impact upon Duke Energy Kentucky with regard to rates in four other contexts as noted in the Stipulation and Settlement Agreement. First, Duke Energy Kentucky may seek regulatory approval for the deferral of extraordinary and uncontrollable costs such as damages caused by ice storms or windstorms, but excluding any cost of the merger transaction such as transaction costs and management retention bonuses. Second, Duke Energy Kentucky may seek emergency rate relief under KRS 278.190(2) to avoid a material impairment of its credit or operations. Third, Duke Energy Kentucky may seek adjustments to the operation of any of its cost-recovery surcharge mechanisms such as the fuel adjustment clause, the demand side management rider or the gas cost recovery mechanism. Duke Energy Kentucky may implement any base rate roll-in which is part of the normal operation of such mechanisms. Finally, Duke Energy Kentucky may seek approval to establish and implement an environmental compliance plan and surcharge mechanism in accordance with KRS 278.183.

It has been approximately five years since Duke Energy Kentucky last increased its electric base rates and approximately two years have passed since its last increase in natural gas base rates. Given that Duke Energy Kentucky will only be able to file its rate application on the second anniversary of the Commission's order in this proceeding, it will be approximately two and a half years from now before the next base rate increase could become effective for either the electric or natural gas business. Thus, the base rate case stay out provision will be beneficial for Duke Energy Kentucky's ratepayers. This will also give us an opportunity to work towards achieving some of the merger savings targets during the interim that will be reflected through normal ratemaking proceedings.

Q. PLEASE EXPLAIN THE CONTRIBUTIONS THAT WILL BE MADE TO SUPPORT LOW INCOME WEATHERIZATION PROGRAMS WITHIN THE DUKE ENERGY KENTUCKY SERVICE AREA.

A. The Duke Energy Foundation ("Foundation") will make five (5) equal, annual contributions of $115,000.00 – a total of $575,000.00 – to support weatherization efforts within the Duke Energy Kentucky service area. On or before March 31 of each year, the Foundation will make its annual contribution to People Working Cooperatively, a non-profit organization that currently administers Duke Energy Kentucky's weatherization program, or to other non-profit organizations performing similar services. The recipients of the annual contributions shall be agreed upon in advance by the Attorney General and Duke Energy Kentucky with the intent to maximize the impact of the annual contribution. We want to be sure that as much of this funding goes directly to beneficiaries as is reasonably possible. To underscore that this provision of the Stipulation and Settlement Agreement is particularly beneficial to customers, I would point out that the Foundation's annual contribution will not be recovered through Duke Energy Kentucky's base rates or through its demand side management rider.

Q. PLEASE EXPLAIN THE CONTRIBUTIONS THAT WILL BE MADE TO SUPPORT ECONOMIC DEVELOPMENT EFFORTS WITHIN DUKE ENERGY KENTUCKY'S SERVICE AREA.

A. The Duke Energy Foundation will make five (5) equal, annual contributions of $50,000.00 – a total of $250,000.00 – to support economic development opportunities within the Duke Energy Kentucky service area as part of the Stipulation and Settlement Agreement. As with the contributions to low income weatherization efforts, the economic development contributions will be made to one or more non-profit organizations that are engaged in economic development activities within the Duke Energy Kentucky service area. The recipient or recipients shall be agreed upon in advance by the Attorney General and Duke Energy Kentucky and the intent is to maximize the local impact of these contributions. Since the Foundation's contribution will not be recovered through Duke Energy Kentucky's base rates, this is another example of how Duke Energy Kentucky's customers will benefit from the merger transaction.

Q. PLEASE EXPLAIN THE REGULATORY COMMITMENTS TO WHICH THE JOINT APPLICANTS HAVE AGREED TO BE BOUND.

A. Julie Janson explained these in great detail in her direct testimony and covers them again in her supplemental testimony. Taken as a whole, these regulatory commitments provide the company with the flexibility that is necessary to pursue savings targets over time while at the same time affording a high level of security and stability for Duke Energy Kentucky's ratepayers.

Q. PLEASE EXPLAIN WHY THERE IS NO MERGER SAVINGS MECHANISM SET FORTH IN THE STIPULATION AND SETTLEMENT AGREEMENT.

A. The facts of this particular transaction are unique and do not permit an immediate and quantifiable calculation of targeted merger savings following the completion of the proposed merger transaction. We have targeted merger savings to be recognized over time, but through the course of negotiations the Attorney General and the Joint Applicants agreed that the task of seeking to identify and quantify such savings in the short-term would be administratively burdensome and costly to the point of eroding the value of the savings. Accordingly, the parties agree that future savings arising from the merger transaction and inuring to the benefit of Duke Energy Kentucky will best be recognized for retail ratemaking purposes in future base rate case proceedings and that no merger savings mechanism should be implemented as part of the Commission's approval of the application.

I would also add that the exclusion of a merger savings mechanism is done solely in recognition of the unique facts of this merger transaction and not upon any particular interpretation of law by either the Attorney General or the Joint Applicants. The right of the Attorney General to request the implementation of reasonable merger savings mechanisms in future transfer of control cases is not limited by the terms of the Stipulation and Settlement Agreement.

Q. DO YOU BELIEVE THAT THE STIPULATION AND SETTLEMENT AGREEMENT PRESENTS A FAIR, JUST AND REASONABLE RESOLUTION OF ALL THE ISSUES IN THIS PROCEEDING?

A. Yes. The Joint Applicants' application and testimony identified several categories of benefits to customers arising out of this merger transaction. The Stipulation and Settlement Agreement preserves all of those benefits and adds to them in several meaningful ways. As I outlined above, Duke Energy Kentucky's customers will benefit from Duke Energy Kentucky's agreement to not seek an increase in base rates for either its electric or natural gas operations for two years from the date that the application for the indirect transfer of control of Duke Energy Kentucky is approved. In addition, shareholder contributions to low income weatherization and local economic development efforts within the local service area will also benefit customers. These contributions are wise investments in the community that build upon Duke Energy Kentucky's existing commitment to weatherization programs and economic development. Ratepayers will also be protected by the imposition of the regulatory commitments designed to safeguard Duke Energy Kentucky as a local utility while the affiliate agreements will allow customers to benefit from Duke Energy Kentucky's ability to tap into the resources of the combined companies. The Stipulation and Settlement Agreement presents a very reasonable resolution to all of the issues in this case and provides a "win-win" situation for both customers and investors of Duke Energy Kentucky.

III. DISCUSSION OF STATUTORY STANDARDS

Q. IN LIGHT OF THE STIPULATION AND SETTLEMENT, ONCE THE MERGER TRANSACTION IS COMPLETED, WILL DUKE ENERGY CONTINUE TO HAVE THE FINANCIAL, TECHNICAL, AND MANAGERIAL ABILITIES

NECESSARY FOR DUKE ENERGY KENTUCKY TO PROVIDE REASONABLE SERVICE?

A. Yes. The Joint Applicants' application and testimony described the many ways in which both Duke Energy and Duke Energy Kentucky will continue to have the financial, technical and managerial abilities necessary for Duke Energy Kentucky to provide reasonable service after the merger is completed. We will have an extremely well-experienced and well-prepared management team to lead Duke Energy forward. As the largest utility in the United States, we will have better access to more resources and best practices. The Stipulation and Settlement Agreement does not adversely impact any of those existing abilities.

Q. IN LIGHT OF THE STIPULATION AND SETTLEMENT, WILL THE MERGER TRANSACTION BE COMPLETED IN ACCORDANCE WITH LAW?

A. Yes. As outlined in Julie Janson's direct testimony, there are a number of regulatory approvals which we are currently seeking in order to be able to timely complete the merger transaction. The proceeding here in Kentucky is a good example of how stakeholders can identify and resolve issues quickly and effectively. The Stipulation and Settlement Agreement is also a good example of how each case must be considered in the context of the unique facts and issues applicable to each regulated company.

Q. IN LIGHT OF THE STIPULATION AND SETTLEMENT, WILL THE MERGER TRANSACTION BE FOR A PROPER PURPOSE?

A. Yes. First, there will not be any adverse impacts to Duke Energy Kentucky or its stakeholders as a result of this merger. Second, the post-merger Duke Energy will retain its strong financial position allowing it to provide safe and reliable service to the customers of Duke Energy Kentucky. Third, Duke Energy Kentucky will not incur any indebtedness or issue any securities to finance any part of the purchase price or transaction costs paid by Duke Energy in the merger with Progress Energy. Fourth, Duke Energy Kentucky's longstanding commitment to providing safe and reliable service to its Kentucky customers at just and reasonable rates will continue and be enhanced by becoming part of a larger and stronger entity that shares these principles. Fifth, Duke Energy Kentucky will continue to own and operate all of its electric and gas distribution and local transmission facilities just as before and it pledges to provide the same level of excellent service to its retail customers that it has historically achieved. Sixth, Duke Energy Kentucky's interests will be well represented in management. Seventh, the shareholder contributions outlined in the Stipulation and Settlement Agreement are a direct investment in Duke Energy Kentucky's service area.

Q. IN LIGHT OF THE STIPULATION AND SETTLEMENT, IS THE MERGER TRANSACTION CONSISTENT WITH THE PUBLIC INTEREST.

A. Yes. I have been advised that in a prior transfer of control case involving Kentucky-American Water Company, Case No. 2006-00197, the Commission stated, "a proposed transfer is in the public interest if it will not adversely affect the existing level of utility service or rates or that any potentially adverse effects can be avoided through the Commission's imposition of reasonable conditions on the acquiring party." All of the testimony in this case points out that the existing level of utility service and rates for Duke Energy Kentucky will not be adversely impacted by the merger transaction, and therefore the merger transaction satisfies the requisite standard. The Joint Applicants' willingness to also agree to the regulatory commitments set forth in the Stipulation and

Settlement Agreement further demonstrates that this merger transaction is in the public interest.

IV. CONCLUSION

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes. I would like to add that in the months since we filed our application for approval of the indirect transfer of control of Duke Energy Kentucky, the companies, the Attorney General and the Commission Staff have diligently engaged in a discussion of the unique issues of this case. Those discussions have resulted in the agreement reflected in the Stipulation and Settlement Agreement. It is a reasonable settlement of the issues presented in this proceeding and will assure that the merger transaction satisfies all of the statutory standards for this case. On behalf of the Joint Applicants, we respectfully request the Commission to accept the Stipulation and Settlement Agreement and to approve the merger transaction resulting in the indirect transfer of control of Duke Energy Kentucky.

VERIFICATION

State of North Carolina)
) **SS:**
County of Wake)

The undersigned, William D. Johnson, being duly sworn, deposes and says that he is the Chairman, President and Chief Executive Officer of Progress Energy, Inc., and that the matters set forth in the foregoing testimony are true and correct to the best of his information, knowledge and belief.

William D. Johnson

William D. Johnson, Affiant

Subscribed and sworn to before me by William D. Johnson on this 27 day of June, 2011.

Nanci B. Little

NOTARY PUBLIC

My Commission expires: July 1, 2015

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COMMONWEALTH OF KENTUCKY

BEFORE THE KENTUCKY PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

THE JOINT APPLICATION OF DUKE	)	
ENERGY CORPORATION, CINERGY	)	
CORP., DUKE ENERGY OHIO, INC.,	)	
DUKE ENERGY KENTUCKY, INC.,	)	
DIAMOND ACQUISITION CORPORATION,	)	**Case No. 2011-00124**
AND PROGRESS ENERGY, INC., FOR	)	
APPROVAL OF THE INDIRECT	)	
TRANSFER OF CONTROL OF	)	
DUKE ENERGY KENTUCKY, INC.	)	

SUPPLEMENTAL DIRECT TESTIMONY OF

JULIA S. JANSON

ON BEHALF OF

JOINT APPLICANTS

June 24, 2011

<u>**TABLE OF CONTENTS**</u>

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Julia S. Janson, and my business address is 139 East Fourth Street, Cincinnati, Ohio 45202.

Q. ARE YOU THE JULIA S. JANSON WHO PREVIOUSLY SUBMITTED TESTIMONY IN THIS PROCEEDING?

A. Yes, I am.

Q. HAVE THERE BEEN ANY CHANGES TO YOUR EMPLOYMENT SUBSEQUENT TO THE FILING OF THAT DIRECT TESTIMONY ON APRIL 4, 2011 (THE "DIRECT TESTIMONY")?

A. No.

Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL DIRECT TESTIMONY?

A. The purpose of my supplemental testimony is threefold. First, I support the Stipulation and Settlement Agreement ("Settlement Agreement") reached in this case, and more specifically reaffirm the commitments made in my Direct Testimony and as listed in Exhibit A to the Settlement Agreement. Second, I explain and support the additional major terms of Settlement Agreement. Third, I explain how this settlement is in the public interest.

II. SETTLEMENT AGREEMENT

Q. WHAT COMMITMENTS ARE JOINT APPLICANTS WILLING TO MAKE AS PART OF THIS MERGER?

A. The complete set of commitments relevant to the settlement of this case are set forth in Exhibit A to the Settlement Agreement submitted in this proceeding and filed on June 24, 2011.

Q. PLEASE BRIEFLY SUMMARIZE THE VARIOUS COMMITMENTS EMBODIED IN THE SETTLEMENT AGREEMENT FILED IN THIS CASE.

A. Nearly all of the commitments in the Settlement Agreement are identical to those set forth in my Direct Testimony filed in this case. The commitments are based upon the commitments agreed upon as part of the merger of Duke Energy Corporation and Cinergy Corp., in 2006. Some minor changes from the Duke Energy-Cinergy merger are the result of clarifications made during discovery as well as during the settlement discussions in this case.

Q. PLEASE SUMMARIZE THE UPDATING CHANGES AND CLARIFICATIONS TO THE COMMITMENTS IN YOUR DIRECT TESTIMONY.

A. First, on several occasions, it was necessary to change the names of the parties to which the commitment applies. For instance, "Progress Energy" often replaces "Cinergy" within the new merger commitments. Likewise, "CG&E" in the Duke Energy-Cinergy merger is now "Duke Energy Ohio." These changes are simply a reflection of the fact that the parties to this merger transaction are different than the ones in the Duke Energy-Cinergy merger.

Second, consistent with my Direct Testimony, Duke Energy-Cinergy merger commitments 6, 29 and 46 were all deleted from the commitments set forth in Exhibit A to the Settlement Agreement since they are no longer applicable or have been superseded.

Third, the original commitment number 12 set forth in my Direct Testimony has been subdivided into two separate commitments as paragraphs 11 and 12 of Exhibit A to the Settlement Agreement. The two commitments include: a) a commitment to implement and maintain cost allocation procedures that will accomplish the objective of preventing cross-subsidization; and b) a commitment providing for three biennial audits covering a period of at least six years. This subdivision allowed the Joint Applicants, Attorney General and the Commission to clarify that the commitment to prevent cross subsidization is an on-going commitment even though only three audits are mandated.

Fourth, commitment number 23 in both my Direct Testimony and in Exhibit A to the Settlement Agreement has been revised to increase the frequency of filing reports relating to Duke Energy Kentucky's capital structure and a schedule of any capital contributions made to Duke Energy Kentucky from a quarterly basis to a monthly basis.

Fifth, commitment number 24 in my Direct Testimony, now renumbered as commitment 25 in Exhibit A to the Settlement Agreement, has been amended to reflect the consolidation of two service companies, rather than the creation of a new service company. As originally stated in the context of the Duke Energy-Cinergy merger, the commitment referred to the creation of a new service company, Duke Energy Business Services, LLC ("DEBS"). DEBS is the current service company of the Duke Energy family of companies. In the current transaction, it is anticipated that rather than create a new service company, that Progress Energy Service Company, LLC will be consolidated into DEBS at some future date. As a result, the commitment has been clarified to reflect the consolidation.

Sixth, commitment number 31 in Exhibit A to the Settlement Agreement has been amended to clarify that it only applies to utility mergers, dispositions or acquisitions involving Duke Energy or a subsidiary thereof in the United States that is not subject to review under KRS 278.020(5)-(6). This clarification is consistent with the intent and practice of the current Duke Energy-Cinergy merger commitment number 31.

Finally, commitment number 36 has been amended due to a change in law since the time of the Duke Energy-Cinergy merger. Specifically, the original commitment required the filing of Form U5S and Form U-13-60 with the Commission. Since the repeal of the Public Utility Holding Company Act of 1935, these two reports are no longer prepared or filed with the Federal Energy Regulatory Commission. Under the new commitment, Duke Energy Kentucky will file its FERC Forms 1 and 2. The commitment regarding the filing of annual reports for Duke Energy, Cinergy, and Duke Energy Ohio and Duke Energy Kentucky will remain.

Q. HOW WOULD YOU SUMMARIZE THESE REGULATORY COMMITMENTS?

A. All but two of these commitments are identical to, or relate to, commitments that were imposed as part of the Duke Energy-Cinergy merger. Given the obvious success of that merger both for customers and investors, there is a solid historical record that demonstrates that the merger commitments included within the Settlement Agreement are reasonable and effective. Apart from the substance of the commitments, the Settlement Agreement also makes clear that these commitments expressly supersede and replace any prior commitments arising from previous merger transactions. From a compliance standpoint, such a provision provides clarity for our companies, our customers and other stakeholders. This was the approach taken in the context of the Duke Energy-Cinergy merger and it has worked well.

Q. ARE THERE ANY ADDITIONAL AND NEW COMMITMENTS THAT WERE MADE IN SETTLEMENT OF THIS MERGER?

A. Yes.

Q. PLEASE EXPLAIN.

A. In the discovery phase of this proceeding, Joint Applicants agreed to review whether polices more sympathetic to low-income customers would be more appropriate. In addition, Joint Applicants commit that, to the extent applicable, practicable and reasonable, Duke Energy Kentucky will abide by regulatory conditions required by other jurisdictions in their approval of the merger between

Duke Energy and Progress Energy unless those regulatory conditions are adverse to the interests of Duke Energy Kentucky's ratepayers.

Q. PLEASE EXPLAIN THE LOW-INCOME WEATHERIZATION ASPECT OF THE SETTLEMENT AGREEMENT.

A. Duke Energy Kentucky has committed additional funding to be directed toward low-income weatherization initiatives in the company's service territory. Specifically, the company has committed to provide $115,000 a year for five years to support such programs through the Duke Energy Foundation. The funds will be administered by People Working Cooperatively of the Midwest, Inc. ("PWC") or another third-party administrator as is mutually agreeable to the Company and the Attorney General. The contribution will come from shareholder funds and will not be recovered from ratepayers through rates.

Q. PLEASE EXPLAIN WHO PWC IS AND WHY THAT ORGANIZATION WAS CHOSEN AS A POTENTIAL RECIPIENT OF THE ANNUAL CONTRIBUTION FOR LOW-INCOME WEATHERIZATION FUNDING.

A. PWC is currently administering Duke Energy Kentucky's low-income weatherization program. Making the additional contribution to PWC allows those dollars to be put to an efficient use with an existing vendor with a proven track record for providing quality low-income weatherization services in Northern Kentucky. PWC's Midwest operation is located in three states and 20 counties with an annual budget of $14.5 million.

PWC has partnered with Duke Energy Kentucky and its predecessor, Union Light Heat & Power since 1986 to provide weatherization services. Since

2000, PWC has completed 3,840 service calls for Duke Energy's low-income weatherization customers. PWC has consistently provided quality work, customer service, and met all reporting requirements as prescribed by Duke Energy Kentucky. Currently, PWC provides low-income weatherization, education, furnace and refrigerator replacement per the technical protocol prescribed in the 2009 Statement of Work for Duke Energy Kentucky in the Northern Kentucky area. PWC has a proven track record of providing low-income weatherization services to Duke Energy Kentucky's customers. Below is a summary of the various services provided by PWC since 2000:

Services within Kentucky	**2000-2010**
Energy Conservation/ Education	3,840
Plumbing	1,156
Furnace/ AC-Repair/ Replacement	685
Roofing & Gutters	442
Structural, Other	191
Electric	311
Accessibility	311
Volunteer Services	1,788
Total	**8,724**

Total Value	**$7,234,611.00**
Total Value of Non-Duke Funds	$2,780,586.00

PWC's staff of 120 is multi-skilled so that they are able to address any energy/home repair needs for the homeowners they serve. PWC provides a unique service for weatherization through a "Whole House Approach" that:

- Combines private and public funds to provide comprehensive energy conservation services to low-income homeowners in a cost-effective manner which results in energy savings for every home serviced; and

- Incorporates volunteer labor in the implementation of home maintenance and energy conservation practices. PWC has more than 6,000 volunteers.

Participants in the weatherization program benefit from the following services:

- Energy audits;
- Furnace cleaning and tuning;
- Carbon monoxide check;
- Installation of weatherization materials (when appropriate); and
- Compact fluorescent light bulbs.

The additional funding commitment will allow PWC to continue and expand its outreach in Duke Energy Kentucky's service territory. PWC is currently providing these services for Duke Energy Kentucky, thus, it is economical to use their services.

Q. PLEASE EXPLAIN THE OTHER SIGNIFICANT ASPECTS OF THE SETTLEMENT AGREEMENT.

A. Duke Energy Kentucky will provide funds to support economic development efforts in its service territory. Specifically, the Company has agreed to provide

$50,000 a year for five years to a third party, not-for-profit organization that is mutually agreeable between Duke Energy Kentucky and the AG, to help foster economic development. These funds, like those for the low-income weatherization initiative, will not be charged to customers.

Also, Duke Energy Kentucky has agreed to a stay-out provision for its base rates supporting gas and electric operations for a two-year period. The two-year period begins upon the Commission's issuance of an Order approving the application in this case. The two-year stay-out would preclude Duke Energy Kentucky from filing any application for an increase in base rates during those two years, although the Company may file a notice of intent to file an application during that period. The stay-out does not apply to rider adjustments or the base-rate roll-in provisions for those riders such as fuel, demand side management, and gas cost recovery. Also, the stay-out would not preclude Duke Energy Kentucky from implementing an environmental surcharge mechanism as is permitted under Kentucky law. Additionally, the stay-out would not preclude Duke Energy Kentucky from requesting deferrals for extraordinary expenses, such as storm recovery or for requesting emergency rate relief, if necessary to avoid a material impairment to its credit or utility operations.

Q. PLEASE EXPLAIN THE TERM OF THE SETTLEMENT AGREEMENT RELATING TO THE COMMISSION'S APPROVAL OF VARIOUS AFFILIATE AGREEMENTS.

A. The Joint Applicants sought approval of five affiliate agreements as part of the application in this case and a revised version of one of those agreements – the

Utility Money Pool Agreement – was tendered to the Commission on April 28, 2011. The Joint Applicants sought approval of these affiliate agreements because they add the Progress Energy companies as parties to the affiliate agreements. Mr. Wathen's testimony elaborates on the purpose of each agreement and I would refer to his testimony for a more substantive explanation of the five affiliate agreements. As part of the Stipulation and Settlement Agreement, the parties have agreed that the affiliate agreements are reasonable, in accordance with Kentucky law and should be approved by the Commission.

III. THE MERGER'S CONSISTENCY WITH KENTUCKY LAW

Q. PLEASE SUMMARIZE WHY THIS MERGER IS IN THE BEST INTEREST OF DUKE ENERGY KENTUCKY'S CUSTOMERS.

A. As I stated in my Direct Testimony, this merger is about creating a company with the right size, scale and diversity to manage the transformation our industry is facing. Due to the geographical diversity of the Progress Energy utilities in relation to Duke Energy Kentucky, Duke Energy Kentucky will not see the immediate benefits of the merger that relate to joint dispatch and fuel procurement. However, the Settlement Agreement I have described today provides an immediate benefit to Duke Energy Kentucky customers.

In addition, going forward, the future efficiencies we expect to gain from this transaction, such as implementation of best practices and a strong financial position, will help Duke Energy Kentucky mitigate future rate increases as we reinvest in the business for the future. Our new combined company will continue the shared traditions of superior customer service, safety and reliability that customers have come to expect, and will be better positioned for effective restoration response going forward.

Q. DO YOU BELIEVE THAT DUKE ENERGY WILL CONTINUE TO HAVE THE FINANCIAL, MANAGERIAL AND TECHNICAL ABILITY TO OWN AND OPERATE DUKE ENERGY KENTUCKY AND PROVIDE REASONABLE SERVICE TO CUSTOMERS FOLLOWING THE COMPLETION OF THE MERGER?

A. Absolutely. For all of the reasons that I have testified to earlier, this merger will have no adverse impact upon Duke Energy Kentucky, its customers, investors, employees or communities. More than that, however, this merger will provide Duke Energy Kentucky with a stronger financial balance sheet, stable earnings, a highly experienced leadership team and the ability to implement best-in-class practices in our operations and customer service. All of this will benefit our customers in the form of affordable rates, our investors in the form of consistent returns, our employees in the form of safe and desirable work environments and our communities in the form of greater investment and involvement. Duke Energy will clearly have the financial, managerial and technical ability to own and operate Duke Energy Kentucky and to provide reasonable service following the completion of the merger.

Q. DO YOU BELIEVE THAT THE MERGER IS IN ACCORDANCE WITH LAW, FOR A PROPER PURPOSE AND CONSISTENT WITH THE PUBLIC INTEREST?

A. Yes. We are pursuing all of the required regulatory approvals and expect to timely complete that aspect of the merger process, so the merger is fully being conducted in accordance with law. The proposed merger will not adversely affect the existing level of utility service or rates of Duke Energy Kentucky's customers. Duke Energy will emerge from this transaction as a stronger utility with a size, scale and scope that is properly calibrated to meeting the challenges and opportunities confronting the utility industry today. As I have outlined, all of our stakeholders will benefit from this merger and for that reason the merger is being accomplished for a proper purpose. We will continue to provide safe and reliable gas and electric service to our customers at affordable rates. Over time, customers will benefit from improved service quality, enhanced service reliability and the availability of additional services. Therefore, the merger is consistent with the public interest.

IV. CONCLUSION

Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL TESTIMONY?

A. Yes.

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VERIFICATION

State of Ohio)
)
County of Hamilton)

The undersigned, Julia S. Janson, being duly sworn, deposes and says that she is the President, Duke Energy Ohio, Inc. and Duke Energy Kentucky, Inc., that she has personal knowledge of the matters set forth in the foregoing supplemental testimony, and that the answers contained therein are true and correct to the best of her information, knowledge and belief.

Julia S. Janson

Julia S. Janson, Affiant

Subscribed and sworn to before me by Julia S. Janson on this 23d day of June 2011.

Amy B. Spiller

NOTARY PUBLIC

My Commission Expires: AMY BETH SPILLER, Attorney at Law
Notary Public, State of Ohio
My Commission Has No Expiration Date
Section 147.03

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