



Mailing Address:
139 East Fourth Street
1212 Main / P.O. Box 960
Cincinnati, Ohio 45202
o: 513-287-4315
f: 513-287-4386

VIA OVERNIGHT MAIL DELIVERY

June 23, 2014

Mr. Jeff Derouen
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard, P.O. Box 615
Frankfort, Kentucky 40602-0615

RECEIVED

JUN 24 2014

PUBLIC SERVICE
COMMISSION

Re: ***Case No. 2014-00201***
In the Matter of the Application of Duke Energy Kentucky, Inc., For (1) A Certificate of Public Convenience And Necessity Authorizing the Acquisition of the Dayton Power & Light Company's 31% Interest in the East Bend Generating Station; (2) Approval of Duke Energy Kentucky, Inc.'s Assumption of Certain Liabilities in Connection with the Acquisition; (3) Deferral of Costs Incurred as Part of the Acquisition; and (4) All Other Necessary Waivers, Approvals, and Relief.

Dear Mr. Derouen:

Enclosed please find an original and twelve copies of Duke Energy Kentucky, Inc.'s *Supplemental Compliance Filing Pursuant to KRS 278.300, and 807 KAR 5:001: Sections 18(1), 18(2), 12(1) and 12(2) et seq.*, for filing in the above referenced matter. An updated Exhibit List, to include this filing, is also being provided.

Please date-stamp the two copies of the letter and the filing and return to me in the enclosed envelope.

Sincerely,

Kristen Ryan
Senior Paralegal
kristen.ryan@duke-energy.com

cc: Hon. Jennifer Hans
David Samford

EXHIBITS

EXHIBIT A - The Purchase and Sale Agreement Between Duke Energy Kentucky, Inc. and The Dayton Power and Light Company

EXHIBIT B - East Bend Site Map

EXHIBIT C - Direct Testimony of James P. Henning

EXHIBIT D - Direct Testimony of William Don Wathen Jr.

EXHIBIT E - Direct Testimony of James S. Northrup

EXHIBIT F - Direct Testimony of Steve Immel

EXHIBIT G - Direct Testimony of J. Michael Geers

EXHIBIT H - Direct Testimony of John A. Verderame

EXHIBIT I - Direct Testimony of Will A. Garrett

EXHIBIT J - Supplemental Compliance Filing

COMMONWEALTH OF KENTUCKY

BEFORE THE

KENTUCKY PUBLIC SERVICE COMMISSION

In the Matter of:

The Application of Duke Energy Kentucky,)
Inc., For (1) A Certificate of Public)
Convenience And Necessity Authorizing)
the Acquisition of the Dayton Power &)
Light Company’s 31% Interest in the East)
Bend Generating Station; (2) Approval of)
Duke Energy Kentucky, Inc.’s Assumption)
of Certain Liabilities in Connection with)
the Acquisition; (3) Deferral of Costs)
Incurred as Part of the Acquisition; and (4))
All Other Necessary Waivers, Approvals,)
and Relief.

Case No. 2014-00201

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PUBLIC SERVICE
COMMISSION

Supplemental Compliance Filing Pursuant to KRS 278.300, and 807 KAR 5:001: Sections 18(1), 18(2), 12(1) and 12(2) et seq.

In response to the letter from the Staff of the Kentucky Public Service Commission (Commission) dated June 19, 2014, in the above-styled proceeding and in further support of the Application, Duke Energy Kentucky, Inc., (Duke Energy Kentucky or the Company) respectfully states as follows:

1. **807 KAR 5:001: Section 18(1)(a).** As stated in the Company’s Application in this proceeding, pursuant to 807 KAR 5:001, Section 14(2), Duke Energy Kentucky is a Kentucky corporation that was originally incorporated on March 20, 1901, is in good standing and, as a public utility, as that term is defined in KRS 278.010(3), is subject to the Commission’s jurisdiction. Duke Energy Kentucky is engaged in the business of furnishing natural gas and

electric services to various municipalities and unincorporated areas in Boone, Bracken, Campbell, Gallatin, Grant, Kenton, and Pendleton Counties in the Commonwealth of Kentucky. Duke Energy Kentucky's business address is 139 East Fourth Street, Cincinnati, Ohio 45202. The Company's local office in Kentucky is Duke Energy Envision Center, 4580 Olympic Boulevard Erlanger, Kentucky 41018. Duke Energy Kentucky's email address is KYfilings@duke-energy.com. Duke Energy Kentucky has been incorporated since March 20, 1901 and its articles of incorporation are on file with the Commission in Case No. 2013-00097 and are incorporated by reference herein pursuant to 807 KAR 5:001, Section 14(2).

2. **807 KAR 5:001: Section 18(1)(b).** As of March 31, 2014, the original cost of Duke Energy Kentucky's property was \$1,752,798,000. The Company's principal properties consist of electric generating plants and gas and electric distribution facilities.

3. **807 KAR 5:001: Section 18(2)(a).** Duke Energy Kentucky is filing the following information in Exhibit J, which is incorporated herein and made a part of the Application filed in this proceeding:

| <u>Exhibit J</u> <u>Page</u> | <u>Description</u> | <u>807 KAR 5:001</u> <u>Section Reference</u> |
|---------------------------------|--|--|
| | Financial Exhibit | 12 and 18(2)(a) |
| 1 | Amount and kinds of stock authorized | 12(2)(a) |
| 1 | Amount and kinds of stock issued and outstanding | 12(2)(b) |
| 1 | Terms of preference or preferred stock | 12(2)(c) |
| 1 | Brief description of each mortgage on property of Duke Energy Kentucky | 12(2)(d) |
| 2 | Amount of bonds authorized and issued and related information | 12(2)(e) |

| | | |
|-----|---|----------|
| 2 | Notes outstanding and related information | 12(2)(f) |
| 2-3 | Other indebtedness and related information | 12(2)(g) |
| 3-4 | Dividend information | 12(2)(h) |
| 4-6 | Detailed Income Statement and Balance Sheet | 12(2)(i) |

4. **807 KAR 5:001: Section 18(2)(b).** The Company has previously filed the following indenture in Case Nos. 2012-00575 and 2012-00576 and hereby incorporates the indenture by reference pursuant to 807 KAR 5:001: Section 18(2)(b):

- Indenture between The Union Light, Heat and Power Company and Deutsche Bank Trust Company Americas, Trustee dated as of December 1, 2004.

5. **807 KAR 5:001: Sections 12(2)(a)-(i).** Please see Financial Exhibit attached hereto and designated as Exhibit J to the Application.

Its Attorneys,



Rocco O. D'Ascenzo (92796)
Associate General Counsel
Amy B. Spiller (85309)
Deputy General Counsel
Duke Energy Business Services, LLC
139 East Fourth Street, 1313 Main
Cincinnati, Ohio 45201-0960
Phone: (513) 287-4320
Fax: (513) 287-4385
e-mail:rocco.d'ascenzo@duke-energy.com
e-mail:amy.spiller@duke-energy.com

and

Mark David Goss
David S. Samford
Goss Samford, PLLC
2365 Harrodsburg Road, Suite B325
Lexington, KY 40504
(859) 368-7740
e-mail:mdgoss@gosssamfordlaw.com
e-mail:david@gosssamfordlaw.com

VERIFICATION

State of North Carolina)
) SS:
County of Mecklenburg)

Stephen G. De May, being first duly sworn, states that he is Vice President and Treasurer of Duke Energy Business Services LLC; that he has read the foregoing Supplemental Compliance Filing and its contents; and that the contents are true to the best of his knowledge, information and belief.



Stephen G. De May

Subscribed and sworn to before me, this 20 day of June, 2014.



Notary Public

CERTIFICATE OF SERVICE

This is to certify that a copy of the foregoing Supplemental Compliance Filing of Duke Energy Kentucky, Inc. has been served via overnight mail to the following party on this 23rd day of June 2014.

Hon. Jennifer Hans
Office of the Attorney General
Utility Intervention and Rate Division
1024 Capital Center Drive
Frankfort, Kentucky 40601



Amy B. Spiller

FINANCIAL EXHIBIT

(1) Section 12(2)(a) Amount and kinds of stock authorized.

1,000,000 shares of Capital Stock \$15 par value amounting to \$15,000,000 par value.

(2) Section 12(2)(b) Amount and kinds of stock issued and outstanding.

585,333 shares of Capital Stock \$15 par value amounting to \$8,779,995 total par value. Total Capital Stock and Additional Paid-in Capital as of March 31, 2014:

Capital Stock and Additional Paid-in Capital
As of March 31, 2014
(\$ per 1,000)

| | |
|--|------------------|
| Capital Stock | \$8,780 |
| Premiums thereon | 18,839 |
| Total Capital Contributions from Parent (since 2006) | 8,594 |
| Contribution from Parent Company for Purchase of Generation Assets | <u>140,061</u> |
| Total Capital Stock and Additional Paid-in-Capital | <u>\$176,274</u> |

(3) Section 12(2)(c) Terms of preference or preferred stock, cumulative or participating, or on dividends or assets or otherwise.

There is no preferred stock authorized, issued or outstanding.

(4) Section 12(2)(d) Brief description of each mortgage on property of applicant, giving date of execution, name of mortgagor, name or mortgagee, or trustee, amount of indebtedness authorized to be secured, and the amount of indebtedness actually secured, together with any sinking fund provision.

Duke Energy Kentucky does not have any liabilities secured by a mortgage.

(5) **Section 12(2)(e) Amount of bonds authorized, and amount issued, giving the name of the public utility which issued the same, describing each class separately, and giving the date of issue, face value, rate of interest, date of maturity and how secured, together with the amount of interest paid thereon during the last fiscal year.**

The Company has four outstanding issues of unsecured senior debentures issued under an Indenture dated December 1, 2004, between itself and Deutsche Bank Trust Company Americas, as Trustee, as supplemented. The Indenture allows the Company to issue debt securities in an unlimited amount from time to time. The Debentures issued under the Indenture are the following:

| Supplemental Indenture | Date of Issue | Principal Amount of Authorized and Issued | Principal Amount Outstanding | Rate of Interest | Date of Maturity | Interest Paid Year 2013 |
|------------------------------|---------------|---|------------------------------|------------------|------------------|-------------------------|
| Not Applicable | 12/9/2004 | 40,000,000 | 40,000,000 | 5.000% | 12/15/2014 | 2,000,000 |
| 1 st Supplemental | 3/10/2006 | 50,000,000 | 50,000,000 | 5.750% | 3/10/2016 | 2,875,000 |
| 1 st Supplemental | 3/10/2006 | 65,000,000 | 65,000,000 | 6.200% | 3/10/2036 | 4,030,000 |
| 2 nd Supplemental | 9/22/2009 | 100,000,000 | <u>100,000,000</u> | 4.650% | 10/1/2019 | <u>4,650,000</u> |
| | | | <u>255,000,000</u> | | | <u>13,555,000</u> |

(6) **Section 12(2)(f) Each note outstanding, giving date of issue, amount, date of maturity, rate of interest, in whose favor, together with amount of interest paid thereon during the last fiscal year.**

Not applicable.

(7) **Section 12(2)(g) Other indebtedness, giving same by classes and describing security, if any, with a brief statement of the devolution or assumption of any portion of such indebtedness upon or by person or corporation if the original liability has been transferred, together with amount of interest paid thereon during the last fiscal year.**

The Company has two series of Pollution Control Revenue Refunding Bonds issued under a Trust Indenture dated as of August 1, 2006, and a Trust Indenture dated as of December 1, 2008, between the County of Boone, Kentucky and Deutsche Bank National Trust Company as Trustee. The Company's obligation to make payments equal to debt service on the Bonds is evidenced by a Loan Agreement dated as of August 1, 2006, and December 1, 2008, between the County of Boone, Kentucky and Duke Energy Kentucky. The Bonds issued under the Indentures are as follows:

| Indenture | Date of Issue | Principal Amount of Authorized and Issued | Principal Amount Outstanding | Rate of Interest | Date of Maturity | Interest Paid Year 2013 |
|--------------|---------------|---|------------------------------|----------------------|------------------|-------------------------|
| Series 2008A | 12/01/2011 | 50,000,000 | 50,000,000 | 1.08% ⁽¹⁾ | 8/1/2027 | 540,446 |
| Series 2010 | 11/24/2010 | 26,720,000 | <u>26,720,000</u> | 0.09% ⁽²⁾ | 8/1/2027 | <u>23,698</u> |
| | | | <u>76,720,000</u> | | | <u>564,144</u> |

(1) The interest rate represents the average floating-rate of interest on the bonds for 2013. The interest rate on the bonds resets on the first day of every month based on 75% of the sum of one-month LIBOR and 1.25%.

(2) The interest rate on the bonds resets every seven days through an auction process. The variable-rate debt was swapped to a fixed rate of 3.86% for the life of the debt.

The Company has issued and has outstanding as of March 31, 2014 the following capital leases:

| Series | Date of Issue | Principal Amount of Authorized and Issued | Principal Amount Outstanding | Rate of Interest | Date of Maturity |
|----------|---------------|---|------------------------------|------------------|------------------|
| 2005 | 12/30/2005 | 2,079,031 | 526,056 | 4.893 | 12/30/2014 |
| 2006 | 12/28/2006 | 2,406,336 | 872,175 | 5.000 | 12/30/2015 |
| Erlanger | 12/30/2006 | 2,100,000 | 1,254,900 | 8.634 | 09/30/2020 |
| 2007 | 12/31/2007 | 3,066,955 | 1,430,752 | 5.115 | 12/31/2016 |
| 2009 | 04/21/2009 | 3,429,432 | 1,955,483 | 4.821 | 04/21/2018 |
| 2010 | 06/18/2010 | <u>955,061</u> | <u>635,315</u> | 3.330 | 06/18/2019 |
| | | <u>16,053,899</u> | <u>6,674,681</u> | | |

The Company also has outstanding as of March 31, 2014, long term debt in the amount of \$851,494 associated with the July 31, 2007, sale of a gas storage cavern carrying an interest rate of 4.77% and a maturity date of July 31, 2027.

(8) **Section 12(2)(h) Rate and amount of dividends paid during the last five (5) previous fiscal years, and the amount of capital stock on which dividends were paid each year.**

DIVIDENDS PER SHARE

| <u>Year Ending</u> | <u>Per Share</u> | <u>Total</u> | <u>No. of Shares</u> | <u>Par Value of Stock</u> |
|--------------------|------------------|--------------|----------------------|---------------------------|
| December 31, 2009 | 0.00 | 0 | 585,333 | 8,779,995 |
| December 31, 2010 | 0.00 | 0 | 585,333 | 8,779,995 |
| December 31, 2011 | 230.64 | 135,000,000 | 585,333 | 8,779,995 |
| December 31, 2012 | 17.08 | 10,000,000 | 585,333 | 8,779,995 |
| December 31, 2013 | 68.34 | 40,001,000 | 585,333 | 8,779,995 |

(9) Section 12(2)(i) Detailed Income Statement and Balance Sheet

See the attached pages for the detailed Income Statement for the twelve months ended March 31, 2014 and the detailed Balance Sheet as of March 31, 2014.

DUKE ENERGY KENTUCKY, INC.
CONDENSED STATEMENTS OF OPERATIONS
(Unaudited)
(In thousands)

Twelve Months Ended
March 31

| | 2014 |
|--|------------|
| Operating Revenues | |
| Electric | \$ 358,329 |
| Gas | 121,685 |
| Total operating revenues | 480,014 |
| Operating Expenses | |
| Fuel used in electric generation and purchased power | 163,038 |
| Natural gas purchased | 56,357 |
| Operation, maintenance and other | 128,105 |
| Depreciation and amortization | 44,284 |
| Property and other taxes | 12,880 |
| Goodwill and other impairment charges | - |
| Total operating expenses | 404,666 |
| Gains on Sales of Other Assets and Other, net | 3,440 |
| Operating Income | 78,788 |
| Other Income and Expenses, net | 2,688 |
| Interest Expense | 15,913 |
| Income Before Income Taxes | 65,563 |
| Income Tax Expense | 24,200 |
| Income From Continuing Operations | 41,364 |
| Income From Discontinued Operations, net of tax | - |
| Net Income | \$ 40,615 |

See Notes to Unaudited Condensed Financial Statements

DUKE ENERGY KENTUCKY, INC.
Condensed Balance Sheets
(Unaudited)

| (In thousands, except share amounts) | March 31, 2014 | December 31, 2013 |
|---|---------------------|----------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 17,873 | \$ 13,038 |
| Receivables (net of allowance for doubtful accounts of \$185 at March 31, 2014 and \$229 at December 31, 2013) | 7,802 | 4,246 |
| Receivables from affiliated companies | 28,849 | 25,999 |
| Notes receivable from affiliated companies | — | 1,267 |
| Inventory | 34,455 | 41,667 |
| Regulatory assets | 12,913 | 4,038 |
| Other | 11,066 | 10,906 |
| Total current assets | 112,958 | 101,161 |
| Investments and Other Assets | | |
| Other | 7,650 | 8,098 |
| Total investments and other assets | 7,650 | 8,098 |
| Property, Plant and Equipment | | |
| Cost | 1,752,798 | 1,741,308 |
| Accumulated depreciation and amortization | (735,960) | (728,396) |
| Net property, plant and equipment | 1,016,838 | 1,012,912 |
| Regulatory Assets and Deferred Debits | | |
| Regulatory Assets | 42,134 | 41,437 |
| Other | 2,138 | 2,138 |
| Total regulatory assets and deferred debits | 44,272 | 43,575 |
| Total Assets | \$ 1,181,718 | \$ 1,165,746 |
| LIABILITIES AND COMMON STOCKHOLDER'S EQUITY | | |
| Current Liabilities | | |
| Accounts payable | \$ 28,068 | \$ 25,536 |
| Accounts payable to affiliated companies | 12,305 | 18,204 |
| Notes payable to affiliated companies | 578 | — |
| Taxes accrued | 11,755 | 10,306 |
| Interest accrued | 3,381 | 3,442 |
| Current maturities of long-term debt | 41,656 | 41,688 |
| Regulatory liabilities | 2,137 | 2,390 |
| Other | 20,980 | 18,462 |
| Total current liabilities | 120,860 | 120,028 |
| Long-term Debt | 297,084 | 297,365 |
| Deferred Credits and Other Liabilities | | |
| Deferred income taxes | 258,445 | 257,220 |
| Investment tax credits | 1,252 | 1,304 |
| Accrued pension and other post-retirement benefit costs | 10,272 | 10,776 |
| Asset retirement obligations | 6,320 | 6,253 |
| Regulatory liabilities | 70,079 | 69,495 |
| Other | 25,109 | 25,351 |
| Total deferred credits and other liabilities | 371,477 | 370,399 |
| Commitments and Contingencies | | |
| Common Stockholder's Equity | | |
| Common Stock, \$15.00 par value, 1,000,000 shares authorized and 585,333 shares outstanding at March 31, 2014 and December 31, 2013 | 8,780 | 8,780 |
| Additional paid-in-capital | 167,494 | 167,494 |
| Retained earnings | 216,023 | 201,680 |
| Total common stockholder's equity | 392,297 | 377,954 |
| Total Liabilities and Common Stockholder's Equity | \$ 1,181,718 | \$ 1,165,746 |

See Notes to Condensed Financial Statements