Steven L. Beshear
Governor

Leonard K. Peters, Secretary
Energy and Environment
Cabinet

Commonwealth of Kentucky
Public Service Commission
211 Sower Blvd.
P.O. Box 615
Frankfort, Kentucky 40602-0615
Telephone: (502) 564-3940
Fax: (502) 564-3460
psc.ky.gov

David L. Armstrong
Chairman

James W. Gardner
Vice Chairman

Charles R. Borders
Commissioner

NEWS RELEASE

Contact:
Andrew Melnykovych
502-564-3940, ext. 208
502-330-5981 (cell)

Kentucky PSC OKs Duke Energy-Progress Energy Merger

Adds conditions to those in proposed settlement

FRANKFORT, Ky. (Aug. 2, 2011) – The Kentucky Public Service Commission (PSC) today approved the merger of Duke Energy Corp. with Progress Energy Corp.

Although both companies are headquartered in North Carolina, the transaction required approval in Kentucky because Duke Energy has a subsidiary in the state that falls within the jurisdiction of the PSC. Duke Energy Kentucky serves about 135,000 electric customers and 95,000 natural gas customers in Boone, Bracken, Campbell, Gallatin, Grant, Kenton and Pendleton counties in northern Kentucky.

In an order issued today, the PSC approved a settlement reached by the companies and the Kentucky Office of Attorney General, the only intervening party in the case. The settlement includes a two-year moratorium on filings for general rate increases and commitments to assist low-income customers and to promote economic development.

Following a July 8 hearing on the settlement, the PSC imposed three additional conditions on its approval of the merger, beyond those in the settlement agreement and those originally put forth by the applicants.

The conditions imposed by the PSC are:

- Duke Kentucky must continue to offer a full range of cost-effective energy conservation and efficiency programs.
- The board of directors of the combined company must include at least one non-employee member who resides in the company’s service territory in Kentucky, Indiana or Ohio.
- No merger costs may be passed on to Duke Kentucky ratepayers.

Duke and Progress have a week to accept all conditions set forth in the PSC order.

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When they applied for PSC approval of the merger, Duke and Progress agreed to continue 41 commitments that were conditions of the Nov. 29, 2005, approval by the PSC of Duke's acquisition of Cinergy Corp., the former owner of what is now Duke Kentucky and was then Union Light, Heat and Power Co.

Those commitments addressed a broad range of issues, including cost allocations and other financial matters, service reliability, staffing levels, economic development, regulatory procedures and others. The commitments proposed by the applicants were subsequently modified in response to questions from the PSC staff.

Among the changes was the addition of a commitment by the applicants to examine "whether policies more sympathetic to low-income customers would be more appropriate."

Three additional conditions arose from the settlement agreement. They are:

- Duke Kentucky will not file either an electric or natural gas general rate case for the next two years.
- The new company's shareholders will contribute $115,000 annually over the next five years to programs that assist low-income customers with home weatherization.
- Similarly, the combined company's shareholders will contribute $50,000 annually over the next five years toward economic development efforts in Duke Kentucky's service territory.

Duke has about 4 million electric and 500,000 natural gas customers in the Midwest and the Carolinas. It has 35,000 megawatts of electric generating capacity and annual revenues of about $14.3 billion. Progress has about 3.1 million electric customers in the Carolinas and Florida, 22,000 megawatts of generating capacity and $10 billion in annual revenues.

Once finalized, the merger would leave Duke's current shareholders with almost two-thirds of the shares in the combined companies.

Today's order, the settlement agreement and other documents in the case, as well as a video recording of the PSC hearing, are available on the PSC website, psc.ky.gov. The case number is 2011-00124.

The PSC is an independent agency attached for administrative purposes to the Energy and Environment Cabinet. It regulates more than 1,500 gas, water, sewer, electric and telecommunication utilities operating in Kentucky and has approximately 100 employees.

-30-

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