

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

COMMISSION STAFF'S SUPPLEMENTAL INFORMATION REQUEST  
TO JOINT APPLICANTS

Duke Energy Corporation ("Duke Energy"), Cinergy Corp. ("Cinergy"), Duke Energy Ohio, Inc. ("Duke Ohio"), Duke Energy Kentucky, Inc. ("Duke Kentucky"), Diamond Acquisition Corporation ("Diamond"), and Progress Energy, Inc. ("Progress"), (collectively "Joint Applicants"), pursuant to 807 KAR 5:001, are to file with the Commission the original and 10 copies of the following information, with a copy to all parties of record. The information requested herein is due no later than June 2, 2011. Responses to requests for information shall be appropriately bound, tabbed, and indexed. Each response shall include the name of the witness responsible for responding to the questions related to the information provided.

Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or the person supervising the preparation of the response on behalf of the entity that the response is true and

accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

Joint Applicants shall make timely amendment to any prior response if they obtain information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request to which Joint Applicants fail or refuse to furnish all or part of the requested information, Joint Applicants shall provide a written explanation of the specific grounds for their failure to completely and precisely respond.

Careful attention shall be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request.

Each copy of the information requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure its legibility. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request.

1. Refer to page 9, lines 13-14 of the Direct Testimony of Stephen G. De May, which indicate that Duke Energy's regulated business will increase from 79 percent to approximately 88 percent after the merger.

a. Provide the measure upon which the 79 and 88 percents were derived.

b. Based on the same measure as indicated in part a., provide the percentages of Duke Energy's regulated business that are represented by Duke Energy Indiana, Inc., Duke Ohio and Duke Kentucky pre- and post-merger.

2. Refer to the responses to Item 3 of the Commission Staff's Initial Request for Information ("Staff's First Request") and Item 34 of the Attorney General's Initial Request for Information ("AG's First Request"). The response to Staff's First Request states that there will be no change in control payments as a result of the proposed merger while the response to the AG's First Request states that "Certain individuals potentially will receive additional compensation in connection with the contemplated transaction."

a. Explain whether the additional compensation that may be provided to certain individuals within Duke Energy will be considered a "cost to achieve" the proposed merger.

b. Explain whether the cost of any additional compensation provided to individuals within Duke Energy will be allocated among its subsidiaries, including Duke Kentucky, and whether Duke Kentucky expects to recover its share of any allocated costs from ratepayers in a future rate proceeding.

3. Refer to the response to Item 6 of Staff's First Request. Provide a version of the response in at least a 10 point font.

4. Refer to the response to Item 16 of Staff's First Request.

a. Provide the length of time that was required to fully integrate the Cinergy and Duke Energy service companies after the consummation of their merger.

b. Explain whether Joint Applicants are willing to revise the merger commitment to state that it will continue for six years or until three service company audits are performed, in the event more than six years are needed to perform three audits.

5. Refer to the response to Item 21 of Staff's First Request. Explain whether Joint Applicants are willing to restate the commitment in the last sentence of the response to read, "The Company commits to follow Kentucky law with respect to the pricing for inter-company transactions not otherwise covered by Commission-approved service agreements and will not presume to preclude the Commission from asserting any pricing methodology in a future proceeding at the Federal Energy Regulatory Commission."

6. Refer to the response to Item 32 of Staff's First Request, specifically, the Investment Analysis by Oppenheimer, Baird, and Bank of America ("Analysis") originally submitted on May 6, 2011 with the Documents Relating to Regulatory Approvals Pending Before Other Agencies.

a. The first sentence of the fourth paragraph on page 3 of the Analysis reads, "It is well known that Duke has been struggling as of late in Ohio, going so far as indicating that it might consider selling its generation assets in that market." The last sentence of that same paragraph reads, "Eventually, we would not be surprised if Duke Ohio were sold over time, particularly if a member of the Progress management team were to run the combined entity."

(1) If the last sentence of the paragraph was based on information provided the authors of the Analysis by one of the Duke entities, or Progress, or an individual employed by one of the Duke entities or Progress, provide said information.

(2) Explain whether Joint Applicants have any present intent to sell Duke Ohio, or whether the potential sale of Duke Ohio has been considered or discussed in conjunction with the proposed merger.

b. The second and third sentences of the second paragraph on page 13 of the Analysis, consistent with other documents submitted in response to Staff and AG data requests, refer to non-fuel synergies of 5 to 7 percent of non-fuel O&M, or around \$380 million, and fuel and dispatch synergies of \$600 to \$800 million from the combined Carolinas generation fleet over the period 2012-2016. Provide a discussion of any differences between the amounts of these synergies and those set forth in the Synergies Update filed May 19, 2011, as a supplement to the response to Item 32 of Staff's First Request.

7. Refer to the responses to items 32 and 47 of the AG's First Request.

a. The annual savings stated in Item 32 of the AG's request, \$300 to \$420 million, equal 5 and 7 percent, respectively, of the projected 2012 non-fuel adjusted O&M of \$6 billion, which is the range of savings Duke Energy's Chief Financial Officer stated had been delivered, historically, in "[r]egulated utility merger transactions."

(1) The last sentence in the response states that Duke Kentucky “[w]ill represent approximately 1-2% of the new Duke Energy.” Provide the measure upon which the 1 to 2 percent was derived and the calculation thereof.

(2) The response to Item 47 states that Duke Kentucky “[r]epresents approximately 1.6% of the new Duke Energy.” Provide the measure upon which the 1.6 percent was derived and the calculation thereof.

b. The responses indicate Joint Applicants believe the synergies resulting from the proposed merger will produce savings for Duke Kentucky but that the savings should be reflected over time in future rate cases. This is a departure from the approach agreed to in the Commission-approved settlement in Case No. 2005-00228,<sup>1</sup> under which customers received credits over a period of time to insure that they received a specific level of the savings to be realized as a result of the Cinergy/Duke Energy merger.

(1) Explain how Duke Kentucky intends to measure the savings that it realizes over time as a result of the proposed merger.

(2) Explain in detail why customers should not receive a specific level of savings in conjunction with the proposed merger in a manner similar to the approach employed in Case No. 2005-00228.

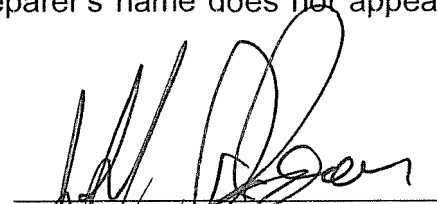
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<sup>1</sup> Case No. 2005-00228, Joint Application of Duke Energy Corporation, Duke Energy Holding Corp., Deer Acquisition Corp., Cougar Acquisition Corp., Cinergy Corp., The Cincinnati Gas and Electric Company, and The Union Light, Heat and Power Company for Approval of a Transfer and Acquisition of Control (Ky. PSC. May 3, 2006).

8. Refer to the response to Item 67 of the AG's First Request, specifically, Volume 3 of the confidential filing, at AG-DR-01-67P-1385. Explain whether the numbers on this page represent targeted fuel cost savings, targeted non-fuel cost savings, or a combination thereof, and whether they are exclusively for Progress, exclusively for Duke Energy, or for Progress and Duke Energy combined.

9. Refer to the response to Item 32 of Staff's First Request, which states, in part, that, "This response has been partially filed with the Commission under a Petition for Confidential Treatment." While the Joint Applicants did include a reference in their Petition for Confidential Treatment to Item 32 of Staff, no confidential response was filed to this request. Provide the referenced confidential response to Item 32 of the Staff.

10. Refer to the May 19, 2011 filing by the Joint Applicants of a supplemental response to Item 32 of Staff's First Request. Was the document filed on that date prepared by Booz & Company? If no, provide the names of the persons or entities that prepared the document. If yes, explain why the preparer's name does not appear on any of the pages of the document.



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