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VIA OVERNIGHT DELIVERY

February 1, 2008

Ms. Elizabeth O'Donnell
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
P.O. Box 615
Frankfort, Kentucky 40602-0615

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PUBLIC SERVICE
COMMISSION

Re: In the Matter of the Joint Application of Duke Energy Corporation, Duke Energy Holding Corp., Deer Acquisition Corp., Cougar Acquisition Corp., Cinergy Corp., The Cincinnati Gas & Electric Company and The Union Light, Heat and Power Company for Approval of a Transfer and Acquisition of Control, Case No. 2005-00228.

Dear Ms. O'Donnell:

In the Settlement Agreement in the above-referenced case, Duke Energy Kentucky, Inc. ("DE-Kentucky") made several merger commitments. DE-Kentucky regularly monitors these commitments to ensure compliance. DE-Kentucky reports the following information regarding these commitments. Please file stamp the two copies of this letter enclosed herein and return in the enclosed return-addressed envelope.

Commitment # 12

12. Applicants commit to implement and maintain cost allocation procedures that will accomplish the objective of preventing cross-subsidization, and be prepared to fully disclose all allocated costs, the portion allocated to ULH&P, complete details of the allocation methods, and justification for the amount and the method. Applicants commit to give the Commission 30 days' advance notice of any changes in cost allocation methods set forth in the Service Company Utility Service Agreement, the Operating Company / NonUtility Companies Services Agreements and the Operating Companies Service Agreement approved as part of the Duke / Cinergy merger proceeding. Applicants commit to periodic comprehensive third-party

independent audits of the affiliate transactions under the affiliate agreements approved in the Duke / Cinergy merger proceeding. Such audits will be conducted no less often than every two years, and reports will be filed with the Commission and the Attorney General. ULH&P shall file the audit report, if possible, when ULH&P files its annual report. Applicants may request a change to the frequency of the audit reports in future years, subject to agreement by the Commission and the Attorney General.

The first full year of financial data following the merger is calendar year 2007. DE-Kentucky has selected The Liberty Consulting Group (“Liberty”) to perform this audit. Liberty performed an audit of Duke Energy Carolinas, LLC’s affiliate transactions during 2007. Liberty will also perform an audit of Duke Energy Indiana, Inc.’s (“DE-Indiana”) affiliate transactions covering calendar year 2007. The DE-Kentucky and DE-Indiana audits will be done at the same time and will involve many of the same company employees. The audit will begin in February. We expect to file the audit report with the Commission and the Attorney General by October 31, 2008. If you have any questions about the audit or if you would like to participate in the audit, please let me know.

Commitment # 20

20. Applicants commit to provide notification to the Commission as soon as practicable of registration or issuance of new public long-term debt or equity in excess of \$ 500 million issued by Duke Energy or Cinergy.

DE-Kentucky reports that, on October 3, 2007, Duke Energy Corporation filed with the Securities and Exchange Commission a Form S-3 Shelf Registration Statement for Duke Energy Corporation and its registered subsidiaries (*i.e.*, Duke Energy Carolinas, LLC, Duke Energy Ohio, Inc., and Duke Energy Indiana, Inc.). The integrated S-3 registers the potential offering of all publicly issued securities, including common stock of Duke Energy Corporation, and senior notes and junior notes of each issuer, including

hybrid securities. The shelf registration became effective upon filing and there is no stated amount or amount limitation for the issuance of public securities during the life of the registration statement, which is three years. DE-Kentucky will provide a copy of this Form S-3 Shelf Registration Statement upon request.

Commitment # 28

28. ULH&P commits to notify the Commission in writing 30 days prior to any material changes in its participation in funding for research and development. Material changes include, but are not limited to, any change in funding equal to or greater than 25% ULH&P's previous year's budget for research and development. The written notification will include an explanation and the reasons for the change in policy.

DE-Kentucky reports that it incurred \$176,971.60 in electric research and development expense for 2007 versus \$135,804.00 for 2006, an increase of 30.31%. We believe this merger commitment was intended to provide notice against research and development funding cuts; nevertheless, the commitment requires the Company to report material *changes* in research and development funding.

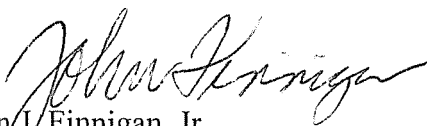
The reported amounts represent charges by the Electric Power and Research Institute research and development expenses incurred by Duke Energy Corporation ("Duke Energy") and allocated to Duke Energy's affiliated operating companies. We are reporting this information at this time because the 2007 allocations recently became available. DE-Kentucky has not incurred any expense for gas research and development expense since mid-2004, so there has been no change for 2007 as compared with 2006.

The electric research and development funding increased in 2007 for two reasons. First, prior to the merger, Cinergy did not belong to EPRI's power delivery and markets research programs. Duke Energy belongs to these programs, which include research

relating to smart grid, energy efficiency and transmission. DE-Kentucky received cost allocations for these research programs beginning in 2007. Second, Duke Energy increased its funding for environmental safety and health research and development in 2007.

DE-Kentucky will continue to provide ongoing reporting as required under the merger commitments. Thank you for your consideration in this matter.

Very truly yours,


John J. Finnigan, Jr.
Associate General Counsel

cc: Hon. Dennis G. Howard, II
Hon. David E. Spenard
Hon. Michael L. Kurtz