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April 28, 2011

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Via Hand-Delivery

APR 28 2011

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

PUBLIC SERVICE
COMMISSION

Re: 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. PSC Case No. 2011-00124

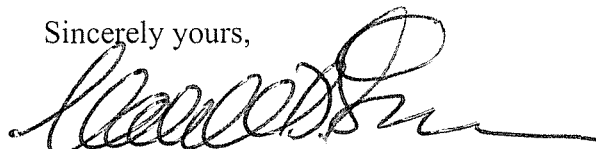
Dear Mr. Derouen:

Please find enclosed an original and ten copies of two documents to be filed in the above-styled proceeding. The first document is an errata sheet to the testimony of Mr. William Don Wathen Jr. Mr. Wathen's original testimony was attached to the Joint Application as Exhibit M. The errata sheet adds one phrase to one sentence on pages 6-7 of the testimony. The second document is an updated version of the Money Pool Agreement that was attached as pages 70-78 to Exhibit I of the Joint Application.

Please file these documents in the record and return file-stamped copies to me.

Please do not hesitate to contact me if you have any questions.

Sincerely yours,



Mark David Goss

Enclosures

cc: Dennis G. Howard, III
Larry Cook

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COMMONWEALTH OF KENTUCKY
BEFORE THE KENTUCKY PUBLIC SERVICE COMMISSION

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IN THE MATTER OF:

APR 28 2011

**THE JOINT APPLICATION OF DUKE)
ENERGY CORPORATION, CENERGY)
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.)**

**PUBLIC SERVICE
COMMISSION**

Case No. 2011-_____

ERRATA SHEET FOR
DIRECT TESTIMONY OF
WILLIAM DON WATHEN JR.
ON BEHALF OF
JOINT APPLICANTS

April 29, 2011

1 power (“Rider BDP”) and an economic development incentive rider (“Rider-
2 DIR”).

3 Duke Energy Kentucky’s gas tariffs include an adjustment mechanism for
4 the commodity of natural gas used by customers on the Company’s gas delivery
5 system (“Rider GCA”), as well as a rider for gas energy efficiency (*i.e.* demand-
6 side management).

7 **Q. HOW DO DUKE ENERGY KENTUCKY’S ELECTRIC AND GAS RATES**
8 **COMPARE TO THE NATIONAL AVERAGE?**

9 A. Duke Energy Kentucky’s 2010 electric and gas rates compare favorably to the
10 national average based upon bill comparison reports from the Edison Electric
11 Institute and the American Gas Association, respectively.

III. THE MERGER’S IMPACT UPON DUKE ENERGY KENTUCKY

12 **Q. WHAT SAVINGS WILL DUKE ENERGY KENTUCKY REALIZE AS A**
13 **RESULT OF THE MERGER?**

14 A. In the short term, Duke Energy Kentucky is not expected to realize any significant
15 tangible savings as a result of the merger. Duke Energy will incur costs as a
16 result of the merger in order to achieve the eventual anticipated savings that will
17 be allocated among its subsidiary companies, including Duke Energy Kentucky.
18 Most of the economic savings associated with the merger during the first few
19 years will arise from the ability to jointly dispatch generation and from fuel
20 purchasing economies by the operating companies located in the Carolinas.
21 Importantly, costs to achieve the merger savings will not be included in any test

1 year for recovery in electric or gas rates by Duke Energy Kentucky, without
2 Commission approval. And, over time, Duke Energy Kentucky believes that it
3 will be able to achieve savings as a result of leveraging best-in-class practices and
4 having steady access to capital markets. Due to the nature of the merger, it is not
5 possible to precisely quantify the benefits that may accrue to Duke Energy
6 Kentucky at this time.

7 **Q. HOW WILL THE LONG-TERM SAVINGS ASSOCIATED WITH THIS**
8 **MERGER BE REALIZED BY DUKE ENERGY KENTUCKY'S**
9 **CUSTOMERS?**

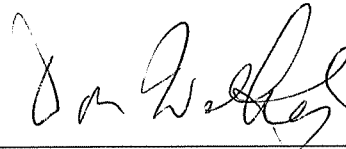
10 A. In the 2005 merger of Duke Energy and Cinergy Corp. ("Cinergy"), the savings
11 anticipated by the two companies were more tangible and more immediate. Thus,
12 Duke Energy Kentucky was in a position to quickly return a portion of that
13 savings to ratepayers in the form of a merger savings surcredit tariff rider.
14 Because the circumstances of this merger are different, Duke Energy Kentucky
15 will not be in a position to do that in this case. However, as Duke Energy
16 Kentucky is able to achieve savings over time, customers will benefit inasmuch as
17 the savings will reduce the magnitude of future base rate increases.

18 **Q. JOINT APPLICANTS WITNESS DANNY WILES HAS STATED IN HIS**
19 **TESTIMONY THAT "PUSH-DOWN" ACCOUNTING WILL NOT BE**
20 **REQUIRED FOR DUKE ENERGY KENTUCKY AS PART OF THE**
21 **MERGER. DOES DUKE ENERGY KENTUCKY PLAN TO USE "PUSH-**
22 **DOWN" ACCOUNTING FOR RATEMAKING PURPOSES AS A RESULT**
23 **OF THIS MERGER?**

VERIFICATION

State of Ohio)
)
County of Hamilton)

The undersigned, William Don Wathen, Jr. being duly sworn, deposes and says that he is the General Manager and Vice President, Rates – Ohio and Kentucky for Duke Energy Business Services, that he has personal knowledge of the matters set forth in the foregoing amended testimony, and that the answers contained therein are true and correct to the best of his information, knowledge and belief.



William Don Wathen, Jr, Affiant

Subscribed and sworn to before me by William Don Wathen, Jr. on this 27th day of April 2011.



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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APR 28 2011

PUBLIC SERVICE
COMMISSION

UTILITY MONEY POOL AGREEMENT

This UTILITY MONEY POOL AGREEMENT (this "Agreement") is made and entered into as of _____ ("Effective Date") by and among Duke Energy Corporation, a Delaware corporation ("Duke Energy"), Cinergy Corp., a Delaware corporation ("Cinergy"), Duke Energy Carolinas, LLC, a North Carolina limited liability company ("DE-Carolinas"), Duke Energy Indiana, Inc., an Indiana corporation ("DE-Indiana"), Duke Energy Ohio, Inc., an Ohio corporation ("DE-Ohio"), Duke Energy Kentucky, Inc., a Kentucky corporation ("DE-Kentucky"), Miami Power Corporation, an Indiana corporation ("Miami"), KO Transmission Company, a Kentucky corporation ("KO"), Progress Energy, Inc., a North Carolina corporation ("Progress Energy"), Carolina Power & Light Company d/b/a Progress Energy Carolinas, Inc., a North Carolina corporation ("PE-North Carolina"), Florida Power Corporation d/b/a Progress Energy Florida, Inc., a Florida corporation ("PE-Florida"), Progress Energy Service Company, LLC, a North Carolina corporation ("Progress Services"), and Duke Energy Business Services LLC, a Delaware limited liability company ("DEBS"), (each a "party" and collectively, the "parties"). For purposes of this Agreement Progress Services and DEBS shall each collectively be referred to as Duke Services. This Agreement supersedes and replaces in its entirety the Utility Money Pool Agreement dated November 1, 2008.

Recitals

Each of DE-Carolinas, DE-Indiana, DE-Ohio, DE-Kentucky, PE-Florida, PE-North Carolina and Miami is a public utility company and a subsidiary company of Duke Energy. DEBS and Progress Services are subsidiary service companies of Duke Energy. KO is a nonutility company and a subsidiary company of DE-Ohio.

The parties from time to time have need to borrow funds on a short-term basis. Some of the parties from time to time have funds available to loan on a short-term basis. The parties desire to establish a cash management program (the "Utility Money Pool") to coordinate and provide for certain of their short-term cash and working capital requirements.

NOW THEREFORE, in consideration of the premises, and the mutual promises set forth herein, the parties hereto agree as follows:

ARTICLE I
CONTRIBUTIONS AND BORROWINGS

Section 1.1 Contributions to Utility Money Pool. Each party will determine each day, on the basis of cash flow projections and other relevant factors, in such party's sole discretion, the amount of funds it has available for contribution to the Utility Money Pool, and will contribute such funds to the Utility Money Pool. The determination of

whether a party at any time has surplus funds to lend to the Utility Money Pool or shall lend funds to the Utility Money Pool will be made by such party's chief financial officer or treasurer, or by a designee thereof, on the basis of cash flow projections and other relevant factors, in such party's sole discretion. Each party may withdraw any of its funds at any time upon notice to Duke Services as administrative agent of the Utility Money Pool.

Section 1.2 Rights to Borrow. Subject to the provisions of Section 1.4(b) of this Agreement, all short-term borrowing needs of the parties, with the exception of Duke Energy, Progress Energy and Cinergy, will be met by funds in the Utility Money Pool to the extent such funds are available. Each party (other than Duke Energy, Progress Energy and Cinergy) shall have the right to make short-term borrowings from the Utility Money Pool from time to time, subject to the availability of funds and the limitations and conditions set forth herein. Each party (other than Duke Energy, Progress Energy and Cinergy) may request loans from the Utility Money Pool from time to time during the period from the date hereof until this Agreement is terminated by written agreement of the parties; provided, however, that the aggregate amount of all loans requested by any party hereunder shall not exceed the applicable borrowing limits set forth in applicable orders of regulatory authorities, resolutions of such party's shareholders and Board of Directors, such party's governing corporate documents, and agreements binding upon such party. No loans through the Utility Money Pool will be made to, and no borrowings through the Utility Money Pool will be made by Duke Energy, Progress Energy and Cinergy.

Section 1.3 Source of Funds. (a) Funds will be available through the Utility Money Pool from the following sources for use by the parties from time to time: (i) surplus funds in the treasuries of parties other than Duke Energy, Progress Energy and Cinergy, (ii) surplus funds in the treasuries of Duke Energy, Progress Energy and Cinergy, and (iii) proceeds from borrowings by parties, including the sale of commercial paper by Duke Energy, Progress Energy, Cinergy, DE-Carolinas, DE-Indiana, DE-Ohio, DE-Kentucky, PE-North Carolina and PE-Florida ("External Funds"), in each case to the extent permitted by applicable laws and regulatory orders. Funds will be made available from such sources in such other order as Duke Services, as administrator of the Utility Money Pool, may determine will result in a lower cost of borrowing to companies borrowing from the Utility Money Pool, consistent with the individual borrowing needs and financial standing of the parties providing funds to the Utility Money Pool.

(b) Borrowing parties will borrow pro rata from each lending party in the proportion that the total amount loaned by such lending party bears to the total amount then loaned through the Utility Money Pool. On any day when more than one fund source (e.g., surplus treasury funds of Duke Energy, Progress Energy and Cinergy and other Utility Money Pool participants ("Internal Funds") and External Funds), with different rates of interest, is used to fund loans through the Utility Money Pool, each borrowing party will borrow pro rata from each fund source in the same proportion that the amount of funds provided by that fund source bears to the total amount of short-term funds available to the Utility Money Pool.

Section 1.4 Authorization. (a) Each loan shall be authorized by the lending party's chief financial officer or treasurer, or by a designee thereof.

(b) All borrowings from the Utility Money Pool shall be authorized by the borrowing party's chief financial officer or treasurer, or by a designee thereof. No party shall be required to effect a borrowing through the Utility Money Pool if such party determines that it can (and is authorized to) effect such borrowing at lower cost from other sources, including but not limited to directly from banks or through the sale of its own commercial paper.

Section 1.5 Interest. Each party receiving a loan shall accrue interest monthly on the unpaid principal amount of such loan to the Utility Money Pool from the date of such loan until such principal amount shall be paid in full.

(a) If only Internal Funds comprise the funds available in the Utility Money Pool, the interest rate applicable to loans of such Internal Funds shall be the CD yield equivalent of the 30-day Federal Reserve "AA" Industrial Commercial Paper Composite Rate (or, if no such Composite Rate is established for that day, then the applicable rate shall be the Composite Rate for the next preceding day for which such Composite Rate was established).

(b) If only External Funds comprise the funds available in the Utility Money Pool, the interest rate applicable to loans of such External Funds shall be equal to the lending party's cost for such External Funds (or, if more than one party had made available External Funds on such day, the applicable interest rate shall be a composite rate, equal to the weighted average of the cost incurred by the respective parties for such External Funds).

(c) In cases where both Internal Funds and External Funds are concurrently borrowed through the Utility Money Pool, the rate applicable to all loans comprised of such "blended" funds shall be a composite rate, equal to the weighted average of the (i) cost of all Internal Funds contributed by parties (as determined pursuant to Section 1.5(a) above) and (ii) the cost of all such External Funds (as determined pursuant to Section 1.5(b) above); provided, that in circumstances where Internal Funds and External Funds are available for loans through the Utility Money Pool, loans may be made exclusively from Internal Funds or External Funds, rather than from a "blend" of such funds, to the extent it is expected that such loans would result in a lower cost of borrowing.

Section 1.6 Certain Costs. The cost of compensating balances and fees paid to banks to maintain credit lines by parties lending External Funds to the Utility Money Pool shall initially be paid by the party maintaining such line. A portion of such costs shall be retroactively allocated every month to the parties borrowing such External Funds through the Utility Money Pool in proportion to their respective daily outstanding borrowings of such External Funds.

Section 1.7 Repayment. Each party receiving a loan hereunder shall repay the principal amount of such loan, together with all interest accrued thereon, on demand and in any event within 365 days of the date on which such loan was made. All loans made through the Utility Money Pool may be prepaid by the borrower without premium or penalty.

Section 1.8 Form of Loans to Parties. Loans to the parties through the Utility Money Pool will be made pursuant to open-account advances, repayable upon demand and in any event not later than one year after the date of the advance; provided, that each lending party shall at all times be entitled to receive upon demand one or more promissory notes evidencing any and all loans by such lender. Any such note shall: (a) be dated as of the date of the initial borrowing, (b) mature on demand or on a date agreed by the parties to the transaction, but in any event not later than one year after the date of the applicable borrowing, and (c) be repayable in whole at any time or in part from time to time, without premium or penalty.

ARTICLE II OPERATION OF UTILITY MONEY POOL

Section 2.1 Operation. Operation of the Utility Money Pool, including record keeping and coordination of loans, will be handled by Duke Services under the authority of the appropriate officers of the parties. Duke Services shall be responsible for the determination of all applicable interest rates and charges to be applied to advances outstanding at any time hereunder, shall maintain records of all advances, interest charges and accruals and interest and principal payments for purposes hereof, and shall prepare periodic reports thereof for the parties. Duke Services will administer the Utility Money Pool on an at-cost basis. Separate records shall be kept by Duke Services for the money pool established by this agreement and any other money pool administered by Duke Services.

Section 2.2 Investment of Surplus Funds in the Utility Money Pool. Funds not required to meet Utility Money Pool loans (with the exception of funds required to satisfy the Utility Money Pool's liquidity requirements) will ordinarily be invested in one or more short-term investments, including: (i) interest-bearing accounts with banks; (ii) obligations issued or guaranteed by the U.S. government and/or its agencies and instrumentalities, including obligations under repurchase agreements; (iii) obligations issued or guaranteed by any state or political subdivision thereof, provided that such obligations are rated not less than A by a nationally recognized rating agency; (iv) commercial paper rated not less than A-1 or P-1 or their equivalent by a nationally recognized rating agency; (v) money market funds; (vi) bank certificates of deposit; (vii) Eurodollar certificates of deposit or time deposits; and (viii) such other investments as the parties mutually determine .

Section 2.3 Allocation of Interest Income and Investment Earnings. The interest income and other investment income earned by the Utility Money Pool on loans and investment of surplus funds will be allocated among the parties in accordance with the

proportion each party's contribution of funds in the Utility Money Pool bears to the total amount of funds in the Utility Money Pool and the cost of any External Funds provided to the Utility Money Pool by such party. Interest and other investment earnings will be computed on a daily basis and settled once per month.

Section 2.4 Event of Default. If any party shall generally not pay its debts as such debts become due, or shall admit in writing its inability to pay its debts generally, or shall make a general assignment for the benefit of creditors, or any proceeding shall be instituted by or against any party seeking to adjudicate it a bankrupt or insolvent, then the other parties may declare the unpaid principal amount of any loans to such party, and all interest thereon, to be forthwith due and payable and all such amounts shall forthwith become due and payable.

ARTICLE III MISCELLANEOUS

Section 3.1 Amendments. No amendment to this Agreement shall be effective unless set forth in writing and executed by each of the parties. To the extent that applicable state law or regulation or other binding obligation requires that any such amendment be filed with any affected state public utility commission for its review or otherwise, the parties shall comply in all respects with any such requirements.

Section 3.2 Legal Responsibility. Nothing herein contained shall render any party liable for the obligations of any other party hereunder and the rights, obligations and liabilities of the parties are several in accordance with their respective obligations, and not joint.

Section 3.3 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New York, without regard to conflicts of laws principles thereof.

Section 3.4 Effective Date; Term. This Agreement shall become effective on the Effective Date and shall continue in full force and effect until terminated by the parties. This Agreement may be terminated and thereafter will be of no further force and effect upon the mutual consent in writing of all of the parties.

Section 3.5 Entire Agreement. This Agreement contains the entire agreement between and among the parties with respect to the subject matter hereof and supersedes any prior or contemporaneous contracts, agreements, understandings or arrangements, whether written or oral, with respect thereto. Any oral or written statements, representations, promises, negotiations or agreements, whether prior hereto or concurrently herewith, are superseded by and merged into this Agreement.

Section 3.6 Severability; Regulatory Requirements. If any provision of this Agreement shall be determined to be invalid or unenforceable, the remainder of this Agreement shall not be affected thereby. Without limiting the generality of the

foregoing, the transactions contemplated under this Agreement shall in all cases, and notwithstanding anything herein to the contrary, be subject to any limitations or restrictions contained in any applicable orders or authorizations, statutory provisions, rules or regulations, or agreements, whether now in existence or hereinafter promulgated, of those regulatory or governmental agencies, including without limitation any affected state public utility commission or the Federal Energy Regulatory Commission, having jurisdiction over any of the parties. To the extent, if any, that at any time any provision of this Agreement conflicts with any such limitation or restriction of any such regulatory agencies, such limitation shall control.

Section 3.7 Assignment. Neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned, in whole or in part, by operation of law or otherwise by any of the parties hereto without the prior written consent of each of the other parties. Any attempted or purported assignment in violation of the preceding sentence shall be null and void and of no effect whatsoever. Subject to the preceding two sentences, this Agreement shall be binding upon, inure to the benefit of, and be enforceable by, the parties and their respective successors and assigns.

Section 3.8 Captions, etc. The captions and headings used in this Agreement are for convenience of reference only and shall not affect the construction to be accorded any of the provisions hereof. As used in this Agreement, “hereof,” “hereunder,” “herein,” “hereto,” and words of like import refer to this Agreement as a whole and not to any particular section or other paragraph or subparagraph thereof.

Section 3.9 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed a duplicate original hereof, but all of which shall be deemed one and the same Agreement.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the undersigned companies have duly caused this Utility Money Pool Agreement to be executed on their behalf on the Effective Date above by the undersigned thereunto duly authorized.

DUKE ENERGY CORPORATION

By: _____
Richard G. Beach
Assistant Corporate Secretary

CINERGY CORP.

By: _____
Richard G. Beach
Assistant Secretary

DUKE ENERGY BUSINESS SERVICES LLC

By: _____
Richard G. Beach
Assistant Secretary

DUKE ENERGY CAROLINAS, LLC

By: _____
Richard G. Beach
Assistant Secretary

DUKE ENERGY INDIANA, INC.

By: _____
Richard G. Beach
Assistant Secretary

DUKE ENERGY OHIO, INC.

By: _____
Richard G. Beach
Assistant Secretary

DUKE ENERGY KENTUCKY, INC.

By: _____
Richard G. Beach
Assistant Secretary

MIAMI POWER CORPORATION

By: _____
Richard G. Beach
Assistant Secretary

KO TRANSMISSION COMPANY

By: _____
Richard G. Beach
Assistant Secretary

PROGRESS ENERGY, INC.

By: _____

CAROLINA POWER & LIGHT COMPANY D/B/A
PROGRESS ENERGY CAROLINAS, INC.

By: _____

FLORIDA POWER CORPORATION D/B/A PROGRESS
ENERGY FLORIDA, INC.

By: _____

PROGRESS ENERGY SERVICE COMPANY, LLC

By: _____