



139 East Fourth Street, R. 25 At II
P.O. Box 960
Cincinnati, Ohio 45201-0960
Tel: 513-419-1852
Fax: 513-419-1846
Rocco.D'Ascenzo@duke-energy.com

Rocco O. D'Ascenzo
Senior Counsel

VIA OVERNIGHT DELIVERY

March 13, 2009

Mr. Jeff Derouen
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 Mr. Derouen:

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 #6

[DE-Kentucky] commits to make an annual filing with the Commission that sets forth [DE-Kentucky's] CAIDI, SAIDI and SAIFI data for the previous year to enable the Commission to monitor [DE-Kentucky's] commitment that reliability and service quality will not materially degrade as a result of the merger. [DE-Kentucky] commits to report this data with and without the impact of major storms, or other major impacts, and to meet with, the Commission upon request to review the data in such reports.

DE-Kentucky Response:

Pursuant to Case No. 2006-00494 DE-Kentucky now includes this information

as part of its Annual Vegetation Management & Reliability Report filed contemporaneously with its March 31 Annual Report. DE-Kentucky provided the information on March 31, 2008 for 2007. DE-Kentucky will be filing the 2008 data on March 31, 2009.

Commitment #7

Following the merger, executive level personnel will continue to be based in the Cincinnati/Northern Kentucky area with direct responsibility for gas and electric operations matters in Kentucky. [DE-Kentucky] will file annual reports on the number of sustained outages (defined as having a duration of greater than five minutes) and the outage duration for the circuits at each substation. When Duke Energy's CEO has annual meetings with the Commission, gas and electric operations personnel will also be present to discuss service reliability issues.

DE-Kentucky Response:

See above explanation regarding the number of sustained outages. Duke Energy's CEO met with members of the Kentucky Public Service Commission on July 14, 2008. In attendance at the meeting from Duke Energy were Sandra P. Meyer, President of Duke Energy Kentucky, James E. Rogers, Chairman, President and CEO of Duke Energy Corp, James E. Mehring, Vice-President of Field Operations Midwest, Patricia K. Walker, Senior Vice-President Ohio and Kentucky Gas Operations, Keith Trent, Group Executive and Chief Strategist and Michael A. Gribler, General Manager, State Regulatory Affairs.

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.

DE-Kentucky Response:

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 is also performing an audit of Duke Energy Indiana, Inc.'s ("DE-Indiana") affiliate transactions covering calendar year 2007. The DE-Kentucky and DE-Indiana audits are being done at the same time because it will involve many of the same company employees. The audit began in February 2008. We are waiting for Liberty to complete the report for filing.

Commitment #18

Cinergy and Duke Energy commit to take an active and ongoing role in managing and operating [DE-Kentucky] in the interests of customers, employees, and the Commonwealth of Kentucky, and to take the lead in enhancing [DE-Kentucky's] relationship with the Commission, with state and local governments, and with other community interests, including, but not limited to,

meetings between Duke Energy's chief executive officer and the Commission at least once a year or more frequently if deemed necessary by the Commission.

DE-Kentucky Response:

Duke Energy's Chief Executive Officer met with the Commission on July 14, 2008.

Commitment #19

Applicants commit that, for a period of five years following the merger, [DE-Kentucky] will advise the Commission at least annually on the adoption and implementation of best practices at [DE-Kentucky] following the completion of the merger between Cinergy and Duke Energy.

DE-Kentucky Response:

In keeping with the policy of adopting and implementing best practices, Duke Energy Shared Services, Inc. merged with Duke Energy Business Services, Inc. on July 1, 2008. This merger will streamline business practices thereby creating more efficiency within services offered by Duke Energy Business Services, Inc. These services will not interfere with providing the necessary services to the regulated customers.

Commitment # 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 Response:

DE-Kentucky reports that, on February 19, 2009, Duke Energy Corporation filed with the Securities and Exchange Commission a Form S-3 Shelf Registration Statement to register the issuance of up to 15 million shares of its common stock through its dividend reinvestment plan, known as the InvestorDirect Choice Plan. The shelf

registration became effective upon filing and has a term of three years. DE-Kentucky will provide a copy of this Form S-3 Shelf Registration Statement upon request.

Commitment # 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 Response:


In 2008, Duke Energy charged to KY assets the sum of \$283,042.94 for EPRI membership and supplemental projects, an increase of 60% (\$106,071) over the 2007 expenses or an increase of 33% (\$70,723) over the estimated 2008 expenses.

The increase over the 2008 estimate is due to the fact that in August 2008, Duke Energy committed to five major demonstration projects over a period of three to five years related to Carbon Sequestration (three demonstrations), Energy Efficiency, and the Smart Grid. This represented an increase of \$91,217 for the KY assets as these projects were not included in the 2008 estimates. These projects were endorsed by the EPRI Board as necessary to accelerate the demonstration of technologies needed to reduce greenhouse gases and meet the future generation needs of America. These projects have been embraced and funded by the majority of largest EPRI members.

The Company estimates the R&D expenses that will be charged to KY assets for 2009 will be ~\$307,096, an increase of ~9% over the amount charged in 2008.

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,

A handwritten signature in black ink, appearing to read "Rocco D'Ascenzo", with a large, sweeping flourish extending to the right.

Rocco D'Ascenzo
Senior Counsel
Amy B. Spiller
Associate General Counsel

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