COMMONWEALTH OF KENTUCKY

BEFORE THE KENTUCKY PUBLIC SERVICE COMMISSION

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.	))))))))	**Case No. 2011-_____**

DIRECT TESTIMONY OF

JAMES E. ROGERS

ON BEHALF OF

JOINT APPLICANTS

April 4, 2011

TABLE OF CONTENTS

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is James E. Rogers, and my business address is 526 South Church Street, Charlotte, North Carolina 28202.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by Duke Energy Business Services, LLC ("DEBS"), as Chairman, President and Chief Executive Officer of Duke Energy Corporation ("Duke Energy"). DEBS also provides various administrative and other services to Duke Energy Kentucky, Inc. ("Duke Energy Kentucky") and other affiliated companies of Duke Energy. I am also a Director and Chief Executive Officer of Duke Energy Kentucky.

Q. PLEASE BRIEFLY DESCRIBE YOUR EDUCATION AND PROFESSIONAL EXPERIENCE.

A. I received a bachelor's degree in Business Administration (1970) and a law degree (1974) from the University of Kentucky. I became President and Chief Executive Officer of Duke Energy in April 2006, after the merger of Duke Energy and Cinergy Corp. ("Cinergy"). Prior to the Duke Energy/Cinergy merger, I served as Chairman and Chief Executive Officer of Cinergy. I became Vice Chairman, President and Chief Operating Officer of Cinergy in October 1994, and I became Chief Executive Officer in 1995. Prior to the formation of Cinergy, I was Chairman and Chief Executive Officer of PSI Energy, Inc. and PSI Resources, Inc., the parent company of PSI Energy, Inc. Before coming to PSI Energy, Inc. in October of 1988 as Chief Executive Officer, I was Executive Vice

President of the gas pipeline group of Enron Corp., and President of Enron's interstate gas pipeline companies from 1985 to 1988. From 1979 to 1981 and from 1983 to 1985, I was in private law practice in Washington, D.C., with the law firm of Akin, Gump, Strauss, Hauer & Feld. During that time, I represented natural gas pipelines, gas producers and electric utilities before the Federal Energy Regulatory Commission ("FERC") and various federal courts. From 1981 to 1983, I was Deputy General Counsel for litigation and enforcement at the FERC. In that position, I directed FERC's litigation efforts in cases involving electric rates, hydroelectric licensing, gas producer and gas pipeline rates. I began my career with the Kentucky Attorney General's Office representing consumer interests in utility cases.

Q. PLEASE DESCRIBE YOUR PROFESSIONAL AFFILIATIONS.

A. I am a past Chairman for and served on the Executive Committee of the Edison Electric Institute. I also serve on the boards of the U.S. Chamber of Commerce, Business Roundtable, and the National Coal Council. I was previously on the board of the American Gas Association. I am a former Co-Chair of the Energy Efficiency Action Plan Leadership Group (the "Leadership Group"), formed by the U.S. Department of Energy and the U.S. Environmental Protection Agency ("EPA") and approximately fifty leading electric and gas utilities, state utility commissioners, state air and energy agencies, energy service providers, energy consumers, and energy efficiency and consumer advocates. The Leadership Group was formed to drive an aggressive new national commitment to energy efficiency. I am also a former Co-Chair of the Alliance to Save Energy. I am a

Director for Applied Materials, Inc. and Cigna Corporation. I also am a member of the boards of directors of the Nuclear Energy Institute, the Institute of Nuclear Power Operations, the Alliance to Save Energy, and the Nicholas Institute for Environmental Policy Solutions at Duke University.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. Although the Kentucky Public Service Commission ("Commission") is already familiar with Duke Energy, I offer a brief description of Duke Energy as it exists today. The focus of my testimony will be upon the strategic rationale behind the proposed merger of Duke Energy and Progress Energy, Inc. ("Progress Energy") and the benefits of the merger for all stakeholders – customers, investors, communities and employees. This merger will result in immediate efficiencies resulting from fuel cost savings and joint dispatch opportunities achieved throughout the enterprise. The net efficiencies of this merger will be realized by customers in normal rate proceedings and will mitigate anticipated future rate increases. I will also explain the proposed transaction and discuss the successes of the various past mergers involving Duke Energy Kentucky.

Q. PLEASE BRIEFLY OUTLINE THE REMAINDER OF THE JOINT APPLICANTS' PRE-FILED TESTIMONY.

A. Joint Applicants present the testimony of several witnesses who will show that the proposed merger is in accordance with law, for a proper purpose, is consistent with the public interest, will not adversely affect Duke Energy Kentucky or its stakeholders and that the post-merger Duke Energy will continue to possess the

financial, technical and managerial abilities to allow Duke Energy Kentucky to provide reasonable service.

Now let me introduce the other witnesses offering direct testimony in this matter. First, Joint Applicants present the testimony of Mr. William D. Johnson, the current Chairman, President and Chief Executive Officer of Progress Energy. Mr. Johnson will introduce Progress Energy to the Commission. As the future President and Chief Executive Officer of Duke Energy following the consummation of the merger, Mr. Johnson will also describe Duke Energy's future leadership team and its financial, technical and managerial ability to own and operate Duke Energy Kentucky and to provide reasonable service for customers. He also describes Progress Energy's philosophy regarding corporate governance and its commitment to system reliability, customer service, economic development, community investment, its workforce and environmental stewardship.

Next, Ms. Julia S. Janson, the President of Duke Energy Kentucky and Duke Energy Ohio, Inc. ("Duke Energy Ohio"), will testify regarding the impact of the merger on Duke Energy Kentucky and its stakeholders. Ms. Janson's testimony will discuss the importance of regulatory commitments in consolidations such as this and will describe those regulatory commitments put in place as a result of the Duke Energy/Cinergy merger that should continue to apply following this merger. She will also describe how the post-merger Duke Energy will continue to have the financial, managerial and technical expertise to own and operate Duke Energy Kentucky and to provide reasonable service for customers.

She will also explain the regulatory approvals that are being sought as part of the merger in order to demonstrate that the transaction is in accordance with law, for a proper purpose and in the public interest.

The testimony of William Don Wathen Jr., Vice President for Rates of Duke Energy Kentucky and Duke Energy Ohio, will discuss Duke Energy Kentucky's current electric and natural gas rates. He will also explain how the proposed merger will not adversely affect the rates of Duke Energy Kentucky and how its customers are likely to see savings in future base rate proceedings. Mr. Wathen will discuss four of the affiliate company service agreements that will be amended as a result of the merger and that are submitted for the Commission's approval as part of the Joint Applicants' application.

Next, Stephen De May, Senior Vice President of Investor Relations and the Treasurer of Duke Energy, will provide testimony on how the post-merger Duke Energy will continue to have the financial ability to own and operate Duke Energy Kentucky. He will describe the financial objectives of Duke Energy Kentucky and identify several safeguards that will prevent the merger from having any adverse impact upon Duke Energy Kentucky's financial condition. He will also describe the reverse stock split that is occurring as part of this transaction in greater detail and address the change to the Utility Money Pool Agreement that is submitted for the Commission's approval as part of the Joint Applicants' application.

After that, Jim L. Stanley, the Senior Vice President of Power Delivery for Duke Energy's U.S. Franchised Electric and Gas ("USFE&G") Business, which

includes Duke Energy Kentucky, will give testimony on the technical aspects of Duke Energy Kentucky. Mr. Stanley's testimony will discuss the current operational characteristics of Duke Energy Kentucky and provide an explanation as to why the proposed transaction will not adversely impact Duke Energy Kentucky or its stakeholders from an operational perspective. Mr. Stanley will explain why the post-merger Duke Energy will have the requisite technical ability to continue to allow Duke Energy Kentucky to provide safe and reliable utility service.

Finally, Danny Wiles, the Vice President of Accounting for our USFE&G Business will offer testimony regarding accounting issues related to the transaction. In particular, he will describe how this transaction is significantly different than the merger of Duke Energy and Cinergy as it relates to Duke Energy Kentucky's accounting. The result of this difference is that Duke Energy Kentucky will not be subject to "push-down" accounting as a result of the completion of the merger.

II. DUKE ENERGY CORPORATION

Q. PLEASE DESCRIBE DUKE ENERGY CORPORATION AS IT EXISTS TODAY.

A. Duke Energy is a diversified energy company with a portfolio of electric and natural gas businesses, both regulated and unregulated. For the Commission's convenience and reference, we have attached Duke Energy's 2010 Annual Report as Exhibit A to the Joint Applicants' application. Duke Energy is organized and

existing under the laws of the State of Delaware and is headquartered in Charlotte, North Carolina. Duke Energy currently has approximately 18,600 employees. As of December 31, 2010, Duke Energy had 35.4 GW of generating capacity in the United States, $59.09 billion in total assets, four million retail electric customers, 500,000 gas customers and $14.2 billion in revenue. A detailed list of Duke Energy's generating facilities has been attached to the Joint Applicants' application as Exhibit B. As of December 31, 2010, Duke Energy has an equity to debt ratio of 55:45 and a credit rating of A- from S&P and Baa1 from Moody's.

Duke Energy conducts its business principally through three business segments: USFE&G, Commercial Power and International Energy. USFE&G generates, transmits, distributes and sells electricity in northern Kentucky through Duke Energy Kentucky, in central and western North Carolina and western South Carolina through Duke Energy Carolinas, in southwestern Ohio through Duke Energy Ohio, and in central, north central and southern Indiana through Duke Energy Indiana. USFE&G also transports and sells natural gas in northern Kentucky through Duke Energy Kentucky and in southwestern Ohio through Duke Energy Ohio. The substantial majority of USFE&G's operations are regulated by the FERC, the North Carolina Utilities Commission, the South Carolina Public Service Commission, the Public Utilities Commission of Ohio, the Indiana Utility Regulatory Commission and this Commission.

Duke Energy Carolinas is a limited liability company organized and existing under the laws of the State of North Carolina with its headquarters in Charlotte, North Carolina. Duke Energy Carolinas and its predecessors have

provided safe, reliable and reasonably priced electric utility service in North Carolina and South Carolina for over 100 years.

Duke Energy owns its Midwest utilities through its wholly owned subsidiary Cinergy Corp. Cinergy is a corporation organized and existing under the laws of the State of Delaware with its headquarters in Cincinnati, Ohio. Cinergy is the owner of Duke Energy Indiana and Duke Energy Ohio. Duke Energy Ohio is organized and existing under the laws of Ohio and is also headquartered in Cincinnati, Ohio. Duke Energy Ohio is the sole owner of Duke Energy Kentucky, a Kentucky corporation.

Duke Energy's Commercial Power business owns, operates and manages power plants and engages in the wholesale marketing and procurement of electric power. Commercial Power also has a retail sales subsidiary, Duke Energy Retail Sales ("DERS"), which is certified by the Public Utility Commission of Ohio as a Competitive Retail Electric Service provider in Ohio. DERS serves retail electric customers in southwest, west central and northern Ohio with energy and other energy services at competitive rates. Through Duke Energy Generation Services, Inc. ("DEGS"), Commercial Power also develops, owns and operates electric generation for large energy consumers, municipalities, utilities and industrial facilities. DEGS currently manages 4,440 MW of power generation at 28 facilities throughout the United States. In addition, DEGS engages in the development, construction and operation of renewable energy projects. Currently, DEGS has over 5,000 MW of renewable energy projects in the development pipeline with

1,002 net MW of renewable generating capacity in operation as of December 31, 2010.

International Energy principally owns, operates and manages power generation facilities, and engages in sales and marketing of electric power and natural gas outside the United States. It conducts operations primarily through Duke Energy International, LLC and its activities target power generation in the Central and South American countries of Argentina, Brazil, Ecuador, El Salvador, Guatemala and Peru. Through its wholly-owned subsidiary Aguaytia Energy del Perú S.R.L. Ltda. and its equity investment in National Methanol Company, which is located in Saudi Arabia, International Energy also engages in the production of natural gas liquids, methanol and methyl tertiary butyl ether.

III. THE PROPOSED TRANSACTION

Q. PLEASE DESCRIBE THE PROPOSED MERGER TRANSACTION.

A. Upon completion of the merger, Diamond Acquisition Corporation, a wholly owned subsidiary of Duke Energy formed for the purpose of effecting the merger, will merge with and into Progress Energy. Progress Energy will be the surviving corporation in the merger and will thereby become a whollyowned subsidiary of Duke Energy.

Under the terms of the Agreement and Plan of Merger ("Merger Agreement"), Progress Energy shareholders will receive 2.6125 shares of Duke common stock for each share of Progress Energy common stock they own upon the closing of the transaction. This exchange ratio will be adjusted to 0.87083

shares of Duke Energy stock for each Progress Energy share, to account for a one-for-three reverse stock split to be effected by Duke Energy in connection with the closing of the transaction, as further described in the Merger Agreement. Progress Energy common stock owned by Duke Energy or Progress Energy (other than in a fiduciary capacity) will not be included in the exchange. Such stock will automatically be canceled and retired. This exchange ratio will be adjusted proportionately to reflect a one-for-three reverse stock split with respect to Duke Energy common stock that the Merger Agreement contemplates Duke Energy will implement prior to the completion of the merger. The exchange ratio will not be adjusted to reflect stock price changes prior to closing of the merger. Duke Energy shareholders will continue to hold their existing Duke Energy shares, adjusted for the reverse stock split with respect to Duke Energy common stock. Upon completion of the merger, Duke Energy's existing shareholders will own approximately 63% of the outstanding shares of the post-merger Duke Energy and Progress Energy's existing shareholders will own approximately 37% of the outstanding shares of the post-merger Duke Energy.

The merger was unanimously approved by the Boards of Directors of Duke Energy at a meeting held on January 8, 2011, and of Progress Energy at a meeting also held on January 8, 2011. Until the merger has received all necessary approvals and has closed, the companies will continue as separate entities. The companies are targeting a closing by the end of 2011, subject to receipt of the necessary shareholder and regulatory approvals discussed in the Merger

Agreement, although neither company can assure completion of the merger by any particular date.

For the Commission's reference, attached to the Joint Applicants' application are a copy of the Merger Agreement as Exhibit E, a copy of the post-merger corporate organization chart as Exhibit F and a copy of the post-merger map of Duke Energy's service territories as Exhibit H.

Q. HOW WILL THE BOARD OF DIRECTORS OF THE POST-MERGER DUKE ENERGY BE DETERMINED?

A. Upon the completion of the merger, both I and Mr. Johnson will serve on the Board of Directors of Duke Energy, which at that time will be comprised of 18 members, with 11 (including myself) designated by Duke Energy and 7 (including Mr. Johnson) designated by Progress Energy.

Q. HOW WILL DUKE ENERGY'S CORPORATE HEADQUARTERS BE AFFECTED BY THE MERGER?

A. Duke Energy will continue to be headquartered in Charlotte, North Carolina after the merger and is expected to maintain substantial operations in Raleigh, North Carolina, where Progress Energy is headquartered.

Q. WILL DUKE ENERGY KENTUCKY'S CORPORATE HEADQUARTERS BE AFFECTED BY THE MERGER?

A. No. Nothing will change with regard to Duke Energy Kentucky's corporate headquarters.

Q. WHAT WILL BE YOUR ROLE FOLLOWING THE MERGER?

A. Upon completion of the merger, I will serve as the Executive Chairman of the Board of Directors of Duke Energy. Among other things, I will be responsible for conducting board meetings, assisting in setting the board's agenda and supporting the board selection process. I will also provide input on public policy positions and be the spokesman for Duke Energy on national and international public policy initiatives. Mr. Johnson, the current Chairman, President and Chief Executive Officer of Progress Energy, will serve as the President and Chief Executive Officer of Duke Energy upon the completion of the merger. Exhibit B to the Merger Agreement (tendered as Exhibit E to this Application) outlines the respective roles of Mr. Johnson and me in the new company.

Q. WHAT IMPACT WILL THE MERGER HAVE ON THE MANAGEMENT TEAM AND EMPLOYEES OF DUKE ENERGY?

A. Upon completion of the merger, Duke Energy will continue to have a highly experienced leadership team. In his testimony, Mr. Johnson will identify these individuals and provide a brief summary of their experience and backgrounds. Unlike many mergers, the efficiencies associated with this transaction are not primarily based upon labor reductions. Over time, Duke Energy and Progress Energy expect their combined workforces to be reduced when compared to continued operations as unaffiliated companies. However, a large portion of these reductions are expected to be achieved through normal retirements and employee attrition rather than through forced layoffs.

Q. WHAT IMPACT WILL THE MERGER HAVE ON THE MANAGEMENT TEAM AND EMPLOYEES OF DUKE ENERGY KENTUCKY?

A. The merger will have no adverse impact upon the management team and employees of Duke Energy Kentucky. The current Duke Energy Kentucky management team will remain in place (subject to normal promotional or developmental reassignments) and there are no anticipated reductions in employees of Duke Energy Kentucky attributable to the merger.

IV. STRATEGIC RATIONALE FOR THE MERGER AND STAKEHOLDER BENEFITS

Q. WHAT IS DUKE ENERGY'S STRATEGIC RATIONALE FOR MERGING WITH PROGRESS ENERGY?

A. There are several compelling strategic reasons why this merger is in the best interest of Duke Energy, Progress Energy and their respective stakeholders. I will be happy to summarize the strategic rationale for the merger and then discuss how each category of stakeholders will benefit as a result.

Value in Creating the Largest Utility in the United States

This transaction will create the largest utility in the United States supported by substantial regulated earnings and cash flows. Upon completion of the merger, Duke Energy will serve approximately 7.1 million domestic regulated retail electric customers in Kentucky, Ohio, Indiana, North Carolina, South Carolina and Florida. It will also serve approximately 500,000 retail gas customers in Kentucky and Ohio. The post-merger Duke Energy will have more than 57.2 GW of total generation capacity. This capacity will come from a

diversified portfolio of resources, including: coal – 42%; gas/oil – 35%; nuclear – 16%; and hydro/wind – 7%.

In all, and as of December 31, 2010, the post-merger Duke Energy will have $97 billion in total assets; $24.4 billion in total revenue; and a market capitalization of approximately $36.5 billion. The post-merger Duke Energy will be number one in enterprise value, market capitalization, number of electric customers, generation capacity, total assets and rate base. We will have an unmatched financial and operational scale, scope and strength. Because most of its earnings are derived from regulated businesses, Duke Energy's dividend will be well supported and its operating cash flows will be steady.

Leveraging of "Best-in-Class" Operational and Customer Service Practices

But being the largest utility does not matter in and of itself – it is whether our increased scale permits us to provide, better, more reliable, affordable and cleaner energy. We believe it will. The merger will allow Duke Energy and its stakeholders to enjoy the benefits of leveraging the "best-in-class" operational and customer service practices of both the existing Duke Energy and Progress Energy. We will thoroughly review the processes of both companies to identify the behaviors and practices that foster the best possible service for customers and the greatest value to investors. In light of the successful track records of both Duke Energy and Progress Energy in integrating large corporations and their operations, the post-merger Duke Energy will be able to maximize the best practices of both companies to sustain and increase its operational efficiency and customer service expertise.

Enhanced Industry Leadership and Involvement in Public Affairs

Both Duke Energy and Progress Energy have demonstrated a solid commitment to the continual betterment of the utility industry and an active involvement in public affairs. As a combined entity, these efforts will continue as the post-merger Duke Energy assumes a larger role in helping to shape the utility industry and to contribute to the development of federal and state energy policies.

The post-merger Duke Energy will be well positioned to lead within the utility industry during a period of momentous change. Duke Energy has established itself as a leading voice on important issues such as the smart grid and energy efficiency, renewable power, climate change, sustainability and economic development. Following the merger, Duke Energy will continue to listen, learn and lead on these issues.

Because of the depth of our leadership team, Duke Energy will be in an even better position to help shape energy policy at the federal and state levels. As an enterprise, the post-merger Duke Energy will have an extraordinary depth of knowledge and expertise on how to provide clean, safe and reliable utility service to our customers at affordable rates. That knowledge and expertise is an important resource to policymakers who must confront challenging issues affecting our industry. As an example, I would point out the success that we have seen from the Envision Center in Erlanger, Kentucky. We have been able to use that state-of-the-art facility to give policymakers and community leaders from throughout the region a glimpse of what is possible in our industry and a better idea of how our company is committed to the communities we serve. With a solid

management team in place to operate and manage our businesses, my role as Executive Chairman will enable Duke Energy to provide a critically important perspective on the important policy questions that will be decided over the course of the next few years.

I would be remiss if I did not also point out all the partnerships that we have forged over the decades. Duke Energy is currently either a partner with or a member in the following organizations: The Alliance to Save Energy, The Aspen Institute, Business for Social Responsibility, Business Roundtable, The Climate Group, Clinton Global Initiative, Committee Encouraging Corporate Philanthropy, Corporate Eco Forum, The Conference Board, e8, Electric Drive Transportation Association, Electric Power Research Institute, Electric Utility Industry Sustainable Supply Chain Alliance, Forest Health Initiative, Institute for Electric Efficiency, Keystone Center, The Nature Conservancy, The Pew Center's Business Environmental Leadership Council, ORC Worldwide Occupational Safety and Health Group, Resources for the Future, United States Climate Action Partnership, World Business Council for Sustainable Development, and the World Economic Forum. These partnerships offer a broad array of perspectives, expertise and knowledge which Duke Energy has been able to draw upon and contribute to. The merger with Progress Energy will allow us to further leverage these partnerships – plus those that Progress Energy has also forged – in a manner that will benefit our stakeholders.

Stability for Stakeholders

Although the utility industry is in the midst of a period of great uncertainty, this merger will give greater stability to our stakeholders. Based upon our adjusted Earnings Before Interest and Tax ("EBIT") for 2010, approximately 88% of Duke Energy's post-merger EBIT will be derived from our regulated businesses. Although we take nothing for granted, one of the benefits of a regulated business environment is the long-term predictability that it offers. From the standpoint of customers and investors, this stability will be attractive and offer value in and of itself. Further, as the largest utility in an industry that many expect to demonstrate further consolidation in order to achieve many of the advantages described in our application, it is much less likely that the combined company will be acquired by another. Such stability also is beneficial to our stakeholders.

Q. PLEASE PROVIDE AN OVERVIEW OF EXPECTED BENEFITS TO STAKEHOLDERS FROM THE PROPOSED MERGER.

A. Each of our stakeholders – customers, investors, communities and employees – will benefit from this transaction. I will be happy to discuss these benefits as they relate to each category of stakeholder.

Q. HOW WILL THE PROPOSED MERGER BENEFIT CUSTOMERS?

A. This merger will benefit customers by giving them meaningful operational efficiencies, improved generation efficiencies and a continued commitment to delivering clean, affordable and reliable energy. Let me elaborate on each of these points.

First, it is anticipated that upon the actual integration of Duke Energy and Progress Energy and their service companies, cost savings opportunities will be created. Although no assurance can be given that any particular level of cost efficiencies will be achieved, we believe that significant net efficiencies will be realized from corporate activities, the regulated utilities and the unregulated businesses of the combined company. The savings recognized in the regulated businesses should benefit customers over time through normal rate-making proceedings, and mitigate anticipated rate increases.

Second, upon completion of the merger, Duke Energy will remain committed to developing clean, affordable and reliable energy resources for our customers. As our generation portfolio becomes more diversified, customers will enjoy the benefits of cleaner resources without jeopardizing affordability or reliability in a way that smaller utilities would have difficulty doing. The size, scope and scale of the post-merger Duke Energy will greatly benefit customers.

Third, the combination of our operational resources will improve our ability to timely and efficiently respond to outages caused by weather or disaster throughout the entire Duke Energy footprint, including Kentucky. In light of the windstorms, ice storms and hurricane remnants that have moved through Northern Kentucky in recent years, this is an especially tangible benefit of the merger.

As it relates to Duke Energy Kentucky, the geographical diversity of the Duke Energy Kentucky and the Progress Energy service territories presents a challenge in realizing benefits associated with increased fuel procurement and dispatch efficiencies; however, the ability to share knowledge and experience, to

pool resources and to achieve cost savings over time are tangible benefits that will inure to the benefit of Duke Energy Kentucky's customers.

Q. HOW WILL THE PROPOSED MERGER BENEFIT INVESTORS?

A. The merger will make Duke Energy a stronger and more flexible company financially, which will have the effect of attracting investment and offering long-term growth. When you consider what the combined balance sheet of the post-merger Duke Energy will look like, you know that it will be financially strong. The fact that the companies' earnings will be accretive in year one also is an indication that the transaction will add value to the post-merger Duke Energy in an immediate sense. Over the long-term, Duke Energy expects to realize adjusted diluted earnings per share growth of approximately 4-6%. Again, because a larger proportion of our earnings will be realized through regulated businesses, our cash flows should be stable and our overall business risk reduced.

Each of the regulatory environments in which we operate are respected for its consistency, which is an important variable in determining a regulated utility's credit profile. With a strong balance sheet reflecting $97 billion in total assets, stable earnings and cash flow comprising approximately 88% of the company's earnings, and a constructive regulatory environment, Duke Energy's credit profile will remain strong. This will assure that Duke Energy continues to enjoy broad and reliable access to capital markets and liquidity, which is very important given the significant amounts of capital we need to modernize our generation and power delivery facilities and to meet increasing environmental requirements.

This financial strength also should allow Duke Energy to maintain its current dividend and dividend policy. We anticipate that there will be continued growth in Duke Energy's dividend at a rate slower than growth of its adjusted earnings per share. Duke Energy will continue to target a long-term payout range of 65% - 70% based upon the adjusted diluted earnings per share. This is an attractive payout and yield, which underscores the compelling shareholder value proposition. Duke Energy and Progress Energy have, respectively, achieved 84- and 65-year histories of consecutive quarterly cash dividend payments.

Finally, I would point out that Duke Energy will be poised for strong growth in the years to come – particularly as the economy recovers from recent challenges. For all the reasons I have outlined, we believe that this merger will result in a company with much to offer investors.

Q. HOW WILL THE PROPOSED MERGER BENEFIT COMMUNITIES?

A. Supporting the health and welfare of our communities is directly tied to Duke Energy's commitment to sustainability. In essence, we believe that the decisions we make today will determine our long-term prospects as a company. One of those decisions is to ensure that our communities have the resources and support they need to thrive, now and well into the future.

One way we sustain our communities is through the Duke Energy Foundation. The Foundation allows Duke Energy to directly impact the quality of life in our communities by sharing our time through volunteer efforts, our expertise through leadership and our financial support through grants to charitable organizations. Thousands of employees and retirees give their time to charities

across our regions each year. To support their efforts, Duke Energy created Volunteers In Action, an on-line database where employees can submit, search and sign up for volunteer opportunities across our service territory. Volunteers In Action also offers year-round volunteer grants for "sweat equity" projects completed by employees, and board leadership grants for employees and retirees who serve on the board of directors of qualifying organizations. In addition, the Duke Energy Foundation has a matching gifts program for financial contributions made by employees and retirees to non-profit organizations. In addition, our annual Global Service Event ("GSE") is at the heart of our support for volunteerism. Since 1997, employees' and retirees' grassroots participation has provided leadership, volunteers and project management to countless nonprofit organizations in our communities. Through a GSE page on Duke Energy's internal website, employees can lead projects or sign up to volunteer. The company also offers grants to buy supplies and equipment for qualifying projects. In 2009, Duke Energy and its Foundation contributed more than $28 million to our communities, and more than 5,000 employees and retirees participated in approximately 700 community service projects.

Duke Energy has earned recognition for its support for the arts from the Business Committee for the Arts, which named Duke Energy as one of the top ten companies in the country for exceptional involvement in the arts. Criteria includes grants issued, volunteer programs, matching gifts, local partnerships, sponsorships and board memberships.

While these are company-wide charitable, philanthropic and volunteer initiatives, Duke Energy Kentucky also has its own established programs to improve the Northern Kentucky region. Although Ms. Janson will discuss these programs in more depth, I want to mention that Duke Energy Kentucky sponsors several environmental, educational and community programs.

In addition to our charitable and community activities, Duke Energy and Duke Energy Kentucky are both leaders on economic development initiatives that also strengthen the communities we serve. In 2009, *Site Selection* magazine once again named Duke Energy to its annual list of top ten utilities in economic development, based upon our performance in 2008. Criteria included jobs created per 10,000 in population, capital investment per capita and the utilities that own investment in new generation, transmission and renewable energy projects.

Upon completion of the merger, Duke Energy's commitment to our communities will not waiver. Though we will be serving more communities than what Duke Energy currently serves, we will be doing so with the aid of the resources of Progress Energy – which has its own proven track record of community service. Northern Kentucky has long been a beneficiary of Duke Energy Kentucky's community initiatives and economic development efforts, as well as the Duke Energy Foundation's charitable endeavors. This merger will not change that.

Q. HOW WILL THE PROPOSED MERGER BENEFIT EMPLOYEES?

A. The merger will benefit employees by again allowing us to leverage best-in-class practices, pool resources and solidify our companies' mutual commitments to

safety and diversity. Mr. Johnson will explain in his testimony how Progress Energy has been able to promote a very favorable working environment for its employees and the values that Progress Energy instills in its employees. These values and commitments reflect what we have done at Duke Energy and I am confident that upon the completion of the merger, all the employees of Duke Energy will be seamlessly integrated into one company.

Q. WHAT IS DUKE ENERGY'S APPROACH TO SUSTAINABILITY AND HOW WILL THE MERGER AFFECT THAT APPROACH?

A. Sustainability is an important aspect of our business at Duke Energy. In 2009, Duke Energy was named to the Dow Jones Sustainability Index for North American companies for the fourth consecutive year. We focus our efforts to become a more sustainable company in five key areas: 1) providing innovative products and services for a carbon-constrained, competitive world; 2) reducing our environmental footprint; 3) attracting and retaining a diverse, high-quality workforce; 4) helping build strong communities; and 5) being profitable and demonstrating strong governance and transparency. Let me elaborate on each point.

- **Innovative Products & Services** – Necessity is the mother of invention and we need to deliver energy to our customers that is reliable, affordable and increasingly clean. As a result, we are constantly designing and developing innovative new products and services that help us reduce our impact on the environment and provide customers with ways to "go green" and save money.

- **Environmental Footprint** – As one of the largest electric service providers in the United States, we know our operations have a big impact on the environment. We also recognize our special responsibility to be part of the solution to global climate change. To do this, we are working to reduce our eco-footprint by modernizing our generation fleet; pursuing the development of new nuclear stations; investing heavily in renewable energy and smart grid technology; and pioneering new programs and offers to help our customers become more energy efficient. We have received awards from groups such as Green Energy Ohio, the South Carolina Wildlife Foundation and the National Wild Turkey Federation for our environmental leadership.
- **High-Quality Workforce** – The link between strategy and results is people. We believe an engaged workforce is fundamental to making progress on our sustainability goals. Our employees thoroughly understand our business and industry, which is why we are looking to them for creative solutions to some of our biggest sustainability challenges. We seek to strengthen our workforce by: maintaining our focus on safety as a top priority; providing employees with year-round training opportunities to develop their skills and leadership ability; and recruiting talented individuals with diverse experiences, backgrounds and perspectives.

- **Strong Communities** – Our success is tied directly to the prosperity of the communities we serve. We therefore work with economic development officials in our five-state retail service territory to help attract new industry, commerce and jobs. As already explained, Duke Energy also supports our communities through volunteerism, civic leadership, and funding for charitable programs and organizations.
- **Governance and Transparency** – Strong corporate governance, transparency, and clear, credible communications are the keys to earning and maintaining our stakeholders' trust. Adherence to our Code of Business Ethics helps ensure that we perform our responsibilities with integrity. Being forthright about critical issues related to our business serves to keep our stakeholders well informed. For instance, you will find candid assessments of risks to our business model in our Sustainability Report. Communication is a two-way street, however. We believe being attuned to our stakeholders' viewpoints helps us refine our objectives and improve our long-term prospects for success.

As you can see, our commitment to being a sustainable company is an all-encompassing commitment to meet the needs of our stakeholders in a responsible way. This is a vision that we share with Progress Energy and so merging our two companies will enhance our ability to meet these objectives – not hinder them.

Q. WHY IS THE MERGER IN THE PUBLIC INTEREST?

A. For all the reasons I have discussed above, the merger is a strategic combination of two very dynamic and well-run companies that have similar business profiles and operating philosophies. Duke Energy has a proven track record in Kentucky of providing reliable and affordable electric and gas service to its customers. Progress Energy has demonstrated a similar track record. The new Duke Energy – the combination of the existing companies – is committed to operating all of its subsidiaries, including Duke Energy Kentucky, with the goal of sustainable and long-term growth for the benefit of those companies and their customers, employees, managers and community stakeholders. This merger is therefore very much in the public interest.

V. DUKE ENERGY KENTUCKY'S PAST MERGERS

Q. THIS IS NOT THE FIRST TIME THAT DUKE ENERGY KENTUCKY HAS BEEN INVOLVED IN A MERGER TRANSACTION. HOW WOULD YOU RATE THE SUCCESS OF THE PSI/CG&E MERGER AND THE DUKE ENERGY/CINERGY MERGER?

A. What is now Duke Energy Kentucky began as The Union Light Heat and Power Company ("ULH&P"). My association with ULH&P began when we created Cinergy in 1994 when ULH&P was a subsidiary of the Cincinnati Gas and Electric Company ("CG&E"). Over the next ten years, Cinergy's total shareholder return was 227.8%, which represented an annual average return of 12.7% to investors. During that same time period, Cinergy increased its assets by

84%, its operating income by 68% and its revenues by 62%. Cinergy's number of retail customers increased by 17% while its employee count decreased by 12%. As I testified during the course of the Duke Energy/Cinergy merger in 2005, "We are a larger, more efficient company providing greater value to all of our stakeholders." That is still true today.

Duke Energy Kentucky is an important part of the Northern Kentucky community. As corporate stewards, we respect that connection and honor Duke Energy Kentucky's tradition of serving the communities in that region. During my tenure, we have been able to restore Duke Energy Kentucky's ownership of generation capacity and seamlessly integrate it into a much larger enterprise. This has afforded Duke Energy Kentucky access to capital at rates more favorable than what it would likely have been able to obtain had it remained a stand-alone utility. In addition, the ability to tap the extensive financial, managerial and operational expertise of Cinergy and now Duke Energy has no doubt improved the quality of service for Duke Energy Kentucky's customers – as it has for all of our regulated businesses. In short, Duke Energy Kentucky has benefited directly from each of the prior mergers I have discussed. Although the benefits of this merger may seem more remote given the geographical diversity of Duke Energy Kentucky and Progress Energy, there are opportunities for Duke Energy Kentucky's stakeholders to benefit from this merger and I am confident that those opportunities will be realized.

VI. SUMMARY

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. The merger only indirectly affects the control of Duke Energy Kentucky and will not have any adverse impact upon Duke Energy Kentucky or its stakeholders. In fact, over the long-term, there will be several benefits arising from the merger, including: increased financial strength, greater access to capital and flexibility, adoption of "best-in-class" practices, cost savings resulting in lower rates than would otherwise be required, greater leadership within the industry and on policy issues, and stability. Customers, investors, communities and employees will all benefit from the transaction in the ways I have described.

For all the reasons stated in my testimony, the post-merger Duke Energy will possess the financial, technical and managerial abilities to allow Duke Energy Kentucky to provide reasonable gas and electric service to all its customers. The proposed merger and resulting indirect transfer of control is in accordance with law, for a proper purpose and consistent with the public interest.

Q. DOES THIS CONCLUDE YOUR PRE-FILED DIRECT TESTIMONY?

A. Yes.

VERIFICATION

State of North Carolina)
)
County of Mecklenburg)

SS:

The undersigned, James E. Rogers, Jr., being duly sworn, deposes and says that he is the Chairman, President and Chief Executive Officer of Duke Energy Corporation that he has personal knowledge of the matters set forth in the foregoing testimony, and that the answers contained therein are true and correct to the best of his information, knowledge and belief.

James E. Rogers, Jr., Affiant

Subscribed and sworn to before me by James E. Rogers, Jr. on this 25th day of March 2011.

DEBORAH K. BOLAN NOTARY PUBLIC MECKLENBURG COUNTY, NC

NOTARY PUBLIC

My Commission Expires: 10-2712

COMMONWEALTH OF KENTUCKY

BEFORE THE KENTUCKY PUBLIC SERVICE COMMISSION

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.	))))))))	**Case No. 2011-_____**

DIRECT TESTIMONY OF

WILLIAM D. JOHNSON

ON BEHALF OF

JOINT APPLICANTS

April 4, 2011

TABLE OF CONTENTS

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is William D. Johnson, and my business address is 411 Fayetteville Street Mall, P.O. Box 1551, Raleigh, North Carolina 27602-1551.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed as Chairman, President and Chief Executive Officer of Progress Energy, Inc. ("Progress Energy").

Q. PLEASE BRIEFLY DESCRIBE YOUR EDUCATION AND PROFESSIONAL EXPERIENCE.

A. I joined Progress Energy (then Carolina Power & Light) in 1992 and served in various capacities, including Group President for Energy Delivery, President and Chief Executive Officer of Progress Energy Service Company and General Counsel and Secretary for Progress Energy. In 2005, I became President and Chief Operating Officer of Progress Energy and then became Chairman and Chief Executive Officer on October 12, 2007. Prior to joining Progress Energy, I was a partner with the Raleigh office of Hunton & Williams, where I specialized in the representation of utilities. I also served as a law clerk to the Honorable J. Dickson Phillips, Jr. of the United States Court of Appeals for the Fourth Circuit. I graduated from Duke University summa cum laude with a bachelor's degree in history and received a law degree with high honors from the University of North Carolina at Chapel Hill in 1982.

Q. PLEASE DESCRIBE YOUR PROFESSIONAL AFFILIATIONS.

A. I currently serve on the boards and executive committees of the Edison Electric Institute ("EEI") and the Nuclear Energy Institute ("NEI"). I am also a member of the board of

directors of the Institute of Nuclear Power Operations ("INPO") and serve on boards of several other community and charitable organizations.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. I will introduce Progress Energy to the Commission and discuss the strategic, policy and financial reasons for the merger. I will also explain why the post-merger Duke Energy Corporation ("Duke Energy") will have the financial, technical and managerial ability to own and operate Duke Energy Kentucky and why the merger is in accordance with law, for a proper purpose and in the public interest.

II. PROGRESS ENERGY, INC.

Q. PLEASE TELL US ABOUT PROGRESS ENERGY.

A. The Carolina Power and Light Company – the forerunner to Progress Energy – was chartered by the state of North Carolina on July 13, 1908. Within the city of Raleigh, the company had 983 customers, base rates were $1 minimum per month and the first recorded kilowatt-hour charge was 15 cents. From those beginnings, the company grew both through consolidation with other power companies and through development in the communities we served. For the Commission's reference, I have attached a copy of *A Brief History of Carolina Power & Light Company* as Exhibit K-1 to my testimony. This was prepared in conjunction with the company's seventy-fifth anniversary in 1983.

Progress Energy took its current form in December 2000 following the completion of Carolina Power and Light's acquisition of Florida Progress, the parent company of Florida Power. Following the completion of that merger, we were a diversified energy company with more than 21,800 megawatts of generation capacity and

$8 billion in annual revenues. Progress Energy also included non-regulated operations (Progress Energy Ventures) that engaged in merchant generation, energy marketing and trading; fuel extraction (Progress Energy Fuels); rail services (Progress Rail); and broadband capacity (Progress Telecom). Since that merger, Progress Energy has divested all its non-regulated operations and operates exclusively as a regulated provider of electric services to customers in North Carolina, South Carolina and Florida. The Company remains strong both financially and operationally. I'll talk more about that later in my testimony, but for now I would point out that Progress Energy's 2010 Annual Report is attached to the Joint Applicants' application as Exhibit C.

Q. DESCRIBE PROGRESS ENERGY'S CORPORATE STRUCTURE AND ORGANIZATION.

A. Progress Energy has two utility subsidiaries – Progress Energy Carolinas, Inc. ("PEC") and Progress Energy Florida, Inc ("PEF"). PEC is subject to rate and service regulation in North Carolina and South Carolina and PEF is subject to rate and service regulation in Florida. In addition, we have a service company, Progress Energy Services Company, LLC ("PESC") which provides a range of services to Progress Energy and its affiliates.

Q. DESCRIBE PROGRESS ENERGY'S CORPORATE GOVERNANCE.

A. Progress Energy has a long-standing commitment to the highest standards of integrity, accountability and board of director independence. Our board of directors oversees and directs our company on our shareholders' behalf, and the company works to balance those needs with the interests of customers, employees, regulators, elected officials and the communities we serve. We have adopted a set of Corporate Governance Guidelines to document the board's responsibilities, structure and internal practices.

I am the Chairman of the board of directors. Including me, Progress Energy currently has fourteen directors who bring a vast amount of experience and diversity of perspectives to the boardroom. Our directors have backgrounds in the transportation, manufacturing, banking, financial services, human resources and nuclear industries. Two of our directors have held significant leadership positions at the Massachusetts Institute of Technology and the Kenan-Flagler Business School at the University of North Carolina. One of our directors was a former United States Senator and cabinet secretary. Independence is ensured through the appointment of a lead director and the fact that of our 14 directors, 13 qualify as "independent" under SEC and New York Stock Exchange rules (as CEO, I am the only director who is not independent).

In addition, we maintain a rigorous corporate ethics program that promotes and enforces doing the right thing, whether it relates to our financial statements and business practices or the workplace behaviors of individual employees. Regulators, elected officials, community leaders, customers, competitors, investors, the news media and advocacy groups all pay close attention to what we do and how we do it – and we strive to maintain the trust and confidence that they have in us. Our Code of Ethics identifies principles and standards of conduct that all employees, contractors and members of the board of directors are expected to follow. Employees have the opportunity to direct questions and suspected violations to their supervisor, Human Resources or a confidential, 24-hour ethics phone line.

Q. DESCRIBE PROGRESS ENERGY'S CURRENT FINANCIAL CONDITION AND ITS PHILOSOPHY OF FINANCIAL MANAGEMENT.

A. As of December 31, 2010, Progress Energy had an enterprise value of $25.1 billion, a market capitalization of $12.8 billion, total assets of $32.7 billion and revenues of $10 billion. As of December 31, 2010, we had cash and cash equivalents of approximately $600 million and available credit facilities of $2 billion, giving us a total liquidity of approximately $2.6 billion. Our debt to total capital ratio is 56% as of December 31, 2010 and Progress Energy, Inc. is currently rated by the major rating agencies as follows: S&P (Corporate Credit Rating) – BBB+/CreditWatch Positive; Moody's (Senior Unsecured Debt Rating) – Baa2/Stable; and Fitch (Issuer Default Rating) – BBB/Stable. Due to stable and consistent earnings, we have paid quarterly dividends for sixty-five consecutive years.

Our cost-management strategy is well-tailored to address changing economic realities. One major initiative is our Continuous Business Excellence program, which has as a goal the generation of 3-5% efficiency and productivity gains each year. Within our Power Operations Group alone, we identified more than $46 million in savings and more than 36,000 labor hours of potential savings.

We are pleased with the track record we have established for managing Progress Energy and assuring that it remains financially strong.

Q. DESCRIBE PROGRESS ENERGY'S OPERATIONS IN THE CAROLINAS AND FLORIDA.

A. As I mentioned earlier, PEC is the regulated utility that provides retail electric service in the Carolinas. Its service territory encompasses approximately 34,000 square miles and includes much of the eastern half of North Carolina, the northeastern quadrant of South Carolina and the Asheville area in western North Carolina. PEC is divided into four

regions – the Northern Region, Eastern Region, Southern Region and Western Region. It maintains more than 70,000 miles of distribution and transmission lines in order to provide service to approximately 1.5 million customers and a population of more than 4 million individuals.

PEF is the regulated utility that provides retail electric service in Florida. Its service territory spans approximately 20,000 square miles in central Florida, including the cities of St. Petersburg, Clearwater and Orlando. PEF is also divided into four regions – the South Coastal Region, the North Coastal Region, the North Central Region and the South Central Region. PEF maintains more than 35,000 miles of distribution and transmission lines in order to serve approximately 1.6 million customers and a population of more than 5 million individuals.

Overall, Progress Energy operates power-generating facilities at 32 sites in North Carolina, South Carolina and Florida. We have a generating capacity in excess of 22,000 MW. We have a good diversity of fuel sources powering our generation fleet – 41% coal, 35% nuclear, 24% gas/oil and under 1% hydropower. In addition, we purchased 1.25 million MWhrs from renewable energy resources in 2009. For the Commission's reference and convenience, I would refer to the report on Progress Energy's generating assets that is attached as Exhibit D to the Joint Applicants' application. The report was last updated in March 2010 and provides a good background on the generating capacity that Progress Energy will bring to the merger.

Q. WHAT STEPS DOES PROGRESS ENERGY TAKE TO ENSURE THAT ITS SYSTEM IS RELIABLE?

A. In 2006, Progress Energy earned the Edison Electric Institute's prestigious Edison Award, the industry's highest honor, in recognition of its operational excellence. We pride ourselves in providing safe and reliable service to our customers. We continue to increase our preventative maintenance and invest millions of dollars in the energy delivery systems and infrastructure that serve our customers. In 2009, we had a reliability score of 99.98% - meaning that, except for hurricanes or other major storms, our customers had electricity for 99.98% of the year.

Q. DESCRIBE PROGRESS ENERGY'S COMMITMENT TO CUSTOMER SERVICE.

A. Progress Energy was the first utility to receive the prestigious J.D. Power and Associates Founder's Award for customer service. We also earned recognition in the J.D. Power and Associates 2010 business customer survey, which ranked Progress Energy Carolinas first among the South Region's large utilities – for the second year in a row – and first among all large utilities nationally.

Q. DESCRIBE PROGRESS ENERGY'S WORKFORCE.

A. Everything we achieve as a company begins with our employees. We continue to seek new ways to nurture a diverse, collaborative workforce through a continuing commitment to safety, ethics, diversity and performance. I am very proud of Progress Energy's track record for maintaining a safe work place for our employees. Our Occupational Safety and Health Administration injury and illness rate has been below 1.0 for three consecutive years – putting it within the top 10% of our industry according to the Edison Electric Institute. We also encourage our employees to maintain a healthy lifestyle and more than half chose to participate in our 2009 employee wellness program. We work

closely with local high schools, community colleges and four-year institutions to make sure there is a steady supply of well-qualified, highly trained employees for the future. Overall, our voluntary employee turnover rate was less than 4% in 2009.

Q. DESCRIBE PROGRESS ENERGY'S COMMITMENT TO THE ENVIRONMENT.

A. Progress Energy has adopted an Environmental Policy which states:

> Environmental responsibility is a core value of Progress Energy. We are committed to excellence in our environmental practices and performance. The company acknowledges our responsibility to be a good steward of the natural resources entrusted to our care while providing affordable and reliable energy to our customers. Environmental factors will be an integral part of planning, design, construction and operational decisions. Further, we will conduct business according to the following principles:
>
> **Compliance**
> Comply with local, state and federal environmental laws and regulations.
>
> **Performance Accountability**
> Maintain an environmental management system, including the use of objectives and goals to measure, track, drive and continually improve performance.
>
> **Minimizing Impacts**
> Effectively manage waste streams and promote prevention of pollution. Take appropriate measures to prevent environmental degradation and be prepared to act effectively in the event of an environmental emergency.
>
> **Stewardship and Transparency**
> Proactively address environmental issues and find innovative solutions to protect and improve the environment. Communicate environmental performance to stakeholders and support effective community efforts in environmental education, protection and conservation.
>
> **Management and Employee Commitment**
> Assure that employees and contractors are aware of their individual role in implementing this policy.

The values that this policy evidences have been part of Progress Energy and its predecessors from the beginning. Thirty years ago, just as our Nation was coming out of

the energy crisis, we made a commitment to energy efficiency. Since 1981, our energy efficiency programs have reduced usage by 29 billion kilowatt-hours (kWh). In more modern times, we have pursued a balanced approach that combines energy efficiency programs, alternative and renewable resources and a state-of-the art power system.

To promote energy efficiency and demand side management initiatives, we established a new Efficiency and Innovative Technology Department at Progress Energy. We have sought and obtained regulatory approval for several such programs in the Carolinas and Florida. These programs include providing customized energy usage reports to customers, providing incentives for home energy improvements and working with retailers to promote ENERGY STAR® lighting products. With regard to alternative and renewable energy, Progress Energy uses hydroelectric power at four plants in North Carolina and purchases energy from refuse and wood-fueled generators throughout our service area. Nuclear power, which emits no air pollutants, makes up more than one-third of our generation mix, with plants located in North Carolina, South Carolina and Florida. We are also pursuing partnerships throughout our service territory to develop solar, wind, biomass, fuel cells and other forms of renewable technology. We are also making substantial efforts to modernize our power system. Progress Energy was selected to receive a $200 million U.S. Department of Energy grant for smart grid programs and we have committed to increasing the amount of natural gas-fired generation in our fleet by constructing state-of-the-art combined cycle power plants while at the same time retiring coal fired units that lack sulfur dioxide emissions reduction equipment.

For the sixth year in a row, Progress Energy has been named to the Dow Jones Sustainability North America Index, which lists companies that lead their industries in

managing economic, environmental and social issues. Launched in 1999, the Dow Jones Sustainability Index tracks the financial performance of the leading sustainability-driven companies worldwide. In selecting the top performers in each business sector, the Dow Jones Sustainability Index reviewed companies on several general and industry-specific topics, including corporate governance, environmental policy, climate strategy, employee development and labor practices. We are pleased to receive such recognition.

Finally, Progress Energy has established itself as an industry leader in innovative water resource management and natural habitat protection. As an example, our Hines Energy Complex in Bartow, Florida is a 2,000 MW generation facility that uses alternative water supplies – captured stormwater and treated wastewater – to conserve groundwater that supplies area drinking water. We also own more than 50,000 acres of forest and we consider the protection of animal and plant species and their habitat a priority.

There is much more I could say, but I hope that this conveys to the Commission how much we value the environment and view our role in part as being stewards of the resources with which we have been entrusted.

Q. DESCRIBE PROGRESS ENERGY'S INVOLVEMENT IN ECONOMIC DEVELOPMENT EFFORTS.

A. Progress Energy has a long history of collaborating with communities in the Carolinas and Florida to support economic development. In 2009 alone, our economic development team helped attract more than 3,200 jobs and more than $550 million in investments to the company's service territories in the Carolinas and Florida. That same year, Site Selection magazine named Progress Energy one of North America's Top

Utilities for Economic Development for the seventh time in the last eight years. The magazine's September 2009 issue selected Progress Energy as one of 10 winning utilities based on its success in helping to generate 8,342 new jobs and more than $2.5 billion in capital investment in the Carolinas and Florida service areas since 2008.

Q. DESCRIBE PROGRESS ENERGY'S COMMITMENT TO DIVERSITY.

A. At Progress Energy, we believe in the power of diversity and inclusion. Our commitment to diversity and inclusion is strategically integrated into the way we do business. Each employee is encouraged to contribute his or her own unique experience and viewpoint. Succeeding in this area begins with attracting, engaging and retaining the best people who bring the varying perspectives and skills that comprise a high performing workforce. Diversity and inclusion efforts provide opportunities for employees to connect in many other ways. Our diversity councils, ongoing diversity and inclusion workshops, and employee network groups are just a few of the ways we encourage employee involvement and provide opportunity for personal and professional growth.

We also work to extend the benefits of diversity and inclusion to the communities we serve. Our Supplier Diversity Program supports small/diverse businesses by ensuring inclusion in procurement and contract opportunities for the many items we purchase. We have a strong track record for working with minority vendors and contractors. In 2009, we worked with 400 women- and minority-owned suppliers to obtain more than 11% of nonfuel procurements. Last year, we expanded the focus of this program by ensuring our primary vendors were also using minority companies in executing large contracts that have substantial subcontracting opportunities. For the second time, Progress Energy Florida has been named Corporation of the Year by the Florida Minority Supplier

Development Council. We were also named one of the top organizations in America for multicultural business opportunities by Diversity-Business.com.

Q. DESCRIBE PROGRESS ENERGY'S COMMITMENT TO THE COMMUNITIES IT SERVES AND ITS INVOLVEMENT IN THOSE COMMUNITIES.

A. Progress Energy is committed to an ongoing leadership role in the communities we serve, with a focus on support for education, the environment and economic development. Our major product is energy, but we encourage our employees to help pour a different kind of energy into the communities we serve. The year before last, 3,000 of our employees provided more than 24,000 volunteer hours in the communities we serve. We don't just work in the communities we serve. We live there as well and we place a premium on service to our community.

The Progress Energy Foundation is the main philanthropic arm for our community investments. In 2008, it doubled its contribution to our Energy Neighbor Fund from $500,000 to $1 million. Since 1982, the Energy Neighbor Fund has distributed more than $30 million to families in need. All told, Progress Energy and the Progress Energy Foundation have invested nearly $10 million in community programs that align with the company's strategic plan in four targeted areas – education, environment, economic development and employee involvement. We also continue to engage our communities to discuss the benefits and challenges of renewable resources. A good example of how we can align these goals is a project in Madison County, North Carolina, where in 2009 we installed a small-scale demonstration wind turbine at an elementary school there to help educate rural communities about wind power.

At Progress Energy, we pride ourselves on being good corporate citizens and we look forward to joining Duke Energy to expand our community investment efforts.

Q. IS THERE ANYTHING ELSE YOU WOULD LIKE TO SAY ABOUT PROGRESS ENERGY?

A. There's of course much more I could say, but hopefully this will give the Commission a proper introduction to our company. I will attach the company's 2010 Corporate Responsibility Executive Summary to my testimony as Exhibit K-2 as it contains much of the information upon which I have testified today. The full Corporate Responsibility Report is available on our website at: http://www.progress-energy.com.

III. THE PROPOSED MERGER

Q. WHY DOES THIS MERGER MAKE SENSE?

A. First and foremost, Duke Energy and Progress Energy will be able to recognize substantial value by forming the largest utility in the United States. We are in the midst of one of the most uncertain periods of American history in terms of the direction of our energy policy. To be able to provide safe and reliable service to our customers at affordable rates in the decades to come, we must make wise decisions now and have the financial and technical resources to execute on those decisions. Duke Energy and Progress Energy are a good fit because of the proximity of our operations in the Carolinas and our shared vision and values. Mr. Rogers discussed the size, scope and scale of what Duke Energy will be after this merger is completed in his testimony. I won't repeat all the numbers here, but I am confident that no other utility will be as well positioned to help shape and respond to changes in energy policy than the post-merger Duke Energy.

That flexibility and strength will be critically important to our stakeholders – customers, investors, employees and communities – as we move forward.

Second, apart from being the biggest, Duke Energy will always endeavor to be the best. By combining our knowledge, skills and resources, the post-merger Duke Energy will be able to leverage the "best-in-class" operational and customer service practices that are available in the utility industry today. Moreover, our geographical diversity will be an asset as it will allow us to expand the benefits and scope of our regional partnerships.

Third, we will speak with one voice on the important issues confronting our industry and our nation. Duke Energy and Progress Energy understand the business we engage in and the communities we serve. We pay special attention to how public policy decisions could affect our customers, and we reach out to policymakers and community leaders to help them understand the implications.

Finally, but by no means least, the merger will give stakeholders a greater sense of stability. Whether we are talking about rates, dividends or community investments, both Duke Energy and Progress Energy have proven records of being responsible, diligent and consistent.

Q. WHAT ARE SOME OF THE PARTICULAR BENEFITS OF THE MERGER?

A. The most immediate benefits of the merger will be seen by our customers in the Carolinas as they will primarily benefit from greater fuel procurement efficiencies and dispatch efficiencies. Customers in Kentucky, Ohio, Indiana and Florida will also see tangible benefits of the merger over the long-run as the two companies integrate with one another and achieve savings and gains in efficiency and productivity. Though it is more difficult to quantify these benefits, future base rate proceedings provide an appropriate

vehicle for their realization as an offset to the cost pressures we are facing as we confront the need to modernize our generation and distribution operations and to implement new environmental requirements.

In addition, the merger will strengthen our cash flow and revenue due to the fact that approximately 88% of the post-merger Duke Energy's revenues will be derived from regulated businesses. This stability will be attractive to investors and will continue to give us access to capital markets on favorable terms. The business risk profile for all utilities is increasing due to forces that are largely beyond the scope of their power. By combining our resources, we expect to maintain favorable credit ratings and credit profiles while smaller utilities will have greater trouble doing so. Maintaining a positive credit rating is very important for capital intensive companies like utilities and, over the long-term, our customers and investors alike will benefit from our ability to access capital as affordably as possible.

IV. DUKE ENERGY CORPORATION'S POST-MERGER STATUS

Q. WHAT WILL YOUR ROLE BE IN THE POST-MERGER DUKE ENERGY?

A. I will serve as the President and Chief Executive Officer of Duke Energy upon the completion of the merger. I will be a member of the board of directors and the conduit between Duke Energy and the board. I will have primary responsibility for determining the board's agenda, developing the strategic plan, developing and communicating our vision and mission and developing public policy decisions. I will also be responsible for developing the annual budget for the board's approval, driving strategic financial and operational results and leading the organization.

Q. WHAT WILL THE BOARD OF DIRECTORS OF THE POST-MERGER DUKE ENERGY LOOK LIKE?

A. Upon the completion of the merger, Mr. Rogers, who will be executive chairman, and I will serve on the board of directors of Duke Energy. At that time the board will be comprised of 18 members, with 11 (including Mr. Rogers) designated by Duke Energy and 7 (including myself) designated by Progress Energy.

Q. WHO WILL BE PART OF YOUR MANAGEMENT TEAM?

A. We have identified a highly experienced leadership team to manage Duke Energy upon completion of the merger. I believe we have selected the right group of leaders from the two companies that are coming together to achieve the benefits of the merger as I have discussed, and to continue the proud history of customer service, reliability, affordability, safety, environmental stewardship and commitment to our employees and our communities that both companies have achieved. I will briefly identify each person and tell you a little bit about them.

Lynn Good will be the Chief Financial Officer for the post-merger Duke Energy. She is currently a group executive and the Chief Financial Officer for Duke Energy, leading the financial function, which includes the controller's office, treasury, tax, risk management and insurance. These duties include accounting, balance sheet management and overseeing risk control policies. She assumed her current position in July 2009. Previously, Lynn served as group executive and president of Duke Energy's commercial businesses, a position she held from November 2007 until July 2009. She was responsible for the Midwest nonregulated generation, Duke Energy International, Duke Energy Generation Services, the telecommunications businesses, and all corporate

development and merger and acquisition activities. Prior to that, Lynn served as senior vice president and treasurer for Duke Energy. She led the treasury functions for the company, as well as insurance, market and credit risk management and corporate financial planning and analysis. Before the merger of Duke Energy and Cinergy in April 2006, Lynn served as executive vice president and chief financial officer for Cinergy. Named to that role in September 2005, she was responsible for Cinergy's treasury, finance and accounting functions. Lynn joined Cinergy in May 2003 as vice president of financial project strategy. She was named vice president and controller later the same year; and vice president of finance and controller in January 2005. Prior to joining Cinergy, Lynn was a partner with the international accounting firm, Deloitte & Touche, based in Cincinnati, Ohio. From 1981 to 2002, she served in various senior management roles with Arthur Andersen, rising to partner in 1992. Lynn also serves on the board of directors of Hubbell Inc., an international manufacturer of electrical and electronic products. She is also a board member of the Bechtler Art Museum in Charlotte. Lynn earned a bachelor of science degree in systems analysis and accounting from Miami University in Oxford, Ohio.

Dhiaa Jamil will be in charge of Duke Energy's nuclear generation fleet. He is currently a group executive, chief generation officer and chief nuclear officer for Duke Energy. He is responsible for the safe and efficient operation of all regulated generation across the company's nuclear, fossil and hydro fleets. He assumed the expanded role of chief generation officer in July 2009. Previously, Dhiaa served as group executive and chief nuclear officer, with responsibility for the company's three nuclear stations – Catawba, McGuire and Oconee. Dhiaa has 30 years of experience in the energy industry.

He joined Duke Energy in 1981 as a design engineer in the design engineering department. After a series of promotions, he was named electrical systems engineering supervisor of Oconee Nuclear Station in 1989 and electrical systems engineering manager in 1994. He was named maintenance superintendent of McGuire Nuclear Station in 1997; station manager in 1999; and site vice president of McGuire Nuclear Station in 2002. In that role, Dhiaa was responsible for all aspects of the safe and efficient operation of the nuclear site. In 2003, he was named site vice president of Catawba Nuclear Station. In 2006, Dhiaa was named senior vice president of nuclear support. He led the organization responsible for plant support, major projects and fuel management for Duke Energy's nuclear fleet. In addition, he was responsible for regulatory support, nuclear oversight and safety analysis functions. Dhiaa received a bachelor of science degree in electrical engineering from the University of North Carolina at Charlotte. He is a registered professional engineer in North Carolina and South Carolina. He has completed the Institute of Nuclear Power Operations' (INPO) senior nuclear plant management course and received Duke Energy's technical nuclear certification. He has served as a senior member of the Institute of Electrical & Electronics Engineers (IEEE) and has completed a three-year assignment as a member of the Council of the National Academy for Nuclear Training. He is a former member of Dominion Energy Management Safety Review Advisory Committee, TVA Nuclear Safety Review Board and Pacific Gas & Electric Nuclear Safety Oversight Committee. He also served on the board of directors of the York County, South Carolina, Chamber of Commerce. Dhiaa currently serves as chair of the Energy Production and Infrastructure Center at the University of North Carolina at Charlotte and is a board member of the

UNC Charlotte Foundation. He serves as a trustee of The Duke Energy Foundation. He is also a member of the INPO Executive Advisory Group and the Nuclear Energy Institute's Nuclear Strategic Issues Advisory Committee Steering Group.

Jeff Lyash will be responsible for energy supply. Jeff is currently the Executive Vice President, Energy Supply, for Progress Energy. In this role, Jeff oversees Progress Energy's diverse 22,000 megawatt fleet of generating resources including nuclear, coal, oil, natural gas and hydroelectric stations. In addition, he is responsible for generating fleet fuel procurement and power trading operations. Jeff has 28 years of utility industry experience, joining Progress Energy in 1993. Before assuming the role of Executive Vice President of Energy Supply, he was the Executive Vice President of Corporate Development. Jeff has served as the President and Chief Executive Officer of Progress Energy Florida, Senior Vice President of Energy Delivery Florida, and the Vice President of Transmission. He has also held a wide range of management and executive roles in the company's nuclear program; including Operations Manager, Engineering Manager, Plant Manager and Director of Site Operations. Before joining Progress Energy, Jeff worked for the U.S. Nuclear Regulatory Commission in a number of senior technical and management positions throughout the northeast United States and in Washington, D.C. Jeff earned a bachelor's degree in mechanical engineering from Drexel University and an NRC Senior Reactor Operator License. He is a graduate of the U.S. Office of Personnel Management Senior Executive Training Program and the Duke Fuqua School of Business Advanced Management Program. Jeff currently serves on the Board of Directors of the Electric Power Research Institute, Rex Healthcare and SunTrust Bank Carolina. He has served in leadership positions on the Board of Directors for a number of economic

development institutions including the Florida Chamber of Commerce, Florida Chamber Foundation, Enterprise Florida, Tampa Bay Partnership, Florida Council of 100, and the Florida High Tech Corridor.

Marc Manly will serve as the General Counsel for Duke Energy. He currently is a group executive, Chief Legal Officer and corporate Secretary for Duke Energy, leading the office of general counsel, which includes legal, internal audit, ethics and compliance, information technology and enterprise operations services. Marc has served as group executive and Chief Legal Officer for Duke Energy since April 2006. He assumed the additional responsibility of corporate Secretary in December 2008. Previously, Marc served as Executive Vice President and Chief Legal Officer of Cinergy Corp., a position he held from November 2002 until the Duke Energy/Cinergy merger. He was responsible for the company's strategy and position on all legal matters. From 2000 to 2002, Marc was managing director for law and governmental affairs, general counsel and corporate secretary at NewPower Holdings Inc., a national retailer of electricity and natural gas to the residential market. Before his position with NewPower, from 1995 to 2000, he was with AT&T Corp. first as vice president and solicitor general, and then as vice president and chief counsel for the consumer services group. Prior to joining AT&T's legal department, Marc was a member of the law firm of Sidley & Austin, as an associate from 1978 to 1985 and as a partner from 1986 to 1994. Marc earned a juris doctor degree, magna cum laude, and a master of economics degree from the University of Michigan, where he was a member of the Law Review and Order of the Coif. He also earned a bachelor of arts degree, summa cum laude, in economics from Amherst College, where he was Phi Beta Kappa. He serves on the Dan Beard Boy Scout Council of

Greater Cincinnati and is board chair of the Arts and Science Council in Charlotte.

John McArthur will be responsible for Duke Energy's regulated utilities. He was named executive vice president of Progress Energy in September 2008. In that role, he is responsible for corporate and utility support functions, including Corporate Services; Corporate Communications; Human Resources; External Relations; Legal; and Audit Services. He serves as general counsel and corporate secretary, a position he has held since January 2004. Previously he served as senior vice president - Corporate Relations and as vice president - Public Affairs. John came to Progress Energy in December 2001 after serving as a senior adviser to North Carolina Gov. Mike Easley. John directed major policy initiatives as well as media and legal affairs for the governor. Previously, John handled state government affairs for General Electric Co. He also served as chief counsel in the North Carolina Attorney General's office, where he supervised utility, consumer, health care and environmental protection issues. He was a partner in the Raleigh law office of Hunton & Williams. He also served as a law clerk to the Honorable Sam J. Ervin III of the U.S. Court of Appeals for the Fourth Circuit. A graduate of Davidson College, he earned his law degree from the University of South Carolina where he was editor-in-chief of the Law Review.

Mark Mulhern will serve as the Chief Administrative Officer for the company. He is currently Chief Financial Officer of Progress Energy. Mark oversees the Financial Services group. Mark joined Progress Energy (formerly Carolina Power & Light) in 1996 as vice president and controller. He served as vice president and treasurer from 1997 through 2000, when he assumed the role of vice president – strategic planning at the close of the merger with Florida Progress in 2000. He served as senior vice president of

competitive commercial operations in Progress Ventures from 2003 to 2005. He served as the President of Progress Ventures from 2005-2008, the unregulated subsidiary of Progress Energy that divested substantially all of its $4 billion of assets between 2006-2007. Mark served as Senior Vice President of Finance from 2007-2008. Before joining the company, Mark was the chief financial officer at Hydra Co Enterprises, the independent power subsidiary of Niagara Mohawk. He also spent eight years at Price Waterhouse in Syracuse, serving a wide variety of manufacturing and service businesses. Mark serves on the EEI Financial Executive Advisory Committee and is on the board of directors of Microcell Corporation. He has served in a number of volunteer and leadership roles with local and professional agencies ranging from St. Michael's elementary school to Leadership North Carolina and the Planning Institute of Central New York. He is a 1982 graduate of St. Bonaventure University. He is a certified public accountant, a certified management accountant, and a certified internal auditor. He has completed the nuclear executive program at the Massachusetts Institute of Technology.

Keith Trent will run the commercial businesses group for Duke Energy. He is currently group executive and president of the Commercial Businesses organization for Duke Energy. He is responsible for Duke Energy Generation Services; Duke Energy Renewables; Midwest Commercial Generation; Commercial Transmission; and Duke Energy International, with operations in Latin America. Keith is also responsible for commercial strategy and policy. He assumed his current role in July 2009. Previously, Keith served as group executive and chief strategy, policy and regulatory officer for Duke Energy. He led the areas of strategy, state and federal policy and government affairs, corporate communications, community affairs, technology initiatives,

and environmental health and safety policy. Keith has more than 18 years of experience as an accomplished legal counselor. He joined Duke Energy in May 2002 as general counsel, litigation. He was responsible for managing all major litigation and government investigations for the company. Keith was named group vice president, general counsel and secretary in June 2005 and group executive and chief development officer in April 2006. In that role, he led corporate development, including corporate strategy, and mergers and acquisitions. He was named group executive and chief strategy and policy officer in September 2006. Prior to joining Duke Energy, Keith served as a partner in the law firm Snell, Brannian & Trent. Prior to that, he was an attorney at Jackson Walker in Dallas, Texas. He began his career as a reservoir/production engineer with Arco Oil & Gas in Houston in January 1982. Keith earned a bachelor of science degree in electrical engineering, with honors, from Southern Methodist University and a juris doctor degree, with high honors, from the University of Texas College of Law. He also completed the Harvard Business School Advanced Management Program and the Reactor Technology Course for Utility Executives at MIT. Keith is licensed to practice law in North Carolina and Texas, as well as numerous federal district courts and the United States Supreme Court. He is also a member of various bar associations. Keith serves on the board of directors of Bright Automotive Inc., the board of trustees of The Keystone Center and is co-chair of The Keystone Energy Board. He serves on the board of visitors of the Wake Forest University School of Business and Charlotte Country Day School. He is also chairman of the New Leaders for New Schools Board in Charlotte.

Jennifer Weber will be the Chief Human Resources Officer for Duke Energy. She is currently group executive of Human Resources and Corporate Relations at Duke

Energy. She leads the human resources function for the company, which includes human resources policy and strategy, talent management and diversity, employee and labor relations, total rewards strategies and programs, and delivery of business partner services. Jennifer leads the company's corporate communications function as well, which includes communications strategy and services: support for the company's businesses, brand management, executive communications, media relations, social media and the Web presence. She is also responsible for The Duke Energy Foundation. Jennifer joined Duke Energy in November 2008 from Scripps Networks Interactive Inc. in Cincinnati, Ohio. From 2005 to 2008, she served Scripps, and then Scripps Networks Interactive when the company was spun off, as senior vice president of human resources. Prior to joining Scripps in 2005, Jennifer worked at the consulting firm Towers Perrin for 12 years – as a partner and as managing principal of the firm's Cincinnati office. In that role, she participated in the design and implementation of total rewards strategies and programs for many large clients. A native of Mansfield, Ohio, Jennifer received a master's degree from Carnegie Mellon University. She also earned a bachelor's degree from Miami University, in Ohio, graduating Phi Beta Kappa and Cum Laude. Jennifer currently serves on the Business Advisory Committee for the Farmer School of Business at Miami University, in Ohio, and the board of advisors for the Belk College of Business at the University of North Carolina at Charlotte. She also serves on the board of directors and is vice chair of the 2011 United Way campaign for the United Way of Central Carolinas. Prior to her relocation to Charlotte, Jennifer served on the board of the Dan Beard Boy Scout Council of Greater Cincinnati and the Salvation Army. She also participated in Leadership Cincinnati.

Finally, **Lloyd Yates**, will be leading customer operations for Duke Energy. He is currently serving as president and chief executive officer for Progress Energy Carolinas. He has more than 26 years of experience in the energy business including fossil generation, energy delivery, and nuclear generation. Lloyd was promoted to his current position July 1, 2007, after serving for more than two years as senior vice president-Energy Delivery for Progress Energy Carolinas. In that role, he oversaw the four operational and customer services regions in the Carolinas, as well as the distribution function. Previously, he had served as vice president – Transmission for Progress Energy Carolinas. Lloyd came to Progress Energy predecessor Carolina Power & Light in 1998, and served for five years in the role of vice president for Fossil Generation. Before joining Progress Energy, he worked for PECO Energy for 16 years in several line operations and management positions. He is a mechanical engineering graduate of the University of Pittsburgh and earned a master's degree in business administration from St. Joseph's University in Philadelphia. Lloyd attended the Advanced Management Program at the University of Pennsylvania Wharton School and the Executive Management Program at the Harvard Business School. He serves on the boards of North Carolina Economic Development, North Carolina Community College Foundation, Triangle Urban League and High Five.

This is a very experienced and highly-skilled management team that I will be privileged to lead.

Q. HOW WILL THE MERGER IMPACT THE LEADERSHIP OF DUKE ENERGY KENTUCKY?

A. We currently have no plans to make any changes to the existing leadership of Duke Energy Kentucky.

Q. HOW WILL THE POST-MERGER DUKE ENERGY HAVE THE FINANCIAL, TECHNICAL AND MANAGERIAL ABILITY TO OWN AND OPERATE DUKE ENERGY KENTUCKY?

A. As I mentioned earlier, Duke Energy will be the largest diversified utility in the United States following the completion of this merger. The financial and technical strength that goes along with being the largest such utility has also been described. I have also described the management team that we are putting in place and, by any objective standard, they are extremely well qualified to lead our enterprise into its next phase. We will continue to own and operate Duke Energy Kentucky consistent with the best interests of its customers, employees and communities. Our track record as two separate companies demonstrates that we have the financial, technical and managerial ability to do this and to do it well.

Q. WHY IS THIS MERGER FOR A PROPER PURPOSE AND IN THE PUBLIC INTEREST?

A. The statutory mandate in Kentucky for regulated utilities is to provide "adequate, efficient and reasonable service" at rates that are "fair, just and reasonable." This is the legislative expression of what is a proper purpose and in the public interest. Through my testimony, I've endeavored to demonstrate to the Commission that with the addition of the talent and resources of Progress Energy to the existing Duke Energy team, we will enhance Duke Energy Kentucky's ability to fulfill its statutory mandate. For all the reasons I have discussed in my testimony, this merger will be beneficial to Duke Energy

Kentucky in the long run and will certainly not have any adverse impacts in the short term.

Q. PLEASE DESCRIBE WHAT IMPACT THIS MERGER WILL HAVE ON DUKE ENERGY KENTUCKY.

A. There will not be any adverse impacts to Duke Energy, Duke Energy Kentucky or their respective stakeholders as a result of this merger. Upon completion of the transaction, Duke Energy will retain its strong financial position allowing it to provide safe and reliable service to the customers of Duke Energy Kentucky. Duke Energy Kentucky will not incur any indebtedness or issue any securities to finance any part of the purchase price or transaction costs paid by Duke Energy in the merger with Progress Energy. Duke Energy Kentucky has demonstrated a longstanding commitment to providing safe and reliable service to its Kentucky customers at just and reasonable rates. This commitment will not change as a result of the transaction and in fact will be enhanced by becoming part of a larger and stronger entity that shares these principles. Upon completion of the merger, Duke Energy Kentucky will continue to own and operate all of its electric and gas distribution and local transmission facilities just as before and it pledges to provide the same level of excellent service to its retail customers that it has historically achieved. Although Duke Energy Kentucky represents approximately 2% of the post-merger customer base for Duke Energy, its interests will be well-represented in management. In addition, we recognize the importance of merger commitments in situations such as this and we fully are willing to abide by the commitments that Ms. Janson discusses in her testimony. These commitments should greatly assure the

Northern Kentucky community and the Commission that Duke Energy Kentucky's position will not be diminished in anyway.

Q. DOES PROGRESS ENERGY HAVE A PROVEN TRACK RECORD OF PROVIDING RESULTS FOLLOWING MERGERS?

A. Yes. As I mentioned earlier, CP&L acquired Florida Progress in 2000. In the decade following that acquisition, Progress Energy invested $10 billion in the Florida utility, and $40 million in the Florida communities in which we serve. We also improved system reliability in Florida by more than 40% and safety by 70%. In fact, last year PEF had its best safety year in the 112-year history of the company, and was among the best safety performers compared to all other electric utilities in the nation. In addition, the Florida utility reduced system wide emissions by 70% through environmental investments, and was recognized as an industry leader in storm preparedness and restoration following the back-to-back worst hurricane seasons on record in 2004 and 2005. After the merger closes, the new Duke Energy will bring this same focus on safety, reliability, environmental stewardship, commitment to the communities we serve, and operational performance to Duke Energy Kentucky.

V. SUMMARY

Q. WOULD YOU PLEASE SUMMARIZE YOUR TESTIMONY?

A. Progress Energy is an excellent corporate citizen with a proud heritage and a solid track record for delivering safe and reliable electric service at affordable rates. We are partners with the communities we serve and give investors a value proposition that they find attractive. As we move towards the consummation of this merger, I am very excited

about what Duke Energy will be able to accomplish as the largest utility in the United States. We will have the expertise and strength to fulfill our core mission of serving customers well and to provide the value our stakeholders expect. This will result in tangible benefits to our customers, investors, employees and communities.

Upon the completion of the merger, Duke Energy will continue to have a very highly experienced management team. We will also have the financial and technical skills to make sure that Duke Energy Kentucky continues to prosper in Northern Kentucky. For all the reasons I have mentioned, this merger is in accordance with law, for a proper purpose and in the public interest. I very much look forward to working with the Commission and building on what is already a stable and constructive relationship.

Q. WERE THE DOCUMENTS YOU HAVE ATTACHED TO YOUR TESTIMONY PREPARED BY SOMEONE WORKING UNDER YOUR SUPERVISION?

A. The 2010 Sustainability Report that I have attached to my testimony was prepared by employees of Progress Energy whom I ultimately supervise. The history of the Carolina Power and Light Company was prepared in 1983, before I came to Progress Energy. As the leader of Progress Energy, I stand behind both documents and testify that they are authentic.

Q. DOES THIS CONCLUDE YOUR PRE-FILED DIRECT TESTIMONY?

A. Yes.

VERIFICATION

State of North Carolina)
) **SS:**
County of Wake)

The undersigned, William D. Johnson, being duly sworn, deposes and says that he is the Chairman, President and Chief Executive Officer of Progress Energy, Inc., that he has personal knowledge of the matters set forth in the foregoing testimony, and that the answers contained therein are true and correct to the best of his information, knowledge and belief.

William D. Johnson, Affiant

Subscribed and sworn to before me by William D. Johnson on this 28th day of March 2011.

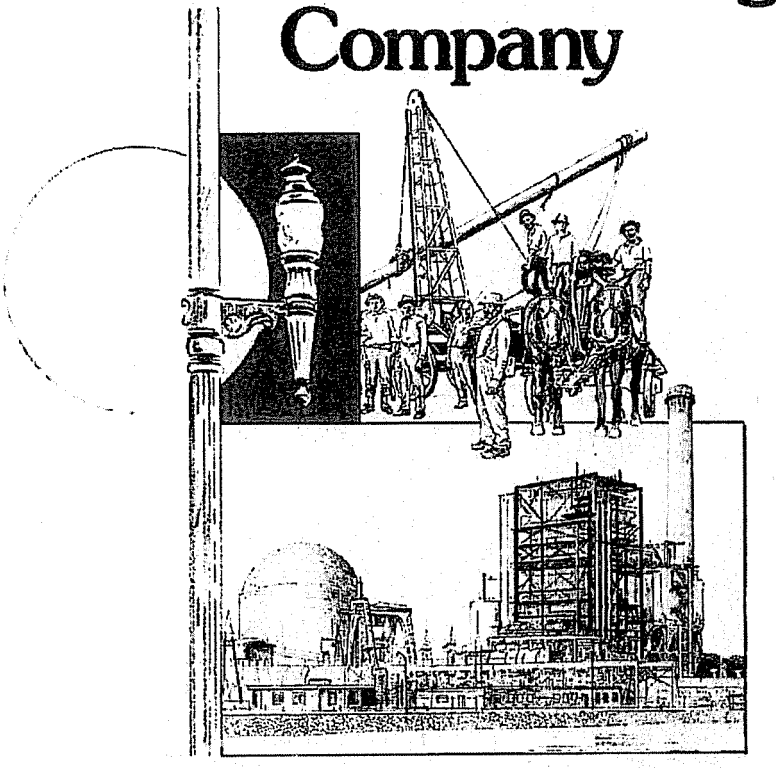
NOTARY PUBLIC

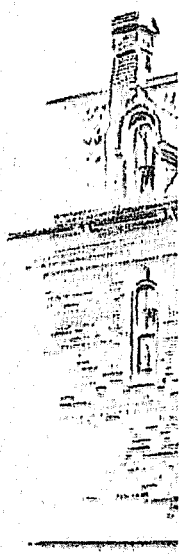
My Commission Expires: 8/8/2014

VI. EXHIBITS

Document	Exhibit
A Brief History of Carolina Power & Light Company	**K-1**
Progress Energy 2010 Corporate Responsibility Executive Summary	**K-2**

A Brief History of Carolina Power & Light Company

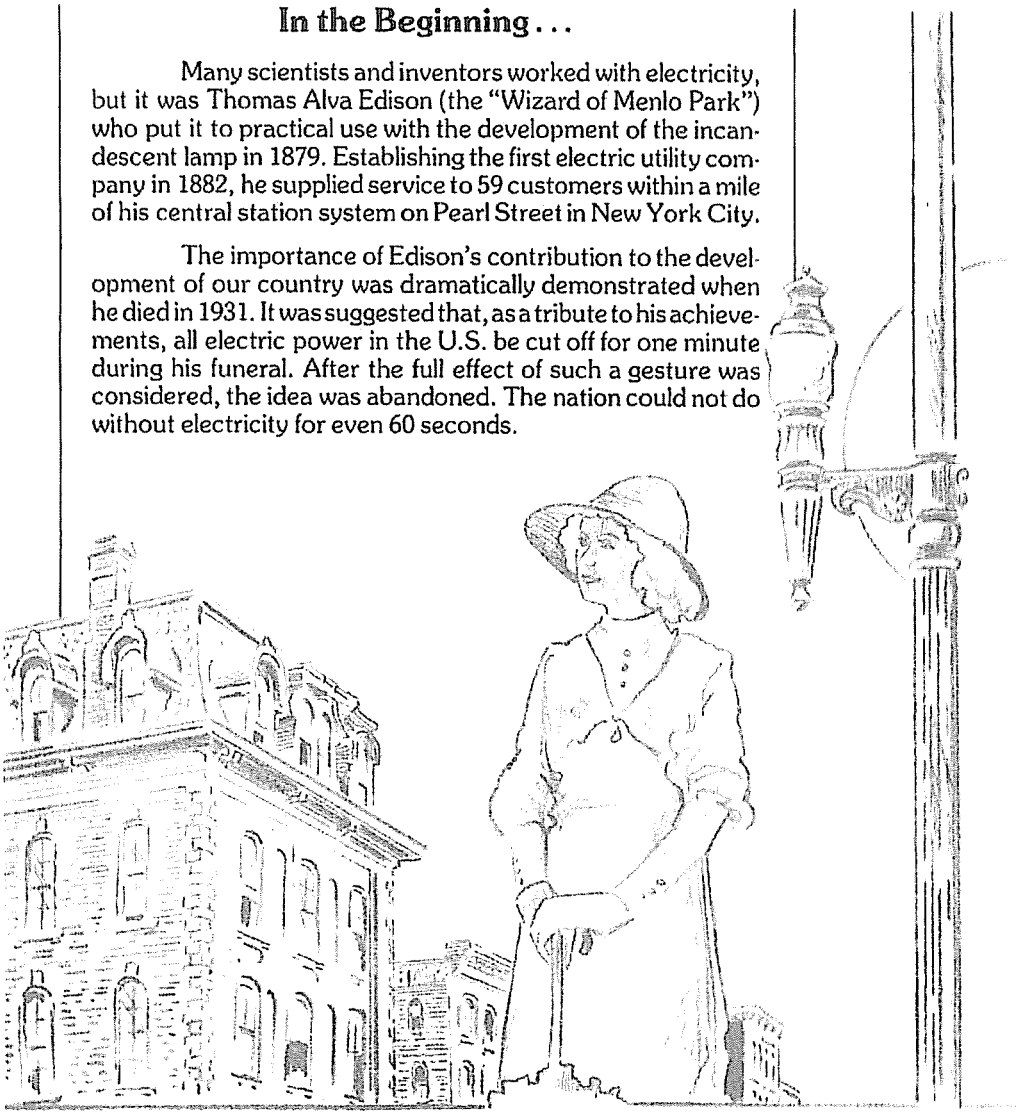




In the Beginning . . .

Many scientists and inventors worked with electricity, but it was Thomas Alva Edison (the "Wizard of Menlo Park") who put it to practical use with the development of the incandescent lamp in 1879. Establishing the first electric utility company in 1882, he supplied service to 59 customers within a mile of his central station system on Pearl Street in New York City.

The importance of Edison's contribution to the development of our country was dramatically demonstrated when he died in 1931. It was suggested that, as a tribute to his achievements, all electric power in the U.S. be cut off for one minute during his funeral. After the full effect of such a gesture was considered, the idea was abandoned. The nation could not do without electricity for even 60 seconds.



Lights for the Carolinas

Figuratively speaking, it required about three years for electricity to be transmitted from Pearl Street in New York City to Fayetteville Street in Raleigh, North Carolina. City streets had been lighted with gas, but when this proved unsatisfactory, area newspaper editors strongly advocated the cause of electricity.

Lights first went on in Raleigh in 1886 under the auspices of the Thomson-Houston Electric Light Company. Thereafter, the use of electricity spread quickly. Electricity was soon operating the presses of *The Progressive Farmer*, ice-making machinery, fans, and elevators, and 15 electric companies were chartered in North Carolina by 1905. Asheville claimed the distinction of having the first electric railway system in North Carolina, but Raleigh and Wilmington followed shortly.

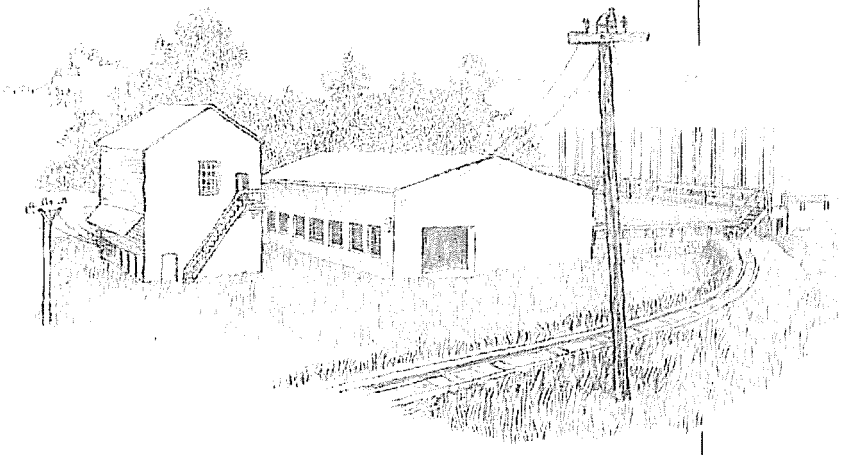
This early electric service was not nearly as reliable or extensive as that which we have today. Some small plants operated only from dusk until midnight. On bright moonlit nights, street lights would be switched off to save fuel. Voltage regulation was poor, and interruptions were frequent. Numerous tiny systems operated independently of one another. They lacked the supporting interconnections that electric companies have today to prevent major interruptions from affecting an entire town. Many of these small companies faced bankruptcy, had already folded, or had changed hands many times. New projects, especially costly hydroelectric ventures, created disastrous financial strains.

Birth of CP&L

Carolina Power & Light Company was chartered by the state of North Carolina in Raleigh on July 13, 1908. It was organized through the merger of three existing North Carolina companies—Raleigh Electric Company, Central Carolina Power Company, and Consumer Light and Power Company—and owned by Electric Bond and Share Company (EB&S), a newly formed investment group.

Another subsidiary of EB&S—the Yadkin River Power Company—was organized in 1911. Yadkin, which served communities in both North Carolina and South Carolina, had the same officers as CP&L and was managed in conjunction with CP&L until the 1926 merger.

Besides the 400-kilowatt Milburnie and the 2500-kilowatt Buckhorn hydroelectric plants, the young CP&L system's generating capacity included a 1,000-kilowatt steam plant in Raleigh and a 75-kilowatt plant in Sanford. Within the city of Raleigh, the company had 983 customers and base rates were $1 minimum per month. The first recorded kilowatt-hour (kwh) charge was 15¢.



The new charter of 1908 brought little change in the local leadership of CP&L, but it did bring, through the connection with EB&S, the benefits of direction and guidance from one of the electric industry's rugged pioneers.

"S.Z."

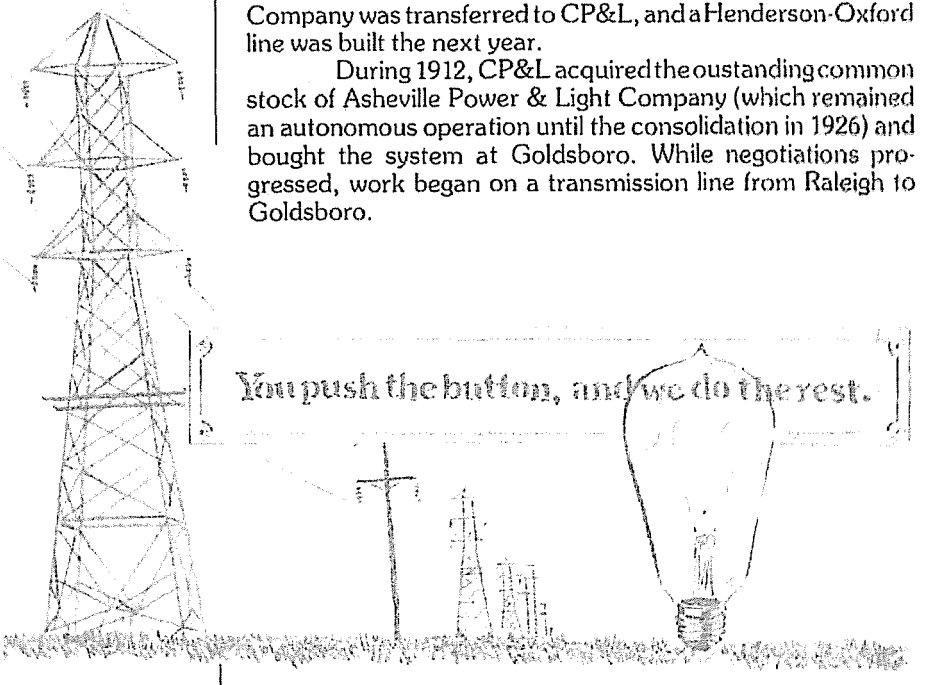
A dominant force in the company and in the industry for many years was Sidney Zollicoffer Mitchell, president of EB&S. He was so devoted to his work that he had an apartment built in the new EB&S offices so he could remain on the job every minute. He had a genius for spotting competent men and he staffed his organization with them. His employees learned to be prepared—for telephone calls at all hours, midnight conferences, and impromptu visits to their desks.

To stabilize the small utilities of those early days, he consolidated, modernized, improved central stations, cut rates, simplified schedules, and stressed selling electricity.

Early Expansion

CP&L first grew in the direction of Henderson and Oxford. By 1900, Henderson's utility company had been reorganized and refinanced several times, and finally the system was sold to CP&L in 1911. That same year, Oxford Electric Company was transferred to CP&L, and a Henderson-Oxford line was built the next year.

During 1912, CP&L acquired the oustanding common stock of Asheville Power & Light Company (which remained an autonomous operation until the consolidation in 1926) and bought the system at Goldsboro. While negotiations progressed, work began on a transmission line from Raleigh to Goldsboro.



Earnings of the growing company were insufficient, however, to cover the cost of building all the transmission lines needed to expand its service area. So, in 1911, North State Hydro Electric Company, financed by EB&S, was formed solely to build lines. As lines were completed, they were turned over to CP&L for operation under lease. Later on, increased revenues permitted CP&L to issue enough extra stock to acquire the property of North State Hydro.

Lighting was the mainstay of the young company's business, and competition with the gas company led to an all-out advertising campaign. One of the first advertisements read:

> *Electric light is the cleanest form of illuminant obtainable. Do you value the ceilings and decorations in your home? Use modern methods.*

The gas company's ad men came right back by asking local merchants:

Do you want to light your ceiling or your counter? Light with gas.

As the campaign continued, CP&L began to stress all the uses of electricity—lighting, heating, and power. The slogan became "You push the button, and we do the rest."

Electricity made its dent. Standard Electric & Gas Company was sold to CP&L in 1911; thus all gas and electric service in Raleigh was consolidated for the first time.

As central electric service caught on, service was extended from early transmission lines to municipalities and cotton mills along the way. Smithfield was the first municipality to be served at wholesale rates in 1913. When these customers eliminated their own sources of power, however, they raised the question of future rates. How could they be certain, once they were wholly dependent upon the power company, that rates would not be arbitrarily raised?

First Regulation

In the matter of regulation, South Carolina took the lead in 1910 by establishing a three-man public service commission with authority over water, gas, and electric utilities. Then, in 1913, the North Carolina General Assembly placed light, power, water, and gas companies under the regulation of the Corporation Commission, which already exercised authority over railroads, banks, and telephone and telegraph companies. The commission's order to power companies to file schedules of their rates was, for several years, the only regulatory action taken by the body.

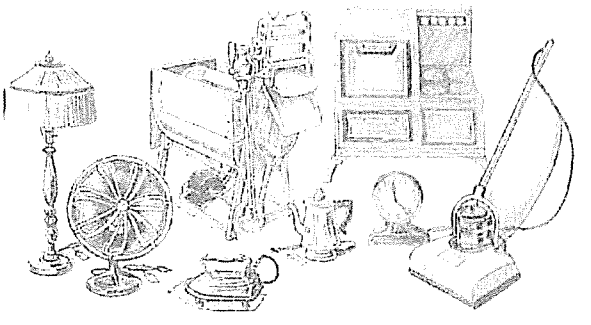
Because large amounts of capital were required for a company to render service and install costly substations, transformers, and lines, it became apparent early in the development of electric power companies that it would not be practical for companies to compete in the same area for the same customers. The number of available customers would have to be shared by the competing companies; therefore, each company would have fewer customers among which to divide the high fixed costs of producing and distributing electricity. Then, the need for a fair return on investment for each company would only aggravate the high cost to customers.

Since competition was not beneficial to customers or utility companies, regulation by the state was substituted. Electric utilities became "regulated monopolies." Today, the state regulatory bodies for public utilities in CP&L's service area are the North Carolina Utilities Commission and the South Carolina Public Service Commission. Both groups regulate rates and service for retail customers. Rates for wholesale customers are regulated by the Federal Energy Regulatory Commission (formerly the Federal Power Commission) in Washington, D. C.

World War Slows Utility Growth

The outbreak of war in Europe in 1914 and our entry into the conflict in 1917 did not interrupt the increasing acceptance of electric power. Electricity continued to supply a growing percentage of the power for cotton mills, bagging plants, fertilizer factories, and other industries of the day. However, the war had a definite negative impact on expansion because strategic construction materials were scarce. From 1915 through 1917, few transmission lines were erected and no new generating capacity was constructed by the company.

Another wartime obstacle to growth was lack of wiring in homes. Power salesmen first had to convince homeowners to wire their houses for electricity. Many people were skeptical about electric current (one man's friends advised him to "make his peace with God" when he had his house wired), so the salesmen had to be very persuasive. One of their inducements was an offer to engage wiring contractors and to pay for the job. The customers then reimbursed the company in monthly installments.



CP&L also found itself in the electric appliance business. It was impractical to wait for retail dealers to stock these

new-fangled devices, so the company had to stimulate sales of electricity by selling, installing, and repairing the new appliances as well. Customers quickly developed a liking for these installment plan additions to modern living, but the resulting monthly statements from the power company caused them to complain that their "light bills" were too high.

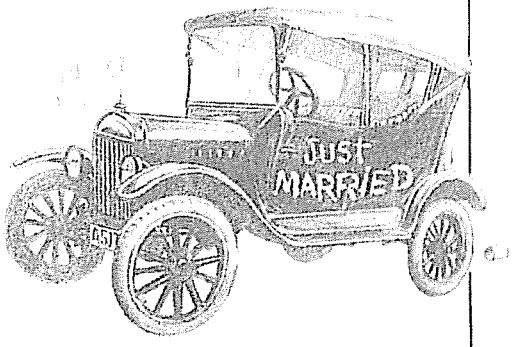
In later years, CP&L worked with retail dealers in promoting the sale of electric appliances rather than selling them directly, but this early sales program helped encourage the widespread domestic use of electricity.

Similar efforts were made in the industrial and commercial areas. To demonstrate the feasibility of electric motors over steam power, the company cooperated with General Electric in installing electric motors on a trial basis. If the owner was not convinced, the equipment was removed without charge.

Post World War I Expansion

As the postwar economy began to expand, CP&L launched an intensive sales program for preferred stock (at $7 a share). Local ownership of the company was encouraged—a trend that continues today as evidenced by the fact that about 40 percent of CP&L's shareholders live in the Carolinas. Employees were enlisted as stock salesmen, and contests were held to promote sales. One employee earned enough in prize money to finance his first automobile, the one he drove on his honeymoon.

New uses for electricity, like curling irons and refrigerators, caused CP&L customers to want more of it for home



use. This increased usage necessitated a change from the old load-limiting devices known as "indicators." With an indicator,

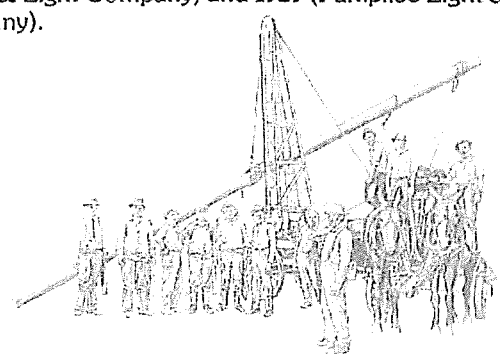
when a customer burned more lights than he had contracted to use, it began to flicker on and off until he reduced his usage to the contract level. Replacing the indicators with watt-hour meters allowed customers access to an unrestricted flow of electricity.

Small communities in the vicinity of CP&L also began to express an interest in obtaining electric service, but construction costs were now so high that CP&L could not justify building transmission lines in low load centers. A sort of "come and get it" arrangement was therefore worked out in which the towns constructed their own lines to tap into CP&L's. Later, the company purchased many of these lines and municipal systems.

The postwar growth impetus was to continue through the first three decades of the 1900s. Between 1908 and 1926, the system grew from 1,100 to 19,800 customers; from 3,975 to 58,960 kilowatts of generating capacity; and from less than 50 to more than 585 miles of high-voltage transmission line.

New Charter in 1926

April 6, 1926, marked the chartering of the Carolina Power & Light Company of today. The new company included the original CP&L, the Yadkin River Power Company, Asheville Power & Light Company, Pigeon River Power Company, and Carolina Power Company. The new system embraced 100 communities which received retail service and 29 which bought power wholesale. Under the new charter, South Carolina customers (Yadkin River Power Company) began receiving electric service under the CP&L name. Other major additions in South Carolina were made in 1927 (South Carolina Power & Light Company) and 1929 (Pamplico Light & Power Company).



Maintaining the power lines and transmission equipment for the geographically expanded system proved to be the challenge of the next six years. Most heavy equipment had to be transported by mule-drawn wagons. Some linemen expressed resentment over the fact that they were paid only one dollar per day and often had to work seven days a week while the mules were hired out at two dollars per day and were protected by state law from being worked on Sunday.

When lines were down, crews frequently risked life and limb to make repairs. The hurricane of 1928 caused floods and washed-out bridges as well as extensive damage to power equipment. One crew maneuvered its repair truck across swollen creeks on bridges made only of timbers. After a lineman (who swam into the river to remove a tree which had fallen across a power line) nearly drowned when his safety belt caught on a limb, crews were ordered to remove all but necessary clothing. A boat load of sightseers was once startled by the appearance of six bare but busy linemen in the middle of the river.

The men who learned the lessons of the 1928 hurricane were later able to engineer new lines and establish better methods of maintaining reliable service. The company faced the decade of the thirties with a spirit of optimism. CP&L had Buckhorn and two big Yadkin-Pee Dee hydro plants, plus its Cape Fear steam plant at Moncure, and construction of the Waterville (Walters) plant was running on schedule. Then came the crash of 1929!

Depression: 1932-1941

Louis V. Sutton, who was eager to marry a young North Carolina lady whom he met on a blind date in college, persuaded CP&L President Paul A. Tillery to give him a job with the company in 1912. When Tillery died in 1933, Sutton assumed the presidency and the monumental tasks of coping with economic panic and the threat of nationalized electric power.

Sutton fought the effects of declining industrial sales, increasing debts, and customer demands for cheaper rates by an intensive domestic sales effort. He published an electric cookbook and pushed the use of electric ranges, refrigerators, irons, etc. As an added incentive, he instituted an "inducement rate" so that customers who used larger quantities of power could obtain it at lower overall rates. (At that time, the addition of larger and more efficient generating units meant lower invest-

ment costs per kwh *and* lower electric rates.) Customers responded by increasing their usage at a rate unparalleled before or since in company history.

When the Tennessee Valley Authority (TVA) was established in 1933, private investor-owned power companies had to face "competition" with government-financed power plants which paid few, if any, taxes and did not have to pay interest on borrowed capital. Sutton was known throughout the industry for his stout defense of investor-owned utilities. To the observation of a federal official that government power development in the Carolinas was practically nil, Sutton replied that this was so because government projects were unnecessary; adequate power was being provided by investor-owned utilities. His motto for the company was, "Our future is the future of the area we serve," and service was indeed needed with the advent of World War II.

World War II

With the onset of World War II, CP&L began providing for the unusual electrical requirements of a global conflict.

Power was needed by mills, which swung into full wartime production, and, as the Carolinas became vast training grounds for troops, all military bases had to have electricity. CP&L was also called upon to put millions of kilowatt-hours into defense industry outside the company's territory. At a special meeting on national defense in May 1941, the board of directors authorized numerous expansions in the company's generating capacity.

Defense efforts were made in other areas as well. The company supported a national conservation program and delivered to government agencies almost a million pounds of aluminum, brass, bronze, and copper salvaged from the company's system. Utility service men and meter readers took to bicycles to save gasoline.

When many men left to go into military service, some meter testing and reading functions were taken over by women. They encountered the usual problems of meter readers—mud, biting dogs, cantankerous equipment—but one unusual problem—being pinched by a customer's geese—was met by a female meter reader in Marion, South Carolina.

Postwar Developments

With the end of the war in 1945 and the slowdown in defense industry and military requirements for power, CP&L could begin to devote its capacity to meeting the pent-up domestic and peacetime needs for energy. In its expansion program, the company emphasized service to rural and farm areas as well as power for new industries. Service and maintenance were improved by means of a two-way radio system developed from experiments begun in Sumter, South Carolina, in 1946.

New generating capacity headed the list of major postwar expansions voted by the directors in September 1947. They authorized a 90,000-kilowatt plant near Lumberton and a 75,000-kilowatt unit at Goldsboro. The Lumberton plant introduced a new style of "outdoor" plant architecture and was the first of its type for a coal-burning unit ever to be built by any company. At the new plant, conventional buildings were lacking. Instead, individual components were weatherproofed. This new style reduced costs and hastened construction but did not sacrifice efficiency. Other CP&L plants built after this time used the outdoor type of construction.

While the company was expanding its generating capacity, it was also to achieve another measure of maturity through financial independence. Dissolution proceedings against National Power & Light Company were instigated, under the provisions of the Public Utility Company Holding Act, in 1940 by the Securities and Exchange Commission. Electric Bond & Share, CP&L's parent company, received 46.56 percent of CP&L's common stock and sold the bulk of it in 1948.

For a while, it appeared that CP&L might be broken up into a number of smaller companies and thereby lose the

strength it had so painstakingly developed over the years of consolidation. However, the board of directors, composed partly of able Carolinians, agreed upon and achieved a policy of preserving corporate autonomy and home ownership for the enterprise.

Four months after the dissolution of the holding company, CP&L stock was listed on the New York Stock Exchange. The first 100 shares to be traded were purchased by Robert M. Hanes of Winston-Salem, at that time a director of CP&L and president of Wachovia Bank & Trust Company. The date was December 23, 1946.

As the company moved into the fifties, it continued to grow. A merger with Tide Water Power Company in 1952 added 65,000 customers in an 8,000-square-mile area to CP&L's service roster. (The Tide Water acquisition represented CP&L's last major geographical expansion.) Construction of new generating facilities continued as well. In 1954, the Sutton plant was built near Wilmington, and in 1956, a new unit went on line at the Cape Fear plant. Still another unit went into service there on July 13, 1958, the fiftieth anniverary of CP&L.

Generating plants built by the company during its first 50 years used coal, oil, or water to produce electricity, but the genesis of a new power source came in 1955 when the company received clearance to review classified information on nuclear energy and 30 employees took courses at N. C. State University, the first campus in the U. S. to have a nuclear reactor. In 1956, CP&L joined three other electric utilities in forming CVNPA—the Carolinas-Virginia Nuclear Power Association. During the next two decades, the peaceful use of the atom would become a reality.

The Sixties: A Bright Decade

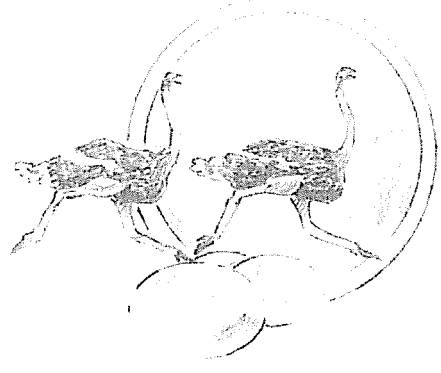
For CP&L, the sixties were "a million dollar decade." In 1963, the company reached the $100 million mark in annual revenues—$103,742,350, to be exact.

The watchwords for company activities were "Sales" and "Service." It was to the advantage of the customer, as well as the company, to increase electric sales because higher sales meant that CP&L could build and utilize larger, more efficient generating plants. As a result, per kilowatt-hour costs went down.

A new low rate for electric heating was announced in 1960, and promotion campaigns for all-electric homes, heat pumps, and outdoor lighting went into full swing. Women, in their capacity as home economists and later as "Electric Living Specialists," made up an important part of the sales force. They promoted electric ranges, dishwashers, washers, dryers, and other domestic uses of electricity.

Energy sales between 1959 and 1969 nearly tripled. Home heating, air conditioning, an average of 20 electric appliances per home, and rapid industrial development contributed to the increase. One of the new industries served by CP&L involved a bit of reverse history. The "Simon & Senora" candlemaking factory in Clayton, N. C., was an all-electric operation.

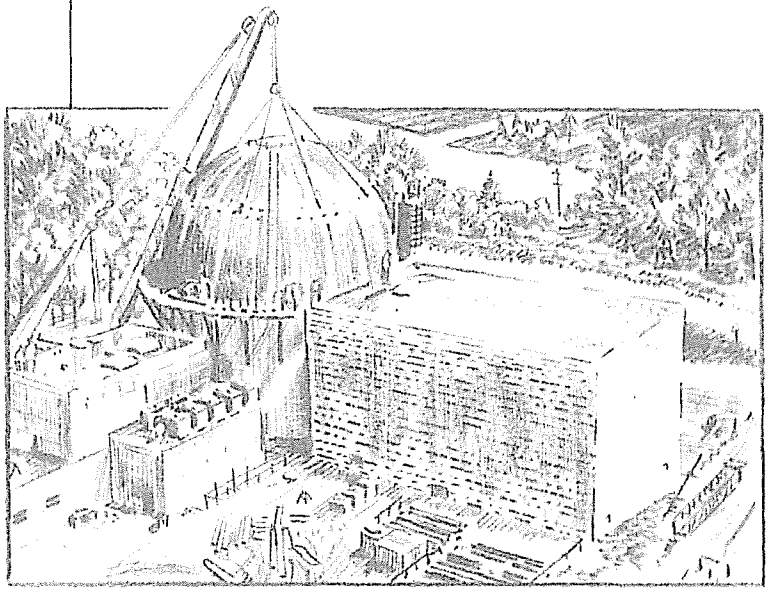
Along with the sales effort went an emphasis on service. CP&L'ers often gave courses on installation, maintenance, and repair of electrical appliances or equipment. Sometimes, an unusual request for service was accommodated—like the time CP&L agreed to hatch an egg! Because a scheduled service interruption would have interfered with the incubation of some ostrich eggs (valued at $400 apiece) on a farm near Spruce Pine, a CP&L crew transported a portable generator to



the farm and connected it to the incubator for use during the outage.

Since more people were using more electricity, CP&L accordingly made plans to expand its generating capacity. In 1961, the board of directors authorized the largest construction budget to that date—$76 million. Building the Roxboro plant (first unit completed in 1966) was something of a "family affair" for the Barwicks, construction workers from Windsor, South Carolina. "Pop" Barwick, aged 71, and his sons James—34, Earl—29, and Marion—21, all worked together on the project.

Everyone, however, was not so cooperative. Engineers trying to clear the river valley for the plant's cooling lake had a running battle with the resident beavers. These animals felt that they knew more than the engineers about where dams should be constructed, and they continued to rebuild their own whenever the engineers tore them down.



As the use of electricity expanded after World War II, better coordination was achieved between CP&L and its neighbor utilities. CVNPA, formed in 1956, built a prototype reactor at Parr Shoals, South Carolina, and electricity from nuclear power was generated there in December 1963. Work on a nuclear unit at the Robinson plant began in 1966. CP&L had truly entered the nuclear age.

To strengthen system reliability and provide flexibility in generation planning, CP&L joined other utilities in the tri-state area in organizing CARVA (Carolinas-Virginia Power Pool) in 1964. Member companies agreed to sell their extra generation to each other until it was needed by the owner company. Benefits included improved emergency service, reductions in the cost of maintaining reserve capacity, and the capacity to build larger, more efficient generating units.

The CARVA agreement was terminated in 1970 when the Virginia-Carolinas Reliability Group (VACAR) was formed. A broader-based organization, VACAR's membership includes more companies and its activities are coordinated with regional and national reliability councils.

The sixties also were marked by the settlement of two long-standing controversies between investor-owned electric utilities and rural electric cooperatives. In North Carolina, legislation requiring co-ops to pay property taxes, just as private companies were required to do, was passed in 1965; similar legislation was enacted in South Carolina in 1969. Both states also passed legislation which defined the territorial rights of power suppliers.

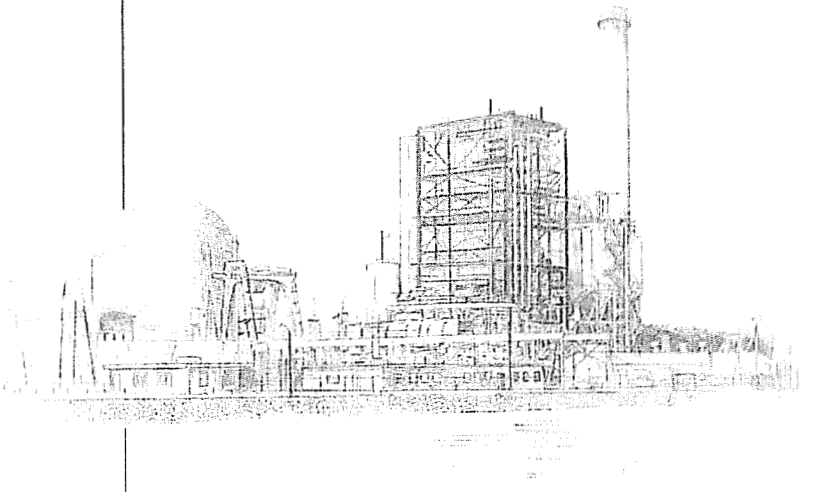
The Seventies: Coping with Change

CP&L began the seventies under a new type of organizational structure. As the result of a two-year study conducted by management and outside consultants, the company's functions were divided into four groups headed by "group executives" who reported to the president. The first group to be formed was Legal and Finance in 1967. Customer Services, Operating and Engineering, and Administrative Services were formed in 1968.

Upon the death of Louis V. Sutton in January 1970, Shearon Harris, who had been president of the company since 1963 and chief executive officer since 1969, assumed the additional role of chairman of the board. Mr. Harris's "positive mental attitude" became well known to employees throughout the company. Whenever anyone asked "How are you?", his unfailing reply was, "the best in the world."

Because the demand for electricity had increased so dramatically in the 1960s, CP&L continued its program of expanding generation capacity. In March of 1971, the company placed in service the first commercial nuclear unit in the South-

east at its H. B. Robinson plant near Hartsville, South Carolina. Three hundred guests attended the dedication ceremony at which the governor and other officials spoke. The event was called an "historic milestone" with "momentous implications for the future." Construction of a nuclear plant (Brunswick) was also begun at Southport, North Carolina. The first unit went commercial in November 1975, the second in March 1977.

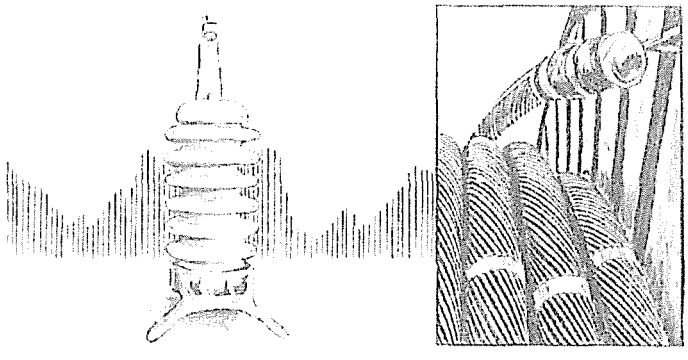


Nuclear power was a new phenomenon, so special efforts were made to explain how plants work, why they are safe, and why they are economical. Company spokesmen appeared before civic groups and on talk shows, and gave newspaper and magazine interviews. An "Energy Education" program was initiated for schools; printed information was distributed to employees and customers; visitor centers were opened at the nuclear plants.

Even prior to the advent of nuclear power and the public's growing concern about the environment, CP&L had gone to great lengths to protect air, water, and land resources. Fossil plants burned high-quality, low-sulphur coal and were equipped with mechanical dust collectors. Lakes were built to serve as cooling facilities for generating plants. Miles of transmission line right-of-way were cleared and prepared for plant-

ing crops or wildlife cover. By the early 1980s, the company had invested nearly $400 million in environmental protection devices. Efforts were made to inform the public of what CP&L was doing, and also to explain that environmental protection added to the cost of producing electricity in two ways—the cost of equipment and the cost of reduced operating efficiency.

The seventies saw a drastic change in the economics of the electric business. Costs began to escalate on every side. The cost of fuel, labor, material, construction and capital more than doubled.



As a result, the trend of the sixties was reversed so that each new generating unit added to, rather than reduced, the cost of operation. As Mr. Harris put it, "The ravages of inflation outran the ingenuities of engineering." Caught, like all other businesses, between an economic recession and spiraling inflationary costs, CP&L was forced to ask for its first general rate increase in May of 1970. (In the 32 years prior, the company had *reduced* rates 27 times.)

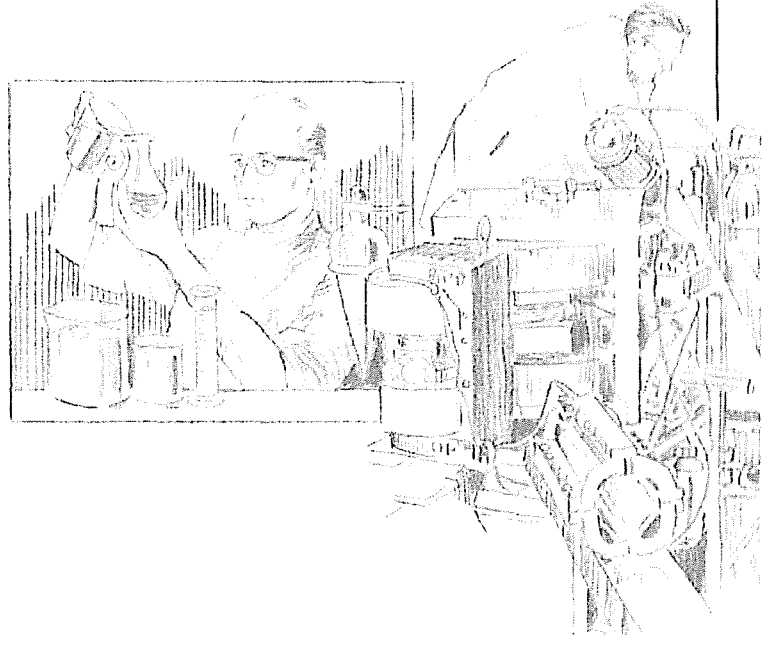
On the eve of its 200th anniversary year, the nation was engaged in an economic war for energy independence. For CP&L, with operating costs rapidly eroding revenues and customers becoming increasingly irate as their electric bills rose, it was indeed "a time to try men's souls." In early 1975, public reaction to higher priced electricity reached the height of indignation. Reddy Kilowatt was hanged in effigy by a group of demonstrators who came to Raleigh to protest before the North Carolina Utilities Commission.

The situation reached the point that, when the North Carolina Utilities Commission reduced the fuel adjustment clause in February of 1975, it caused serious cash flow problems for the company. Stringent economy measures went into effect throughout the system: maintenance was deferred wherever possible, contributions to charity and research and development were drastically reduced, special services (such as the electric consumer consultants) were discontinued. All employees took temporary pay cuts.

Slowly, things began to improve. As the overall economy recovered somewhat, industrial energy sales returned to more normal levels. Regulatory relief, in the form of higher rates, was granted. A North Carolina Utilities Commission-ordered management performance audit of the company (conducted by Booz, Allen & Hamilton) gave CP&L good marks and helped to restore public confidence.

In December 1976, the company's management was again restructured to meet changing conditions. Sherwood H. Smith, Jr. became president and chief administrative officer, and J. A. Jones became chief operating officer. Shearon Harris remained chairman of the board until his untimely death in August 1980.

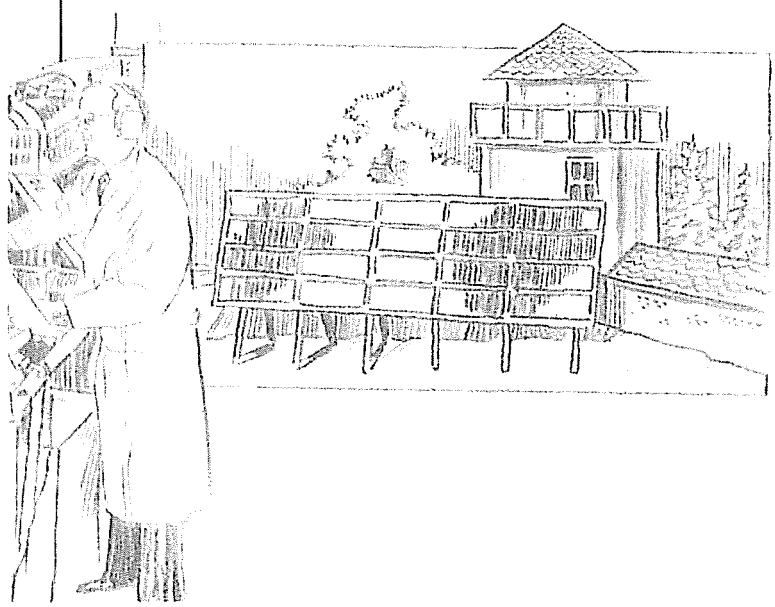
The worst accident in U. S. commercial nuclear power history occurred in March 1979 at General Public



Utilities' Three Mile Island Nuclear Power Plant near Harrisburg, Pennsylvania. A mechanical malfunction in the feedwater system of the reactor resulted in a loss of cooling water and caused the core of the Unit 2 reactor to overheat and partially melt. Though the accident was contained and radioactivity released to the environment was minimal, it was to have a major impact on the future of the nuclear industry.

As a result of the accident, the Nuclear Regulatory Commission (NRC) tightened its licensing procedures and ordered a number of modifications to be made at existing nuclear units. Regulations, which began in the interest of safety and protection of the environment, became excessive. New plants were postponed or canceled, and existing units were shut down to complete the required modifications. In order to make up for this loss in nuclear generating capacity, CP&L and other utilities were forced to burn more expensive fuel in less efficient generating plants. This increased the cost of electricity, and public acceptance of nuclear power declined.

Nuclear power companies responded swiftly and definitely to TMI. They formed full-time task forces which reviewed every aspect of their nuclear units and installed additional equipment to further assure reliable and safe operations. The electric utility industry established two national organizations, the Institute of Nuclear Power Opera-



tions (INPO) and the Nuclear Safety Analysis Center (NSAC), to ensure the high quality of nuclear plant operations.

CP&L has consistently maintained a leadership role in the electric utility industry. This position was reaffirmed and reemphasized in the 1970s. Shearon Harris, like his predecessor Louis Sutton, served as chairman of the Edison Electric Institute, a national organization composed of investor-owned utilities. In his role as chairman, Mr. Harris was instrumental in the development of EPRI (Electric Power Research Institute). Founded in 1972, EPRI has become the primary research arm of the electric utility industry. EPRI operates on contributions from electric suppliers, and its multimillion dollar budget funds approximately 1500 active research and development projects.

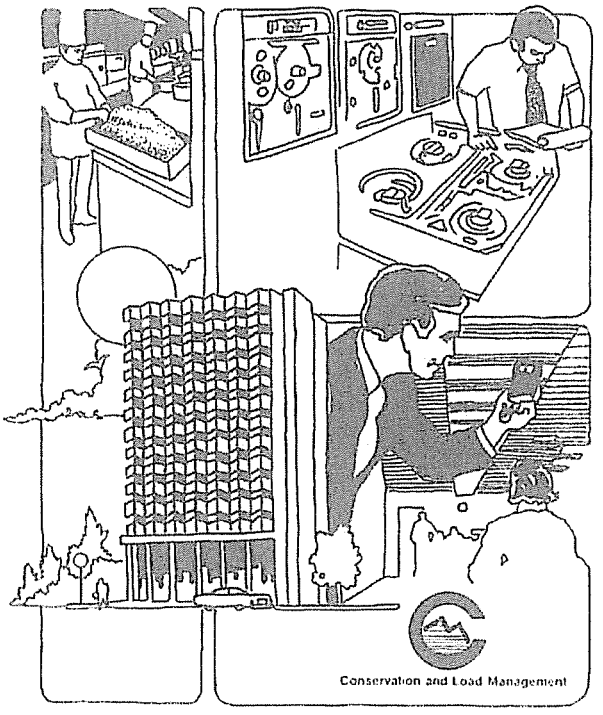
CP&L's individual commitment to research and development includes not only support for EPRI but also participation in various state and national load management and peak load pricing studies. Other areas of research that the company is pursuing include solar home design, solar water heaters, new power generation alternatives, and environmental related studies.

Challenge of the Eighties

In the 1980s the stage is set for greater reliance on electric energy. As the nation begins to revitalize its economy, major industries such as automobile, steel, paper and chemical are electrifying their processes to improve economic efficiency. The emerging "information society" with its computers, word processors, and telecommunications equipment will be powered by electricity. Many of these applications require a high degree of service continuity which places even greater demands on the reliability and adequacy of electric power systems. Electricity's share of total energy use is expected to increase from one-third today to nearly one-half by the year 2000.

In 1971, long before it was fashionable, CP&L began promoting wise energy use in its 30,000-square mile service area. In 1981, it intensified its efforts. Confronted by rising fuel, environmental, construction, and capital costs—all of which made new power plants more expensive and raised rates—the company committed itself to one of the most ambitious load management programs ever undertaken by an American utility. The new program was designed to reduce

peak demand 1750 megawatts by 1995, the equivalent capacity of two large generating units. To achieve this goal, a Conservation and Load Management Department was established. Its purpose is to pursue cost effective programs which permit good service at the lowest possible rates for customers while maintaining an adequate reserve margin to encourage and support economic growth. By 1983 CP&L's plan consisted of 37 specific programs targeted toward residential, commercial and industrial customers.



The rate of energy consumption has slowed since the 1973 OPEC oil embargo due to reduced economic expansion, consumer response to higher energy prices, and increased emphasis on conservation and load management. But CP&L has continued to experience growth in both demand and energy sales. Between the oil embargo and the early 1980s, the company's electric sales increased by almost 50 percent and demand grew at an annual rate of 3.5 percent.

The annual growth in the demand for electricity in the company's service area through 1995 is estimated to be slightly below 3 percent. The lower rate reflects a slowdown in the economy and the expected impact of the conservation and load management program.

Because of financial constraints, CP&L directors canceled two units at the Shearon Harris Nuclear Power Plant in New Hill, North Carolina, and delayed construction of Harris Unit No. 2 to 1990. Construction of a second coal-fired unit at the company's Mayo plant was delayed until 1992.

In August of 1981, the North Carolina Utilities Commission ordered an audit of CP&L to review company operations and overall performance. Under North Carolina law, the Commission has the authority to order an independent audit of utility companies every five years. The Commission selected Cresap, McCormick and Paget, Inc., a national management consulting firm, to perform the audit. Cresap, McCormick and Paget, Inc. was chosen to perform the audit because of their strong reputation for work in construction management, nuclear and fossil plant operations and maintenance, and complex management systems. In September 1982, the results of the audit placed "CP&L among the industry leaders in many areas." While the report did make some recommendations for improvements, "in many respects (it found) CP&L one of the best-managed utilities audited in the past several years."

The Cresap report confirmed the fact that CP&L had performed well by any reasonable measure. The report was in direct contrast to heavy criticism aimed at the company for its nuclear operations, which had experienced considerable downtime due to maintenance, modifications, refueling and regulatory requirements.

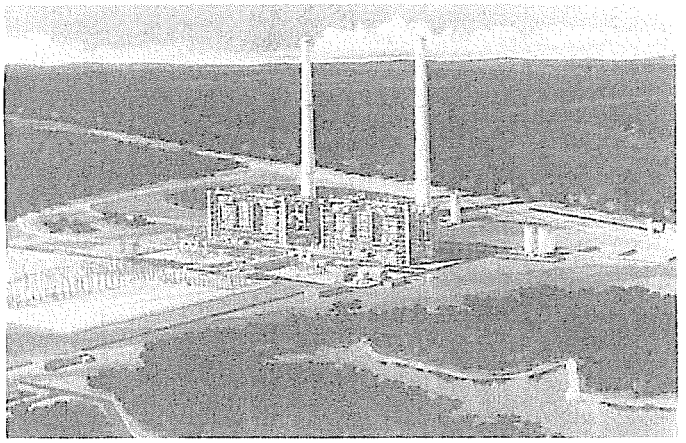
While regulators approved retail rate hikes in the early eighties, the increases granted were below requested amounts. Still the company provided continuity of service 99.98 percent of the time at rates below the national average and among the lowest in the Southeast.

Because of intense public pressure to hold rates down, legislators and regulators have sought ways to provide for short-term consumer benefits at the expense of long-term customer interests. This regulatory action limits electric companies' ability to finance even minimum construction programs to provide for future economic growth.

During the decade ending in 1982, CP&L assisted in locating over $4.8 billion in new and expanded industrial investment in its service area. This meant over 115,000 industrial jobs for area citizens. All of this came during the period of reduced growth in many sections of the nation.

For the company to continue to meet future needs for electric service, the public must understand better the tremendous costs associated with increased generating capacity and consequent economic growth.

On March 1, 1983, the Mayo coal-fired Unit No. 1 in Person County, North Carolina, began commercial operation. The unit, which represents an investment of over $500 million, was constructed on schedule and within budget. It adds approximately 720 megawatts to the system, bringing the system's total capacity to over 8700 megawatts.

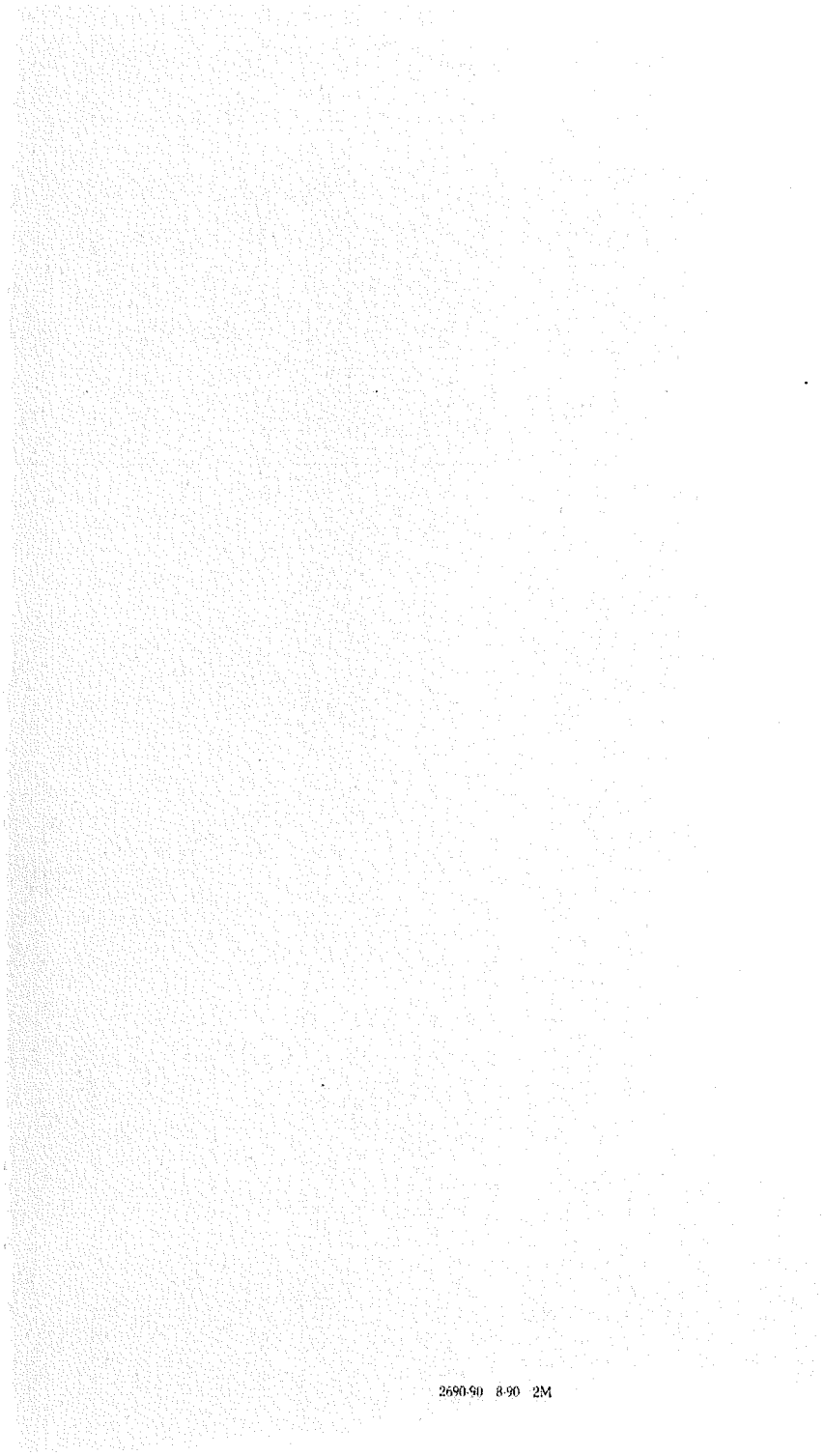


Over the next ten years, with its 1983 construction program, CP&L will have to double its current investment in plants and other facilities to achieve a one-third increase in generating capacity and assure the development expected in the area.

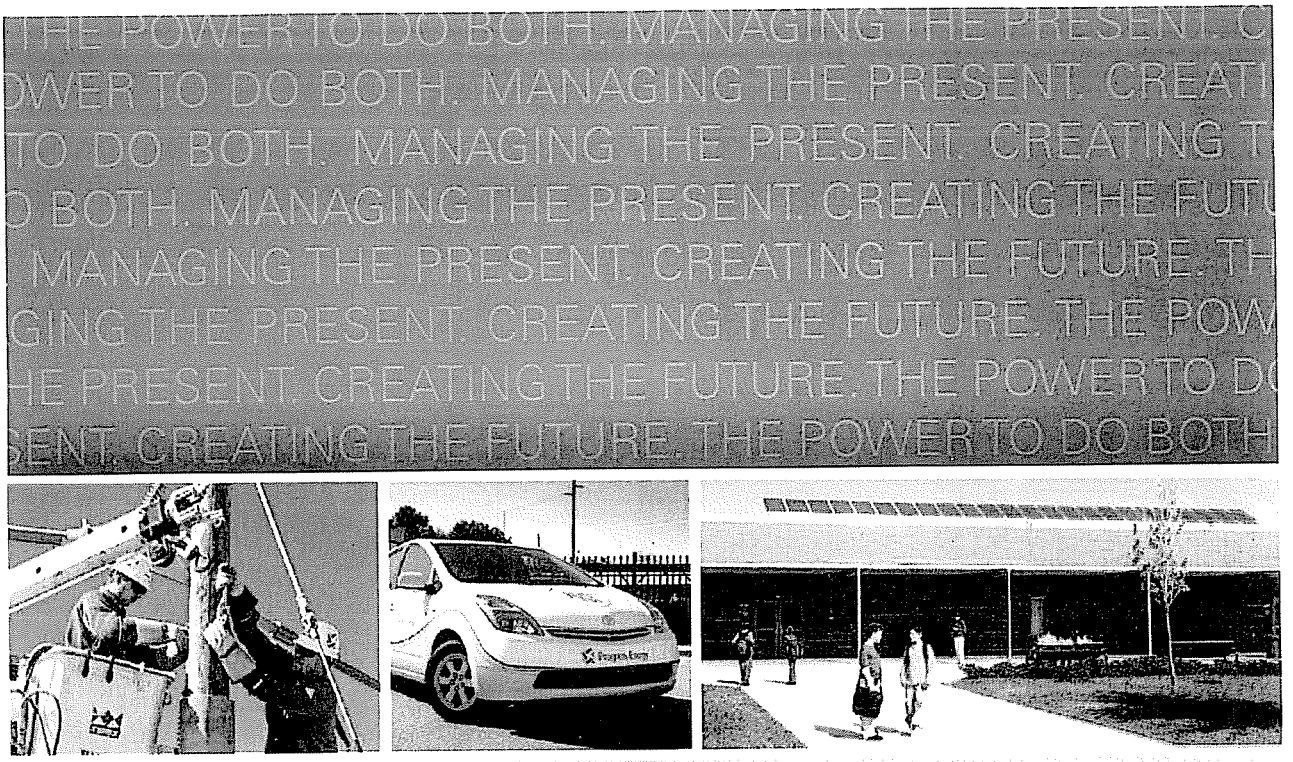
In order to reduce the amount of external financing necessary for its construction program, the company reached an agreement with the North Carolina Eastern Municipal Power Agency. The agreement provided for the sale of undivided ownership interest in four of CP&L's generating plants to the Power Agency. CP&L continues to operate the

plants and supply power to 32 municipalities through the Power Agency. A similar sale of ownership interest in CP&L's generating facilities is being explored with both the North Carolina Electric Membership Corporation and with the City of Fayetteville.

Through the eighties, the company expects to face intense challenges in raising capital to finance construction to provide power for the economic development of the area it serves. Underlying the ability to provide this need is CP&L's heritage—the determination, strength, dedication, and ingenuity of its employees.

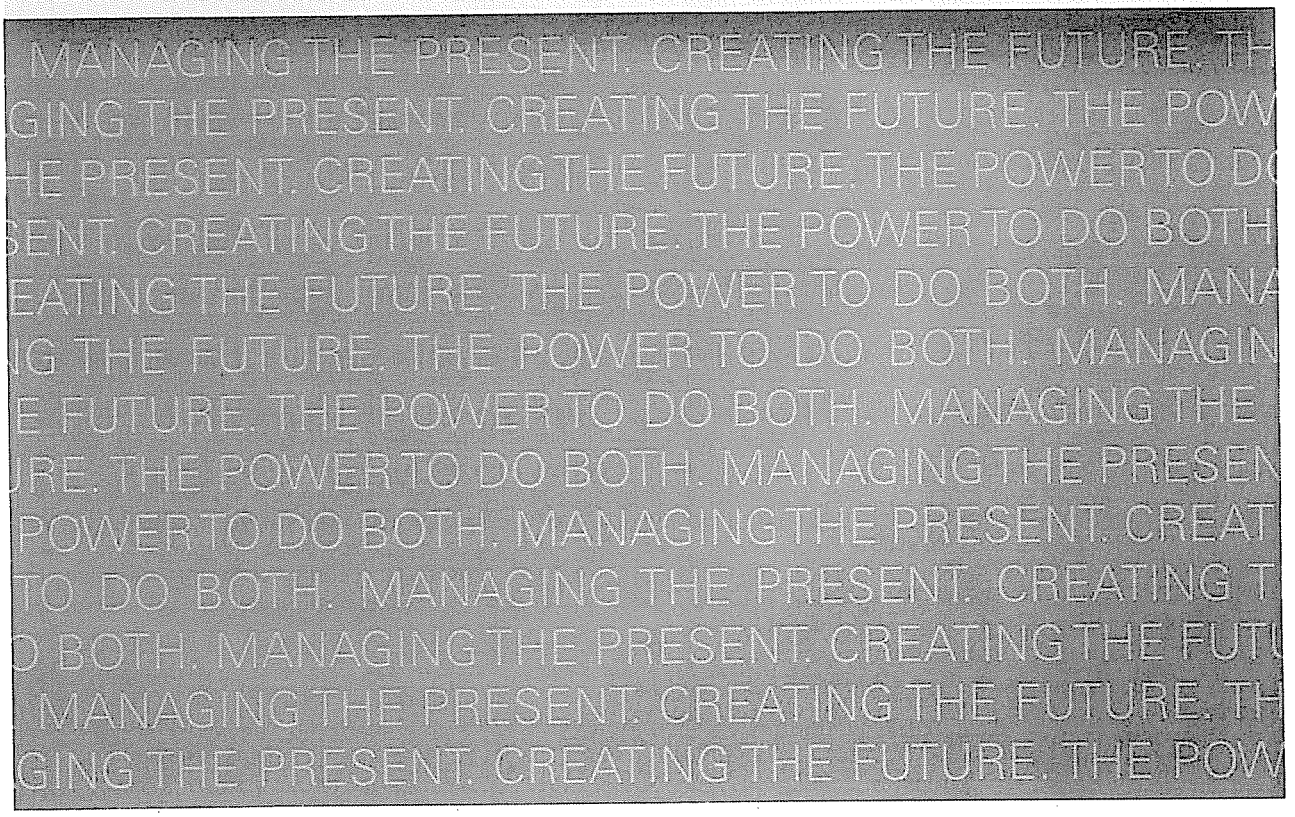



CP&L
Carolina Power & Light Company



2010 Corporate Responsibility Executive Summary

MANAGING THE PRESENT. CREATING THE FUTURE. THE POWER TO DO BOTH.



Progress Energy

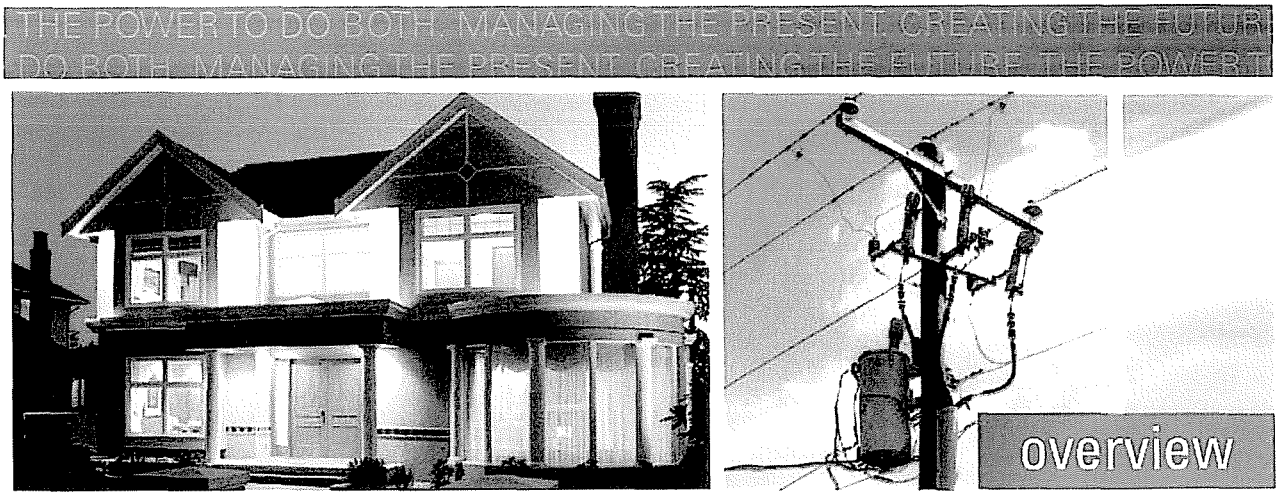
It is my pleasure to present Progress Energy's 2010 Corporate Responsibility Report. As in past editions, this report provides an overview of how our company is meeting its commitments and responsibilities – to our customers, our employees, our shareholders, the communities we serve and the environment.

Progress Energy provides an essential service that touches millions of lives daily. And as an electric utility in one of the most heavily regulated industries, we are subject to considerable independent oversight and public scrutiny. We operate dozens of large, complex facilities and a power grid that connects us directly with neighborhoods, businesses, manufacturing operations and others throughout our service areas. With billions of dollars invested in the energy infrastructure, our business success is directly linked to the economic prosperity of the communities we serve.

Given these vital connections and our own core values, Progress Energy is interested in much more than the financial bottom line. We're focused on managing the present while creating the future – ensuring that we meet the needs of those who depend on us today while adapting successfully to the challenges tomorrow will bring to our energy landscape. That's important because our business environment today is characterized by significant change and ambiguity, as federal climate and energy policy unfolds and as emerging technologies present new strategic opportunities and risks.

We hope this report is helpful to you in understanding Progress Energy's business practices and commitment to our corporate responsibilities. Our intent – and the expectation we have of ourselves – is to earn your confidence and trust year after year with strong performance, a long-range perspective, responsible behavior and business transparency.

William D. Johnson
Chairman, President and Chief Executive Officer
May 2010



Progress Energy (NYSE: PGN), headquartered in Raleigh, N.C., is a Fortune 500 energy company with more than 22,000 megawatts (MW) of generation capacity. Our company has two regulated, integrated electric utilities that serve about 3.1 million customers in North Carolina, South Carolina and Florida.

Company Facts:

- Nearly 11,000 employees
- Approximately $10 billion in annual revenues
- Progress Energy Carolinas (PEC) covers more than 34,000 square miles
- Progress Energy Florida (PEF) covers more than 20,000 square miles

2009 Generation (megawatt-hours [MWh]):

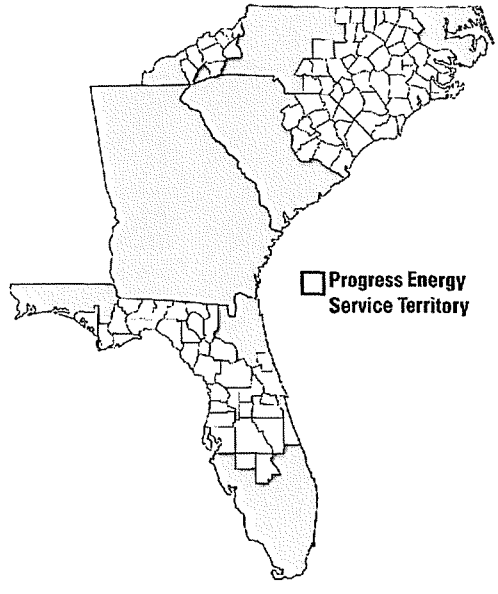
- 32 sites in the Carolinas and Florida
- 41% Coal
- 35% Nuclear
- 24% Gas/Oil
- <1% Hydropower
- Purchased 1.25 million MWh from renewable energy resources

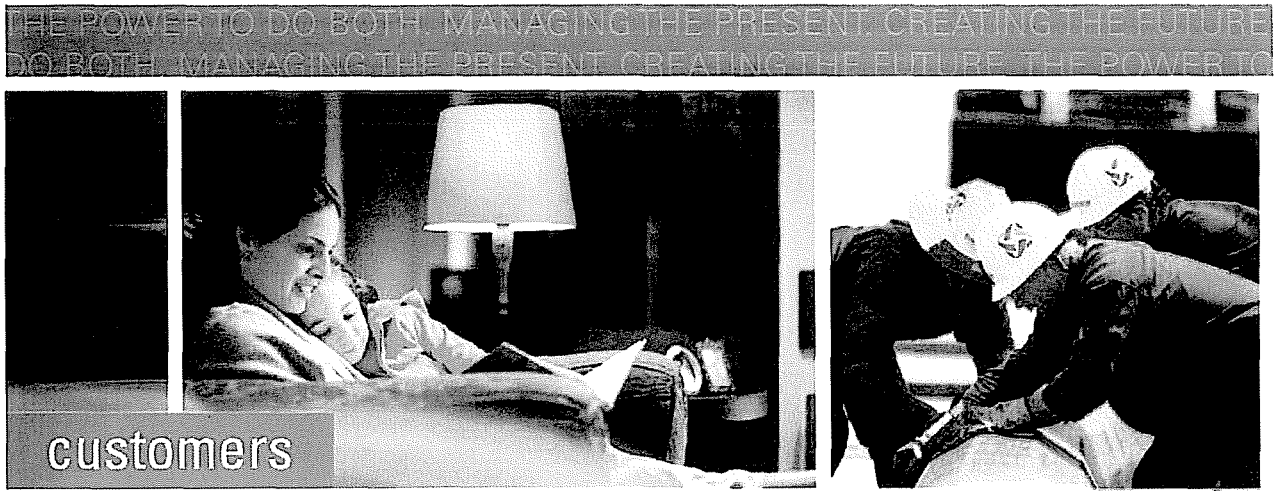
Recent Recognition:

- Edison Electric Institute's Edison Award, the industry's highest honor
- J.D. Power and Associates Founder's Award for customer service
- Dow Jones Sustainability North America Index (DJSI North America) for five consecutive years

'09 Progress Energy Customer Base

Progress Energy Carolinas: Approx. 12,500 MW capacity, About 1.5 million customers
Progress Energy Florida: Approx. 10,000 MW capacity, About 1.6 million customers





Safely delivering reliable, clean and affordable power – for today and tomorrow – is our fundamental responsibility to our customers.

Key Highlights

- Long-term strategy includes a strong emphasis on energy efficiency – since 1981 our programs have reduced usage by 29 billion kilowatt-hours (kWh).
- Selected to receive a $200 million U.S. Department of Energy grant for smart grid programs.
- Actively seeking new energy solutions while retiring aging coal-fired units.

A Balanced Solution Strategy

A major strategic challenge facing our company is meeting population and demand growth in the communities we serve. We are actively pursuing a balanced strategy that combines energy-efficiency programs, alternative and renewable energy and a state-of-the-art power system.

Energy Efficiency and Demand-Side Management

The company's new Efficiency and Innovative Technology Department was created to develop programs to help customers use energy responsibly and to expand the use of renewable energy and other innovative energy technologies. Progress Energy significantly increased its energy-efficiency portfolio in 2009, receiving regulatory approval for numerous new customer programs in the Carolinas and expanding the offerings in Florida to include new solar energy programs and additional support for lower-income customers.

Our energy-efficiency programs include customized energy reports evaluating customers' energy use and incentives for energy-efficiency home improvements. The company also worked with various retail stores to offer discounts to customers purchasing ENERGY STAR® lighting products such as compact fluorescent light bulbs (CFLs).

Alternative and Renewable Energy

Progress Energy is investing in renewable and alternative energy resources by partnering with organizations throughout our service territory to develop solar, wind, biomass, fuel cells and other renewable technologies. We launched several new programs under our SunSense℠ brand, giving customers incentives for investing in solar water heating and solar photovoltaic (PV) panels for their homes. Our renewable energy activities are discussed in detail in the environmental chapter of the full online report.

Modernization of Our Power System

Even with significant investments and expansions of energy-efficiency programs and renewable energy resources, we will need a state-of-the-art power system to meet customers' energy demands in the future.

In 2009, Progress Energy announced that the company intends to shut down all of its North Carolina coal-fired power plants that do not have sulfur dioxide (SO_2) emissions reduction equipment (flue-gas desulfurization controls). This plan includes retiring 11 coal-fired units at four sites for about 30 percent of the company's coal-fired power generation fleet in the Carolinas by the end of 2017. To replace these generation sources, the company plans to build two new state-of-the-art natural gas combined-cycle power plants. This will result in significant reductions in emissions such as carbon dioxide (CO_2), SO_2, nitrogen oxides (NOx) and mercury.

In Florida, the company recently completed the repowering of the Bartow Plant, modernizing the 50-year-old facility, located on Tampa Bay, to use cleaner natural gas and more than doubling its generating capacity.

Converting coal plants to natural gas is a significant step toward reducing our carbon emissions. However, even converting every coal-fired unit in our fleet would not be sufficient to meet anticipated emission-reduction targets of the future. Therefore, the company is also pursuing more carbon-free nuclear energy – through the upgrading of existing plants and possible construction of new ones.

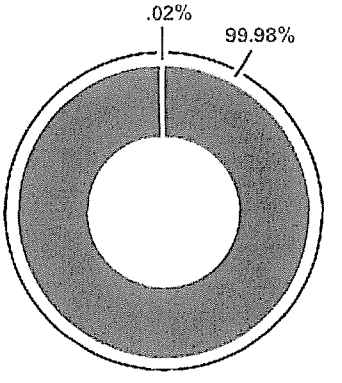
We're also investing in new energy-delivery technologies, including enhancements to the electric grid commonly known as "smart grid." In the future, these EnergyWise℠ smart grid initiatives could improve system reliability, increase the use of renewable energy resources, and enable programs giving customers better control over their energy use. In 2009, the U.S. Department of Energy selected Progress Energy to receive a $200 million grant for smart grid programs.

Delivering Reliability and Customer Satisfaction

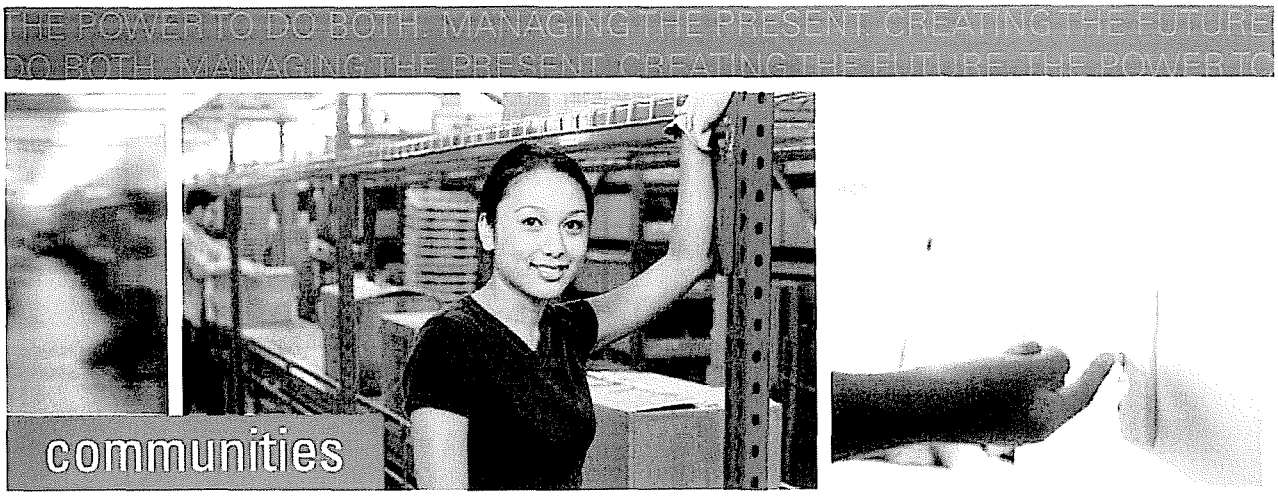
Our efforts to improve service reliability are more intense than ever. We continue to increase our preventive maintenance, investing millions of dollars in the energy delivery systems and infrastructure that serve our customers. As a result, reliability trends for Progress Energy Carolinas and Progress Energy Florida are in the industry's top quartile.

Along with reliable power, we are committed to providing the highest level of customer service. Our long-term success can be seen in numerous national awards and rankings, including the 2010 J.D. Power and Associates' business customer survey, which ranked Progress Energy Carolinas first among the South Region's large utilities – for the second year in a row – and first among all large utilities nationally.

Progress Energy Reliability



Customers of both Progress Energy Carolinas and Progress Energy Florida had electricity for 99.98 percent of the time in 2009. This index is measured by the total average time customers are without power during the year, excluding hurricanes or other major storms.



We believe there's nothing more powerful than strong communities. For more than a century, we have maintained thriving relationships with the communities we serve, consistently giving our time and resources to make a real difference in the places we call home.

Key Highlights

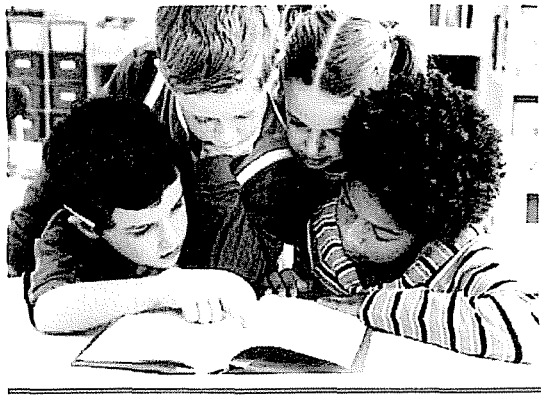
- Since 1982, our Energy Neighbor Fund has provided more than $30 million to families in need.
- Nearly 3,000 employees tracked more than 24,000 volunteer hours in the community during 2009.
- Named one of the top organizations in America for Multicultural Business Opportunities by Diversity-Business.com.

Community Investments

We take an active role in building and supporting the communities we serve, thoughtfully committing both our financial resources and time.

Many of our customers are struggling during these tough economic times. In response, the Progress Energy Foundation doubled its annual contribution to the Energy Neighbor Fund from $500,000 to $1 million in 2008 and has maintained this

'09 **Progress Energy Community Investments*** *Breakdown by focus areas*



Education	$3,301,000
Economic Development Includes arts & cultural investments	$2,374,000
Health & Human Services Includes employee giving campaign and Energy Neighbor Fund	$2,116,000
Environment	$1,128,000
Civic & Community	$735,000
Other	$231,000
Total	**$9,885,000**

*Includes Progress Energy Foundation contributions.

level in 2009 and 2010. This fund provides assistance to customers who have difficulty paying energy costs, regardless of whether their homes utilize electricity, natural gas or other fuel sources.

During 2009, Progress Energy also invested nearly $10 million in programs that align with the company's strategic plan in four targeted areas – education, environment, economic development and employee involvement.

Economic Development

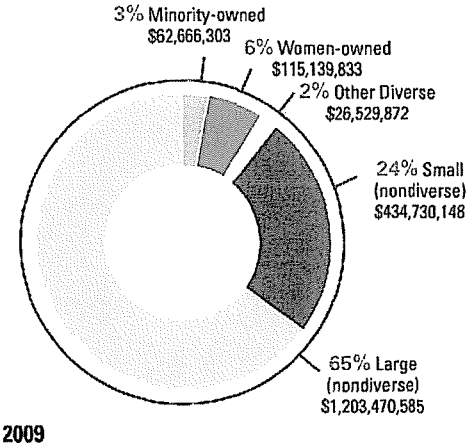
Progress Energy has a long history of collaborating with communities in the Carolinas and Florida to support economic growth. Progress Energy's economic development team helped to attract more than 3,200 jobs and more than $550 million in investments to the company's service areas in the Carolinas and Florida in 2009.

Another important way we support our local economies is through our Supplier Diversity Program, providing equitable opportunities for small and diverse businesses to supply goods and services to our company. In 2009, we worked with 400 women- and minority-owned suppliers to obtain more than 11 percent of nonfuel procurements, exceeding our goal of 10 percent. In 2010 we will focus additional efforts on secondary vendors, ensuring our primary vendors use minority companies in executing large contracts that have substantial subcontracting opportunities.

'09 Economic Investment in Progress Energy's Service Area

Year	Investment	Jobs created
2001	$777,250,000	6,898
2002	$658,101,000	4,956
2003	$694,502,000	9,369
2004	$933,910,000	10,051
2005	$1,536,727,000	14,048
2006	$1,417,012,000	7,711
2007	$951,145,000	10,405
2008	$2,563,662,000	11,131
2009	**$553,937,300**	**3,216**

'09 Supplier Diversity: *Minority and Women Business Enterprise (MWBE) Paid Dollars*



2009

Total Progress Energy procurement	$1,636,903,088
MWBE actual spend	$204,336,007
MWBE percentage	11.1%
MWBE 2009 goal	10.0%

Figures do not include fuels spend. "Other Diverse" spend includes: veteran-owned business concern, service-disabled veteran-owned business concern, HUBZone business concern, and 8a business concern.

Collaborative Partnerships

Successful stakeholder engagement requires a commitment to actively listen, build relationships and collaborate with others to achieve objectives. We believe that constructive engagement benefits both Progress Energy and our stakeholders, and we have embraced it as an integral tool to learn what is important to our customers, communities and shareholders.

Our company is committed to maintaining a constructive legislative and regulatory climate to ensure we can continue to provide reliable and affordable energy to our customers. We routinely communicate with elected officials and regulatory agencies on energy issues and advocate clear, thoughtful policies that provide shared benefits.

Progress Energy is actively working to reduce greenhouse gas (GHG) emissions and help shape effective climate change policies. We are committed to moving forward constructively for our company, our customers and the environment we share.

Key Highlights

- Actively reducing GHG emissions through energy efficiency, renewable and alternative energy and a state-of-the-art power system.
- GHG emissions for 2009, reported voluntarily, were the lowest in more than a decade.
- Taking an active, constructive role in helping to shape effective public policy.

Our Global Climate Change Position

The key focus in the power industry today is how to address the challenges of global climate change and demand growth while maintaining a secure electric supply, reliable service and affordable rates. At Progress Energy, we are taking action to curb our GHG emissions through our balanced strategy of energy efficiency, renewable and alternative energy and a state-of-the-art power system. And we are working constructively to help shape national policies that achieve the greatest reduction in GHG emissions at the lowest cost to the consumer.

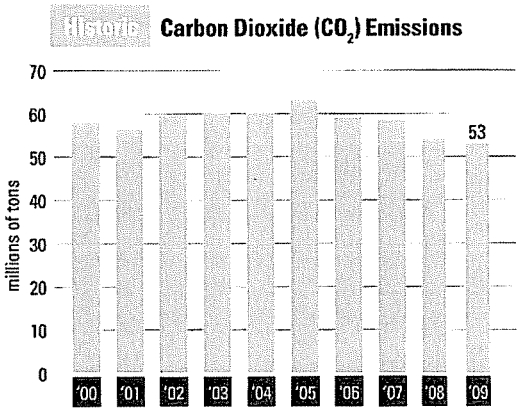
Today, coal-fired power plants generate about half the electricity Americans use. Progress Energy is converting several coal-fired plants to cleaner-burning natural gas plants; however, natural gas still emits CO_2, so fuel switching alone cannot achieve the needed reductions. Therefore, we must replace fossil-fueled generation with carbon-free resources. Today, the only technology capable of producing carbon-free electricity on a utility scale, 24 hours a day, is nuclear energy.

In addition, climate change policies should be designed to avoid imposing economic hardships on electricity consumers, especially those of modest means, whose energy costs represent a larger share of their monthly income. For example, should a cap-and-trade program be utilized, we strongly believe that emission allowances should be allocated in a manner that most effectively reduces costs to retail customers.

To view our full global climate change position, please visit **progress-energy.com/environment**

Committed to Reducing GHG Emissions

Progress Energy's total CO_2 emissions, which account for nearly all of our GHG emissions, peaked in 2005 but have been decreasing since then. Our 2009 emissions were the lowest in more than a decade.



Progress Energy voluntarily joined The Climate Registry as a founding reporter in 2008, and detailed information regarding all major greenhouse gas emissions from the company's operations are available at TheClimateRegistry.org.

While the reductions are due in part to the economic downturn, we are taking a variety of actions to help prevent or reduce GHG emissions even when the economy recovers. Our balanced strategy for the future has three parts: aggressive energy efficiency, innovative renewable and alternative energy, and a state-of-the-art power plant system. We continue to move forward on all these fronts, including taking steps to build new advanced nuclear plants and to evaluate and develop new emerging technologies.

In addition, Progress Energy has joined the Chicago Climate Exchange (CCX), a voluntary program whose members have committed to reducing their GHG emissions by 6 percent (from 2000 levels) by the end of 2010.

The charts on page 10 compare the current (2009) energy resource mix for all of Progress Energy with an illustrative view of the potential mix in 2030, using current planning projections. The charts show that, to accommodate the projected additional load growth from 2010 through 2030, cleaner energy resources will play an increased role, including energy-efficiency improvements, additional natural gas-fired generation and new nuclear capacity. The charts also demonstrate that our current plans will result in carbon emission reductions, but there remains a small gap between our projections and the proposed national carbon limits.

Carbon Policies and Impacts

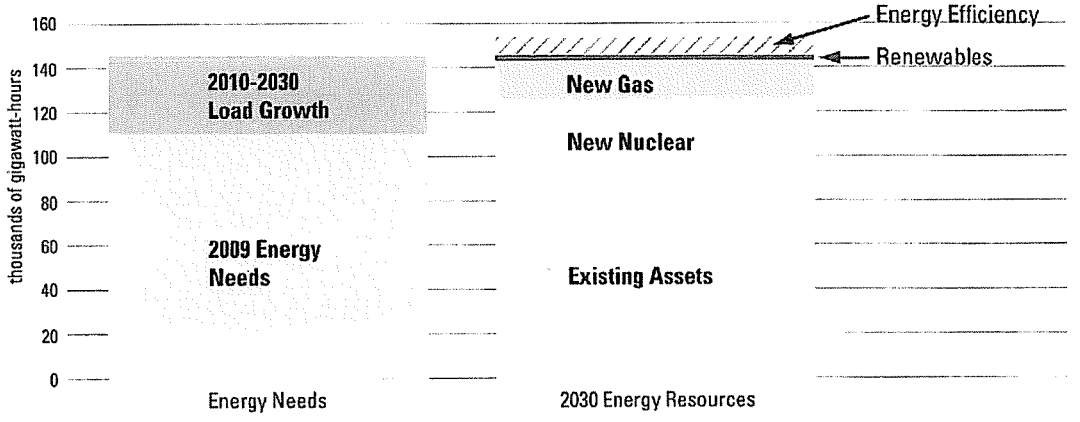
The debate in Congress over national climate and energy policies continues. Lawmakers in both the U.S. House of Representatives and the Senate are considering how best to reduce emissions, reduce dependence on foreign fuels, expand the use of renewable energy and limit negative impact on the economy and consumers.

In 2007, the U.S. Supreme Court ruled that the Environmental Protection Agency (EPA) has the authority to regulate greenhouse gases under the current Clean Air Act. This opens the door to a variety of potential regulatory consequences for thousands of previously unaffected sources of GHG emissions.

The Clean Air Act was created to address pollutants directly affecting human health and welfare on a local or sometimes regional level. Progress Energy supports legislation developed specifically to address the complex climate change issue on a consistent, national basis.

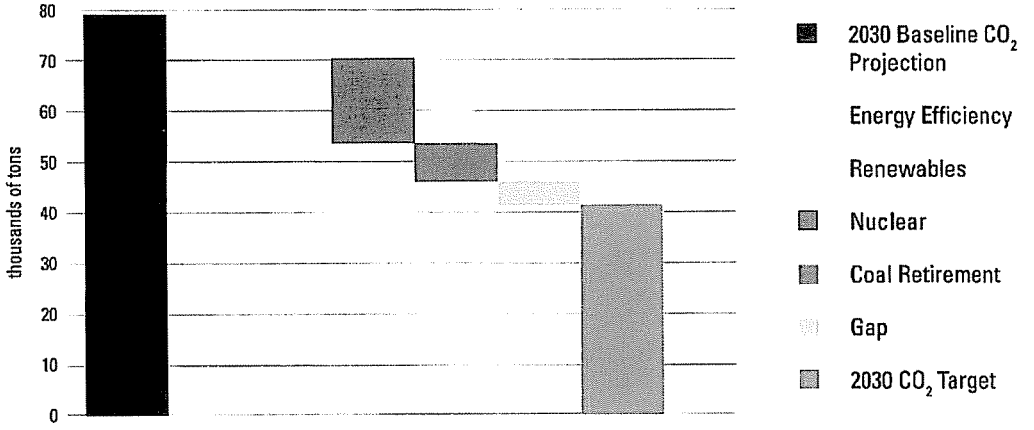
At Progress Energy, we are committed to responsible actions that help curb emissions, ensure reliable power and control costs for our customers. The company is serving in an active, constructive role to shape effective public policies, and we welcome an informed discussion regarding our energy future.

'09 + '30 **Progress Energy's Planned Energy Resources** – *2009 and 2030 (illustrative)*



The first bar in this chart shows the projected growth in our customers' energy needs from 2009 to 2030. The second bar uses current planning projections to illustrate Progress Energy's total potential energy mix in 2030. This shows that in order to accommodate the projected additional load growth and reduce emissions, cleaner energy resources will play an increased role in the future, including new nuclear capacity.

'30 **Progress Energy's Carbon Dioxide (CO_2) Emissions** – *2030 (illustrative)*



This "waterfall" chart takes an illustrative look at the year 2030 for the company as a whole – this time from the standpoint of potential CO_2 emission reductions from each aspect of Progress Energy's long-term plan. The CO_2 emissions target level reflects the goal contained in current congressional proposals, which is 42 percent below 2005 levels. Note that despite the aggressive emission reduction steps that the chart reflects, there still is the potential for a 4 million-ton gap between projected emissions and the policy target. As the chart shows, we expect new advanced nuclear power to play the greatest role in reducing emissions and meeting increasing demand for electricity.

We have a responsibility to be good stewards of the environment. That's why we're working to conserve natural resources, reduce emissions and develop alternative and renewable energy solutions. Year after year, we strive for continual improvement on behalf of our customers, the environment and the future we share.

Key Highlights

- Purchased 1.25 million MWh of renewable energy in 2009.
- Industry leader in innovative water resource management and natural habitat protection.
- Lowered SO_2 emissions by 71 percent from 2002 levels at our North Carolina coal-fired plants and are on track to meet future federal and state requirements.

A Companywide Commitment

All employees are expected to be active participants in our environmental mission. This means demonstrating a commitment to excellence in environmental stewardship in every aspect of our daily performance and assuring that environmental goals and commitments guide all planning, design, construction and operational decisions.

Environmental Management

A commitment to excellence is an integral component of our company's culture. For example, our Continuous Business Excellence (CBE) strategy is designed to continually evaluate our business practices to drive improvements to productivity, operational excellence and efficiency. Many of these process improvements also reduce our environmental footprint by helping the company conserve energy and natural resources while generating less waste or fewer emissions.

We also have a formal environmental management system (EMS) to oversee the environmental impacts of our business. Our EMS generally follows the International Standards Organization 14001 standard and establishes a process to identify and address environmental risks and to ensure appropriate senior management oversight on a routine basis.

Renewable and Alternative Energy

Renewable energy is a key component in our long-term balanced approach to meeting growing energy demand. We are committed to increasing the use and development

of renewable and alternative energy technologies, including solar, wind, biomass, hydroelectric and fuel cells. In 2009, we purchased approximately 1.25 million MWh of renewable energy from a variety of sources, including solar and biomass, in the Carolinas and Florida. That's equal to the average annual electricity use of about 88,000 households.

In 2007, North Carolina enacted a renewable energy portfolio standard (REPS), requiring utilities to purchase or generate 3 percent of their electricity from renewable resources or energy efficiency by 2012 and 12.5 percent by 2021. The company made progress toward compliance with the REPS in 2009 through a variety of renewable energy purchase agreements with solar, biomass and hydroelectric generation sources. We now have more than 10 MW of utility-scale solar PV generation under contract.

We also maintained our partnerships with NC GreenPower and Palmetto Clean Energy, giving our customers a convenient way to support renewable energy directly. And we partnered with schools in our service territory to develop and implement energy education programs that raise awareness of the environmental and economic benefits of energy conservation and alternative energy.

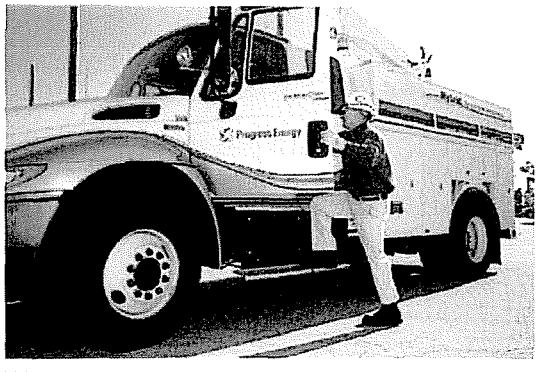
Advanced Vehicle Technologies

Electric transportation and the use of alternative fuels are increasingly cited as methods to reduce GHG emissions and our country's dependence on foreign oil. We are actively involved in research and other initiatives to accelerate the development and deployment of these advanced vehicle technologies.

Progress Energy Large-Scale Renewable Energy Projects – *500 kW or larger**

Except for four of the hydropower projects, which are owned by Progress Energy, all projects on this map are contracts to purchase the output of a facility owned and operated by a third party. Due to a variety of factors, including current economic conditions, it is possible that not every project under contract will be completed. In addition to these projects, our SunSense Commercial PV program provides opportunities for 250-kW solar arrays in a diversity of locations, such as the one planned for Williamsburg County, S.C.
** As of March 2010*

In 2009, we added 20 hybrid vehicles to our alternative-fueled fleet, which now numbers 66 vehicles. We also continued our leadership in researching electric vehicle technology, with a test fleet that spans both utilities and includes six Toyota Prius plug-in hybrid electric vehicles (PHEVs), two Ford Escape PHEVs and the Southeast's first plug-in hybrid electric bucket truck. We are working with the Electric Power Research Institute, General Motors, Nissan and Ford to facilitate the integration of electric vehicles into the nation's electric grid.

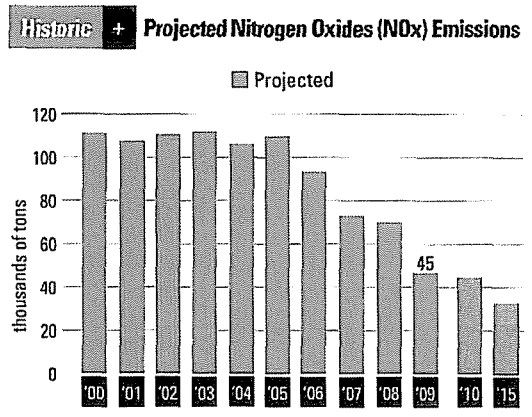


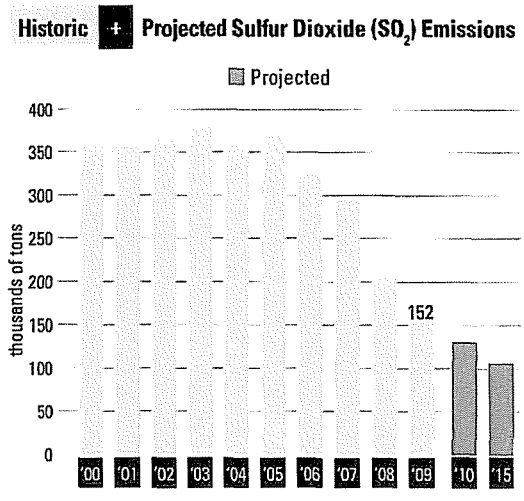
Our hybrid bucket trucks help save fuel and reduce air emissions.

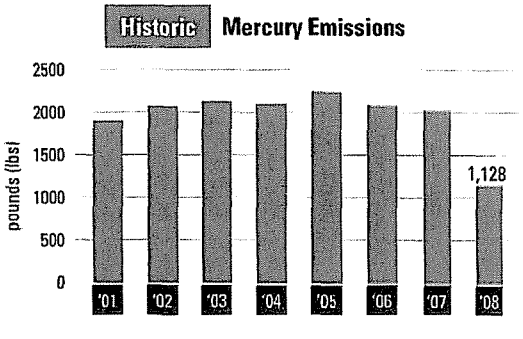
Air Quality

We are working to improve air quality by significantly reducing emissions from our power plants. We have been installing equipment to reduce NOx emissions from our coal-fired power plants since 1995. We've installed additional control equipment that will further reduce emissions of NOx, SO_2 and mercury. The company also announced plans to shut down several older coal-fired units and replace them with cleaner sources of power generation.

Through these efforts, the company is well positioned to meet the requirements of the North Carolina Clean Smokestacks Act and federal rules such as the Clean Air Interstate Rule and Clean Air Visibility Rule.



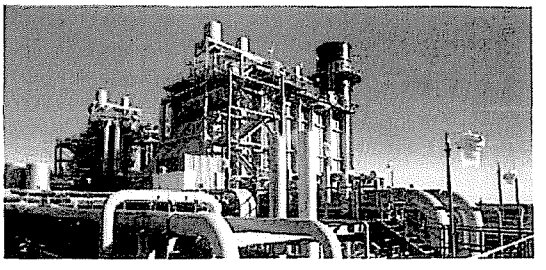




Water Resources

Water is a shared natural resource critical to the production of electricity and a sustainable environment. We are developing and implementing innovative, responsible, consensus-based solutions to assure the water resources necessary to our operations and our communities.

We are the first company in Florida to build and operate more than 2,000 MW of generation using alternative water supplies. The Hines Energy Complex uses treated wastewater, a form of recycling that poses no negative environmental impact and helps to conserve groundwater that supplies area drinking water.



The Hines Energy Complex near Bartow, Fla., is a model for water conservation as it uses treated municipal wastewater and captured stormwater to reduce the demand on groundwater resources.

The scrubbers we have installed at coal-fired plants use water as part of the process to remove air contaminants. The resulting wastewater must be treated before the water can be reintroduced into the environment. We are using innovative technologies in the treatment process, including constructed wetlands. These wastewater-treatment systems use a combination of plants, microbes and soils to treat water in a sustainable and environmentally friendly manner while providing wildlife habitats for migratory species.

Natural Resources

We have a responsibility to our customers and communities to be good stewards of our natural environment. As a large landowner with more than 50,000 acres of forest, we consider protection of species and habitats on our lands a priority. For example, we are actively involved in reforestation of native trees and the protection of rare plants and nesting sites for migratory birds. We also work to minimize the impact of our operations on aquatic life by extensive biological monitoring and mitigation.

Waste Management

In the process of generating electricity, power plants also generate byproducts such as coal-combustion products (CCPs) or spent nuclear fuel rods. As part of our ongoing commitment to the environment, Progress Energy seeks to handle these products in a safe and responsible manner.

Our storage facilities for CCPs include ash ponds. In 2009, North Carolina law changed to put dam safety at coal-fueled generating plants under the jurisdiction of the state's dam safety program rather than the N.C. Utilities Commission. Our dams will be inspected annually by this agency in addition to our own rigorous inspection program.

We also provide CCPs for use in building products. Building products made with CCPs have proved even more durable and cost-effective than products made with natural materials. For example, fly ash is a vital component in high-strength concrete used in skyscrapers, major highways and bridges. We are aggressively pursuing additional beneficial reuse opportunities for all of our coal plants.

Used nuclear fuel rods are stored safely and securely at our facilities using both wet and dry storage methods. We take this responsibility very seriously and have extensive safety and security measures in place.

Remediation

We have potential environmental liability for a number of properties due to prior ownership, mergers, former customary practices or business relationships. During the last 13 years, we spent more than $60 million on the investigation and remediation of these sites, when possible restoring them to a level suitable for redevelopment. In 2009, we donated a remediated site in New Bern, N.C., to the state of North Carolina for use by Tryon Palace Historic Sites & Gardens.

Research and Development

In 2010, we will invest $8.3 million in research programs. Of this, approximately $5 million is related to reducing environmental impacts, renewable energy, energy efficiency, smart grid and electric transportation.

Everything we achieve as a company begins with our employees. Our diverse, collaborative workforce is committed to excellence in every aspect of our operations. As a company, we continuously seek new ways to nurture this culture through a continuing commitment to safety, ethics, diversity and performance.

Key Highlights

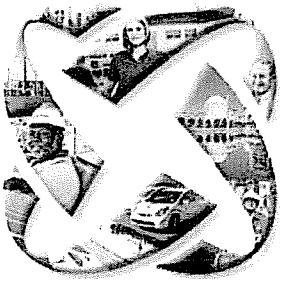
- Maintained safety record among the best in the industry.
- Overall company voluntary turnover rate less than 4 percent.
- Updated culture statement to reflect our values and expectations.

Progress Energy's culture statement, renewed for 2010, is characterized by eight crucial attributes (see graphic to the right).

The attributes reflect the kinds of values we hold, the expectations we have of ourselves and each other, and our goals for the future.

Health and Safety

From our power plants to our offices, our company is constantly focused on safety. Because of that focus, every hour and every mile, our company is among the best in the utility industry in safety performance. The company's Occupational Safety and Health Administration (OSHA) injury and illness rate has been below 1.0 for three consecutive years. In addition, Progress Energy's 2009 safety performance was also 77 percent below

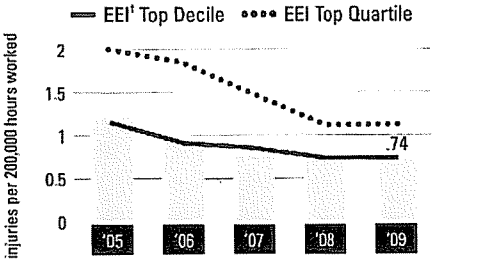


PEOPLE • PERFORMANCE • EXCELLENCE

Focus on safety first
•
Act with integrity
•
Excel in our core mission of serving customers
•
Be outstanding financial and environmental stewards
•
Cultivate diversity and inclusion
•
Treat everyone with respect, honesty and fairness
•
Hold each other to high standards
•
Collaborate, adapt and improve continuously

the North America Industrial Classification System (NAICS) OSHA rate. Achieving and maintaining top industry safety performance requires ongoing commitment and continuous improvement.

Progress Energy OSHA* Injury Rate



Our OSHA injury rate was in the top 10 percent of our industry in 2009.
* OSHA – Occupational Safety and Health Administration † EEI – Edison Electric Institute

Progress Energy has continued its Zero in on Safety campaign, which promotes hazard recognition, personal accountability and active caring. The goal is to empower employees in all work settings to eliminate workplace injuries, illnesses and vehicle accidents in 2010.

Ethics Program

Ethics and corporate integrity are cornerstones of how we do business at all levels of our company. Our company's rigorous corporate ethics program promotes and enforces doing the right thing, whether it relates to our financial statements and business practices or the workplace behaviors of individual employees.

Regulators, elected officials, community leaders, customers, competitors, investors, the news media and advocacy groups all pay close attention to what we do and how we do it – and we strive to maintain the trust and confidence that they have in us.

Our Code of Ethics identifies principles and standards of conduct that all employees, contractors and members of the board of directors are expected to follow. Employees have the opportunity to direct questions and suspected violations to their supervisor, Human Resources or a confidential, 24-hour ethics phone line.

Engaged Employees

Attracting and retaining talented, motivated employees is critical to our success. To achieve this, we offer a challenging, high-performance work environment that supports individual growth and development as well as a healthy, balanced lifestyle.

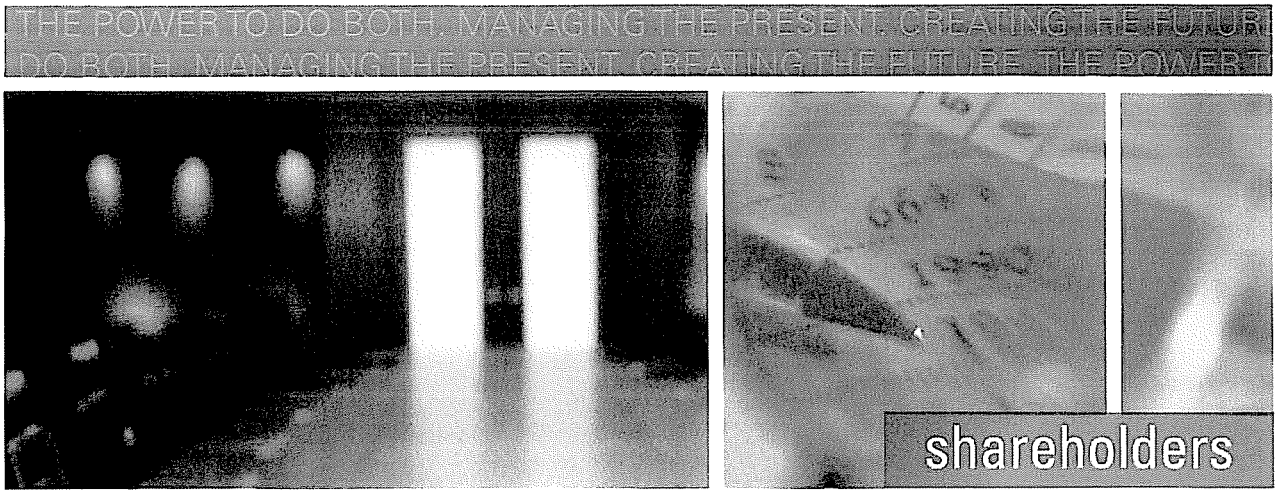
More than half our workforce chose to participate in 2009 in our employee wellness program, Healthy Progress, and receive free, voluntary health screenings, coaching and educational materials. We remain committed to paying the major share of health plan costs – more than 75 percent overall – to attract and retain top talent.

We also work with area high schools, community colleges and four-year institutions to ensure a pipeline of well-qualified, highly trained employees for the future.

Diversity and Inclusion

Embracing diversity and inclusion is a clear expectation for all Progress Energy leaders and employees. Our success depends on attracting, engaging and retaining a talented workforce that reflects the communities we serve. Furthermore, our company provides fair policies, processes and opportunities. To implement these objectives, each business unit has its own diversity and inclusion council, which is overseen by the Executive Workforce Council, led by Chairman, President and CEO Bill Johnson, and composed of all members of senior management. This council is focused on all strategic workforce issues involving attracting, engaging and retaining top talent.

All new employees attend the required full-day diversity training. We offer workshops on topics such as race awareness, the business case for diversity, exploring differences, subtle behaviors, conflict resolution and generational differences. And we have several Employee Network Groups that bring together employees with mutual interests to support our business strategy for recruiting and retaining a high-performing workforce, employee development and community outreach.



We have a long history of integrity in all aspects of our business, and we consistently pursue the highest standards of performance, ethics and accountability. We recognize that we have a responsibility to protect our shareholders' trust through solid, sustainable business decisions and clear, transparent practices.

Key Highlights

- Generating 3 percent to 5 percent efficiency savings companywide each year
- Successfully met 2009 financial goals.
- Strongly positioned to weather current economic recession and preparing for future growth.

Corporate Governance

Progress Energy has a long-standing commitment to the highest standards of integrity, accountability and independence. Our board of directors oversees and directs our company on our shareholders' behalf, and the company works to balance those needs with the interests of customers, employees, regulators, elected officials and the communities we serve. We have adopted a set of Corporate Governance Guidelines to document the board's responsibilities, structure and internal practices.

The board of directors is chaired by Chairman, President and Chief Executive Officer Bill Johnson. Independence is ensured through the appointment of a lead director, John H. Mullin III. To view the full list of current directors, please visit progress-energy.com/aboutus/board. This website also has an in-depth section on corporate governance, offering insight into our principles, responsibilities, structure and internal practices.

Productivity and Efficiency

The company's overall cost-management strategy is designed to address changing economic realities. This strategy is twofold: belt tightening and Continuous Business Excellence (CBE). Through these efforts, our goal is to generate 3 percent to 5 percent efficiency and productivity gains each year.

CBE represents a fundamental change in the way we manage our business. It is a relentless focus on eliminating waste, improving processes and increasing the operating performance of all business units. Our core approach to achieve sustainable process improvements is the proven "Lean" methodology, which is a set of principles, tools and techniques applied to a business process to eliminate waste, streamline for quality and efficiency and focus on true customer needs. The efficiencies gained through these efforts are critical for us to fund the

necessary investments in plants and delivery systems, as well as our continued investments in our people. This strategy of CBE will allow Progress Energy to be more flexible, safer, stronger and more financially healthy, which benefits employees, customers and shareholders.

Our CBE efforts in 2009 were focused on key processes, and throughout the year we conducted more than 130 formal process evaluations. Some yielded immediate cost savings and process improvements; others identified potential longer-term labor efficiency gains. Representatives from all business units formed an enterprise CBE Steering Committee to collaborate on enterprisewide CBE strategies, approaches and initiatives, and to identify significant cost savings and process-improvement opportunities.

Financial Highlights

Despite the global financial crisis and economic slowdown, we successfully delivered on our 2009 financial goals and met our earnings guidance for the fourth consecutive year. We achieved these results by aggressively managing the business and making timely adjustments. Our growth prospects remain solid, and we continue to expect a long-term annual growth rate of 4 percent to 5 percent.

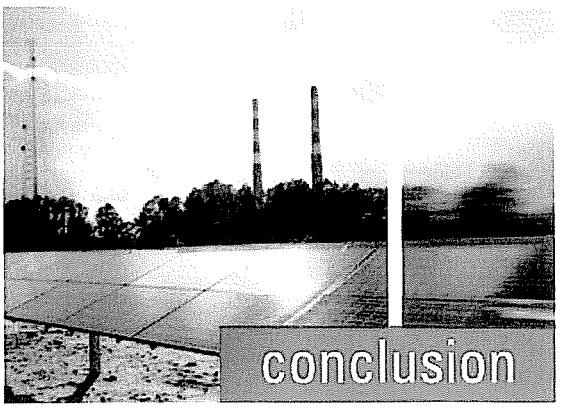
The dividend paid on our common stock is an integral part of our total return proposition and is important to our investors. In support of our long-term dividend payout ratio target of 70 percent to 75 percent, the board decided to maintain the 2010 quarterly dividend, at $0.62 per share. We have paid a dividend to shareholders for more than 250 consecutive quarters.

We know that 2010 will be a challenging year for our company and our customers. We are aggressively controlling costs to manage our business effectively in the present while preparing for the new energy demands of the future.

CBE in Action
Power Operations Group

The Power Operations Group (POG) consists of the company's fleet of fossil-fueled power plants and support organizations. POG employees embraced CBE and have worked hard to eliminate waste and identify costs savings. Their 2009 CBE accomplishments include:

- Concentrated on eliminating waste in business processes through the use of Lean tools;
- Focused on work processes and outages to target areas where we spend the most;
- Identified more than $46 million in savings and more than 36,000 labor hours for potential elimination;
- Trained CBE "local champions" and secured 100 percent event participation by the 39 POG department and section heads; and
- Completed more than 80 facilitated Lean events throughout the group.



Corporate and personal responsibility is integral to our culture at Progress Energy. We are committed to conducting every aspect of our business with integrity and transparency.

This means being good stewards of the environment and the natural resources we share. It means respecting all stakeholders in our company – employees, customers, communities and shareholders – and working hard to understand and value their perspectives. And it means investing in our service area through corporate giving and partnerships that improve the quality of life for all of us.

For these efforts, we have received national recognition, which is a tribute to our nearly 11,000 employees who focus daily on safety, operational excellence and delivering superior service to our customers. We know that millions of people depend on us, and we have to keep earning their trust every day. And while these awards and honors are important, some of the most meaningful feedback comes from our neighbors in the communities we serve. Please send us your thoughts at **poweringthefuture@pgnmail.com.**

For more information and our full Corporate Responsibility Report, please visit progress-energy.com/aboutus.

Safe harbor for forward-looking statements: In this report, Progress Energy makes forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The matters discussed throughout this report that are not historical facts are forward looking and, accordingly, involve estimates, projections, goals, forecasts, assumptions, risks and uncertainties that could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements. Any forward-looking statement is based on information current as of the date of this report and speaks only as of the date on which such statement is made, and Progress Energy undertakes no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made.

Examples of factors that you should consider with respect to any forward-looking statements made throughout this document include, but are not limited to, the following: the impact of fluid and complex laws and regulations, including those relating to the environment and energy policy; the ability to successfully operate electric generating facilities and deliver electricity to customers; the impact on our facilities and businesses from a terrorist attack; the anticipated future need for additional baseload generation and associated transmission facilities in our regulated service territories and the accompanying regulatory and financial risks; the financial resources and capital needed to comply with environmental laws and regulations; our ability to meet current and future renewable energy requirements; the inherent risks associated with the operation and potential construction of nuclear facilities, including environmental, health, regulatory and financial risks; risks associated with climate change; weather and drought conditions that directly influence the production, delivery and demand for electricity; recurring seasonal fluctuations in demand for electricity; fluctuations in the price of energy commodities and purchased power and our ability to recover such costs through the regulatory process; our ability to control costs, including operations and maintenance and large construction projects; current economic conditions; the ability to successfully access capital markets on favorable terms; the stability of commercial credit markets and our access to short- and long-term credit; and the impact that increases in leverage or reductions in cash flow may have on us and our affiliates.

These and other risk factors are detailed from time to time in Progress Energy's or its affiliates' filings with the United States Securities and Exchange Commission. Many, but not all, of the factors that may impact actual results are discussed in Item 1A, "Risk Factors," of Progress Energy's Form 10-K, which you should carefully read. All such factors are difficult to predict, contain uncertainties that may materially affect actual results and may be beyond our control. New factors emerge from time to time, and it is not possible for management to predict all such factors, nor can management assess the effect of each such factor on Progress Energy.

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Progress Energy

COMMONWEALTH OF KENTUCKY

BEFORE THE KENTUCKY PUBLIC SERVICE COMMISSION

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.	)	**Case No. 2011-_____**

DIRECT TESTIMONY OF

JULIA S. JANSON

ON BEHALF OF

JOINT APPLICANTS

April 4, 2011

TABLE OF CONTENTS

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Julia S. Janson, and my business address is 139 East Fourth Street, Cincinnati, Ohio 45202.

Q. WHAT IS YOUR POSITION WITH DUKE ENERGY KENTUCKY, INC.?

A. I am President of Duke Energy Kentucky, Inc. ("Duke Energy Kentucky" or the "Company") and Duke Energy Ohio, Inc. ("Duke Energy Ohio").

Q. PLEASE BRIEFLY SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL AFFILIATIONS.

A. I earned a Bachelor of Arts degree in American Studies from Georgetown College in Georgetown, Kentucky. I earned my Juris Doctor degree from the University of Cincinnati College of Law. I am a member of the Ohio Bar and the Kentucky Bar.

Q. PLEASE DESCRIBE YOUR PROFESSIONAL BACKGROUND AND EXPERIENCE.

A. My current position is President of Duke Energy Kentucky and Duke Energy Ohio. I previously served as Senior Vice President of Ethics and Compliance, and Corporate Secretary for Duke Energy Corporation ("Duke Energy"), where I directed Duke Energy's ethics and compliance program. Prior to that, I served as Corporate Secretary and Chief Compliance Officer for Cinergy Corp. ("Cinergy"), where I directed Cinergy's corporate compliance program. I was appointed Chief Compliance Officer in 2004 and Corporate Secretary in 2000. From 1998 to 2004, I served as Senior Counsel, providing advice on executive

compensation, benefits, transactions, corporate governance, securities, and general corporate matters. From 1996 to 1998, I served as Counsel for Cinergy, providing research, advice and support for divestitures, mergers and acquisitions, and numerous internal business clients including investor relations, shareholder services, corporate communications and government and regulatory affairs. I also served as corporate counsel to the international business unit. I was Manager of Investor Relations for Cinergy from 1995 to 1996. Prior to joining Cinergy, I began my corporate career in 1987 as a law clerk with The Cincinnati Gas & Electric Company ("CG&E") and began full-time employment with CG&E as Supervisor of Securities Processing and Transfer Agent for CG&E common and preferred stock, after which I was named Corporate Attorney. In addition, I was a member of the legal team responsible for completing the merger of CG&E and PSI Energy, Inc., which formed Cinergy Corp. in 1994. Before joining CG&E, I served as a law clerk with Adams, Brooking, Stepner, Wolterman & Dusing in Covington, Kentucky.

Q. WHAT ARE YOUR RESPONSIBILITIES IN YOUR CURRENT POSITION?

A. As President of Duke Energy Kentucky and Duke Energy Ohio, I am responsible for ensuring that our customers continue to have access to safe, reliable, and reasonably-priced gas and electric service, and that these services are provided in accordance with applicable federal and state laws and regulations.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to first discuss Duke Energy Kentucky's corporate and business structure and its current operational status. I will then describe the impact of the proposed merger on Duke Energy Kentucky and its stakeholders. I will describe how the Joint Applicants are willing to renew the regulatory commitments that remain applicable that certain of the Joint Applicants made in the 2005 Duke Energy/Cinergy merger case. I will also explain how these regulatory commitments continue to benefit Duke Energy Kentucky and its stakeholders following the completion of this merger, and I will explain how the post-merger Duke Energy will continue to have the financial, managerial and technical expertise to own and operate Duke Energy Kentucky and to provide reasonable service to customers. I will also explain the regulatory approvals that are being sought as part of the merger in order to demonstrate that the transaction is in accordance with law, for a proper purpose and in the public interest. Finally, I will highlight the affiliate agreements that will be amended as a result of the merger and which are submitted for the approval of the Kentucky Public Service Commission ("Commission") as part of the Joint Applicants' application.

II. OVERVIEW OF DUKE ENERGY KENTUCKY, INC.

A. Corporate Structure

Q. PLEASE GENERALLY DESCRIBE THE DUKE ENERGY CORPORATE STRUCTURE.

A. To more fully understand how Duke Energy Kentucky serves its customers, it is helpful to understand Duke Energy's corporate and business structure. Duke Energy is a holding company that was formed in connection with the merger of the previously named Duke Power Corp., a North Carolina corporation, and Cinergy, a Delaware corporation, which was consummated in April 2006.

Duke Energy is a Delaware corporation which, following the 2006 merger, owns several subsidiaries, some of which are regulated and others which are not. Cinergy is a wholly owned subsidiary of Duke Energy. Cinergy, in turn, owns Duke Energy Ohio and Duke Energy Indiana, Inc. ("Duke Energy Indiana"). Duke Energy Ohio owns Duke Energy Kentucky. In addition to Cinergy, Duke Energy also owns Duke Energy Carolinas, LLC ("Duke Energy Carolinas"), which provides electric utility service in both North Carolina and South Carolina. Each of these utility operating companies is part of Duke Energy's U.S. Franchised Electric and Gas ("USFE&G") business segment. As Joint Applicant Witness James E. Rogers explains in his testimony, Duke Energy also has unregulated Commercial Power and International Energy business segments.

Q. WHICH CORPORATE ENTITIES PROVIDE SERVICES FOR DUKE ENERGY KENTUCKY'S RETAIL ELECTRIC AND GAS CUSTOMERS?

A. Our customers benefit from services provided by other Duke Energy affiliates that have entered into affiliate agreements to perform services for Duke Energy Kentucky. The Commission approved these affiliate agreements in Case No. 2005-00228, involving the Duke Energy/Cinergy merger. Immediately following the merger, Duke Energy had two service companies, Duke Energy Shared

Services, Inc. ("DESS"), formerly Cinergy Services, Inc., and Duke Energy Business Services, LLC ("DEBS"). DESS was the services company located in the Midwest that provided administrative and operational services for Duke Energy Kentucky. DEBS was the services company located in North Carolina that provided administrative and operational services for Duke Energy Carolinas. As part of the continuing effort to achieve merger efficiencies, DEBS and DESS were consolidated in July 2008, with DEBS becoming the sole service company providing administrative and operational services to Duke Energy and its subsidiaries.

Q. HOW WILL DUKE ENERGY KENTUCKY'S CUSTOMERS KNOW WHICH LEGAL ENTITY IS PROVIDING SERVICE?

A. Our customers in Kentucky receive all of their utility services from Duke Energy Kentucky. The legal entity structure and relationships that I have described are essentially invisible and seamless to our retail electric and natural gas customers in Kentucky. In other words, our Kentucky customers continue to and should expect to receive reasonable electric and gas service from Duke Energy Kentucky that is reliable, adequate, and reasonably-priced without regard to how the Company is structured or organized to provide those services.

B. Operations and Rates

Q. PLEASE GENERALLY DESCRIBE DUKE ENERGY KENTUCKY'S OPERATIONS.

A. Duke Energy Kentucky is a regulated utility operating company that provides retail electric and natural gas services in six counties in Northern Kentucky. The

actual services that Duke Energy Kentucky's gas customers receive, however, may be performed by Duke Energy Kentucky employees, by shared service employees or by employees of another affiliated company in accordance with approved affiliate agreements.

Duke Energy Kentucky's local business office is in Erlanger, Kentucky, with its main business office across the Ohio River in Cincinnati, Ohio. Duke Energy Kentucky serves a relatively densely-populated territory that, though not heavily industrialized, consists of a fairly diverse mix of industrial customers.

Duke Energy Kentucky currently provides natural gas distribution service to approximately 96,000 customers in Boone, Campbell, Gallatin, Grant, Kenton and Pendleton counties in Northern Kentucky. The Company also owns, operates, and maintains approximately 1,424 miles of gas mains on its natural gas distribution system. In addition, Duke Energy Kentucky has a propane storage facility in Erlanger, Kentucky. The gas system is designed in accordance with applicable safety codes located in Title 49 of the Code of Federal Regulations and by the American Society of Testing Materials. Duke Energy Kentucky follows the safety regulations of both the United States Department of Transportation and the Commission in the installation, operation, and maintenance of its gas transmission and distribution facilities.

Duke Energy Kentucky also provides retail electric service to approximately 136,000 customers in those same counties in Northern Kentucky. The Company owns, operates, and maintains approximately 107 miles of transmission lines and 2,134 miles of distribution lines. Duke Energy Kentucky's

service territory encompasses approximately 2,171 square miles. Mr. Jim Stanley will discuss Duke Energy Kentucky's electric delivery system in greater detail in his testimony.

Duke Energy Kentucky currently owns and operates approximately 1,077 MegaWatts ("MW") of generating capacity, consisting of 414 MW at East Bend No. 2, a coal-fired, base load generating unit in Rabbit Hash, Kentucky (Duke Energy's 414 MW comprises 69% of the unit's total generating capacity); Miami Fort No. 6, a 163 MW intermediate load, coal-fired generating unit located in North Bend, Ohio; and the 500 MW Woodsdale Generating Station, consisting of peak load, gas or propane-fired generating units located in Trenton, Ohio. In addition, Duke Energy Kentucky has operational facilities in Covington and Florence.

Q. PLEASE GIVE AN OVERVIEW OF DUKE ENERGY KENTUCKY'S CURRENT RETAIL GAS DELIVERY RATES.

A. Duke Energy Kentucky's 2010 average gas delivery rates (including the cost of gas) compare favorably to the national average rate.

Q. PLEASE GIVE AN OVERVIEW OF DUKE ENERGY KENTUCKY'S CURRENT RETAIL ELECTRIC RATES.

A. Duke Energy Kentucky's average retail electric rates also compare favorably to the national average electric rate.

Q. PLEASE DESCRIBE DUKE ENERGY KENTUCKY'S COMMITMENT TO SYSTEM RELIABILITY AND SAFETY.

A. Duke Energy Kentucky is and will remain committed to providing reliable gas and electric service. Duke Energy Kentucky has consistently excelled in the region for emergency planning and service restoration after major storms. In 2004, Cinergy won the Edison Electric Institute's Emergency Assistance Award. The Company also performed well in restoring power after the 2008 Hurricane Ike windstorm and the 2009 ice storm.

With respect to our gas system, we have seen a tremendous improvement in system reliability as a result of the successful execution of our Accelerated Main Replacement Program ("AMRP") Program. We have reduced the amount of lost gas and cut down on the number of reported leaks as well as expenditures for maintenance and repairs to aged gas mains. These savings have directly benefitted ratepayers. As a follow-up to the AMRP Program, our Accelerated Riser Replacement Program is designed to improve the safety and reliability of Duke Energy Kentucky's gas distribution service by replacing field-assembled service head adapter style risers that exhibit factors associated with riser leaks. In order to manage this program in an efficient manner and optimize its resources, Duke Energy Kentucky is partnering with its affiliate, Duke Energy Ohio, which has instituted a similar program. This program will also improve system reliability.

Also, the Gas Transmission and Distribution Integrity Management Programs, which are designed to enhance the safety and reliability of Duke Energy Kentucky's gas distribution service by establishing a systematic plan to perform periodic safety assessments and maintenance activities in response to

new federal pipeline safety legislation, are an important part of our gas system reliability and safety emphasis. Finally, we have initiated a sewer line inspection program, which is designed to check potential high-risk gas main installations along sewer lines as a result of local sewer districts not maintaining accurate records of the location and depths of their systems. The Company inspects gas main installations that are likely to have experienced a breach based upon premises structure elevation and main line sewer location and depth in relation to the street. As a direct result of these programs, we have experienced an increase in the safety and reliability of our gas distribution network.

With regard to our electric system, we achieved a reliability rating of 99.978% in 2010, based upon the Average Service Availability Index. In compliance with the Commission's order in *In the Matter of: An Investigation of the Reliability Measures of Kentucky's Jurisdictional Electric Distribution Utilities and Certain Reliability Maintenance Practices*, Admin. Case No. 2006-00494 (Ky. P.S.C Oct. 26, 2007), Duke Energy Kentucky files reliability reports by April 1st each year. The most recent data for calendar year 2010 shows a system performance of 1.30 for System Average Interruption Frequency Index ("SAIFI"), 87.9 for the Customer Average Interruption Duration Index ("CAIDI") and 114.3 in System Average Interruption Duration Index ("SAIDI"), excluding major event days. Jim Stanley will further describe in his testimony our companies' commitment to delivering reasonable service for Duke Energy Kentucky's customers following the merger.

Gas and electricity are the two commodities that our customers count on us to provide on demand and so it is a core component of our business philosophy to provide those services in a reasonable, safe, reliable and affordably priced manner.

C. Financial Condition

Q. PLEASE GENERALLY DESCRIBE DUKE ENERGY KENTUCKY'S FINANCIAL STATUS.

A. Duke Energy Kentucky is financially sound and will be stronger following the merger – a point that will be demonstrated through the testimony of Mr. Stephen De May, Senior Vice President of Investor Relations and Treasurer for Duke Energy. These positive financial achievements benefit our customers as well as our investors, through lower financing costs and ultimately through lower gas and electric rates.

D. Customer Service and Satisfaction

Q. PLEASE DESCRIBE DUKE ENERGY KENTUCKY'S GOALS WITH RESPECT TO CUSTOMER SERVICE AND SATISFACTION.

A. Our goal is to deliver dependable and efficient electric and gas utility service at reasonable prices and to provide our customers with accessible and convenient customer service options, while maintaining low costs. Our continuing challenge is to be one of the few gas and electric companies that achieve operational excellence in terms of service and reliability, with highly-satisfied customers, while also managing to keep our costs and rates low.

Q. PLEASE DESCRIBE DUKE ENERGY KENTUCKY'S CUSTOMER SERVICE ACTIVITIES.

A. Duke Energy Kentucky strives to provide customers a variety of convenient methods to do business with us. Duke Energy Kentucky strives to manage and reduce its customer service costs by leveraging new technology and new customer service channels. Duke Energy Kentucky's customer service channels include:

- *Contact Centers* – Duke Energy Midwest (covering Kentucky, Ohio and Indiana) has approximately 80 customer service representatives in our Cincinnati, Ohio, call center and approximately 140 customer service representatives taking calls in the Plainfield, Indiana, call center. All of these representatives are linked as one virtual call center and are all available to respond to calls from Kentucky customers. Our sourcing partner, ERS, located in Atlanta, Georgia, and Birmingham, Alabama, takes approximately 40% of total agent call volume for the Midwest. These are predominantly credit calls. This arrangement with ERS achieves a lower overall cost structure and provides added means to deal with peak call volumes. For example, ERS provides us an additional set of agents who can be activated fairly quickly at the onset of a major storm.
- *Business Service Center* – Our Business Service Center provides customer service and communications to our commercial, industrial, and governmental customers. The Business Service Center is staffed by skilled personnel with many years of quality field experience who respond to customers via telephone, e-mail, and fax. Additionally, Duke Energy

Kentucky provides Customer Relationship Managers and Technical Service Engineers who meet with these customers in person as needed.

- *Pay Agents* – Pay agents are local authorized retailers or agents that accept Duke Energy Kentucky bill payments and transmit the data to our billing system on a daily basis. Our eight Duke Energy Kentucky pay agents allow customers to pay their bills at conveniently located businesses, many of which have extended hours.
- *Automated Phone Service* – This service allows customers to access information regarding their gas and/or electric service accounts from any touchtone telephone, 24 hours a day, 7 days a week. Via automated phone service, customers can check the amount and due date of their current bill, verify the amount and date of their last payment, confirm the amount and due date to prevent disconnection for non-payment, pay by phone, make payment arrangements, or report a service outage. In 2009, Duke Energy Kentucky implemented a new integrated voice response ("IVR") platform, with the following key elements:
  - Dynamic menu options – Customers hear options most relevant to their needs (based on customer self-identification).
  - Enhanced outage reporting – Enables us to provide additional information about the cause of a power outage and restoration times.
  - Spanish self-service applications.

- *Enhanced Web Functionality for Online Services* – Duke Energy Kentucky is offering enhanced web self-service functionality that includes new tools allowing customers to better analyze how external factors, such as weather, impact their energy usage. The tools also offer customers a sense of which appliances in their homes are likely driving their energy usage. Customers have the capability to pursue a more detailed energy audit or receive a personalized energy report. A similar set of tools, integrated with those on the web, have been made available to customer service representatives in the call centers to enable them to provide this same information to customers. Other useful and timely information is available on the Duke Energy website, including how to manage bills during heating and cooling seasons, how to be safe around gas and electricity, information about rates and tariffs and more. Customers can identify ways to conserve energy, view the "Storm Center" to see the locations and number of electric outages during severe weather, submit online requests for tree trimming, and report street light outages.

In addition, we offer a variety of special programs for customers who require special assistance. These programs include foreign language assistance and interpretive services for our non-English speaking customers, regardless of whether they visit an office or call our customer service center, TDD/TTY relay access for customers who have hearing and speech impairments, a life support program for customers who use electrically-powered life support equipment, bills that are in Braille or in large print formats for our visually-impaired customers

and a third-party notification system that allows a third-party friend or relative of a customer to receive a copy of a each monthly bill without holding the third party responsible for payment.

Q. PLEASE GIVE AN OVERVIEW OF DUKE ENERGY KENTUCKY'S BILL MANAGEMENT AND BILL PAYMENT PROGRAMS.

A. Duke Energy Kentucky offers several optional bill management programs, designed to meet our customers' varied needs:

- *Budget Billing Program* – This program helps customers manage their monthly energy costs by setting a monthly billing amount based on an average annual cost. Under the "Quarterly" Budget Billing plan, we review the customer's account every three months and adjust the Budget Billing amount to better reflect actual energy use. This allows customers to avoid a twelfth month bill adjustment. Under the "Annual" Budget Billing plan, the customer's monthly payments remain the same each month and, in the twelfth month, the customer is billed or credited for any difference between actual usage and the total amount paid during the Budget Billing year. During the sixth month of the Annual plan, we review the customer's account and notify them with a bill message if the current Budget Billing amount needs to be adjusted up or down. The customer can notify us if they wish to change their Budget Billing amount at any time.
- *Adjusted Due Date* – This plan allows eligible customers to extend their normal billing due date up to ten days from their original due date. This

enables customers to better align their due date with the date they receive their paycheck, pension, Social Security check, etc.

- *Extended Payment Agreements* – Duke Energy Kentucky offers extended payment plans to eligible customers who are having difficulty paying their entire bill by the due date. Residential customers may be eligible for one 3-month agreement in a 12-month period. The customer must pay one-third of their current balance to start the agreement and the remainder is divided into two equal installments. The customer must also pay their current monthly charges or may choose to go on Budget Billing with the agreement.
- *WinterCare* – This energy assistance program is available to eligible Duke Energy Kentucky customers who need financial assistance with their gas and/or electric bill and is independently administered by the Northern Kentucky Community Action Commission. Eligibility is based upon need and does not necessarily follow government assistance guidelines. Eligible customers can receive up to $300.00 in assistance with their utility bill. WinterCare is completely funded by Duke Energy Kentucky employees, customers, and shareholders. For 2010, Duke Energy Kentucky provided a $25,000 lump sum contribution and is matching $1.00 for every $1.00 donated, up to $25,000, providing for total funding of up to $75,000, of which $50,000 could be provided by Duke Energy Kentucky.

Duke Energy Kentucky also offers a number of bill payment options for customers in addition to the traditional bill payment option via U.S. mail:

- *Payment Advantage (*formerly "*BillPayer 2000")* – This program allows customers to have their bill payments automatically deducted from their checking account. A nominal transaction fee is assessed by the third-party vendor for this program.
- *Speedpay* – This program allows customers to make payments by electronic check or credit/debit card over the telephone or via the Internet. The third-party vendor charges a transaction fee for this program.
- *e-Bill* – This free online electronic payment option allows Duke Energy Kentucky customers to view and pay their gas and/or electric bills online. e-Bill offers two payment options: AutoPay (payments are automatically paid each month on the due date) and Pay Online (customers authorize bill payments online each month). All customer payments are electronically deducted from their personal checking account and/or money market account. Duke Energy Kentucky currently has approximately 33,400 customers enrolled in e-Bill.

Q. HOW IS DUKE ENERGY KENTUCKY'S PERFORMANCE IN TERMS OF PROVIDING HIGH QUALITY CUSTOMER SERVICE?

A. We measure our customer satisfaction performance through multiple measurement tools: the J.D. Power & Associates ("J.D. Power") annual gas utility residential customer satisfaction studies, annual electric utility residential

customer satisfaction surveys, and our own surveys of residential, mass market, large business customers and community leaders.

J.D. Power Studies

J.D. Power is well known for setting the standard for measurement of consumer opinion and customer satisfaction in many key industries. J.D. Power annually surveys gas utilities' residential customer satisfaction. Duke Energy Midwest participates in these annual studies. The J.D. Power gas utility residential customer satisfaction study, established in 2001, calculates overall customer satisfaction based on six performance areas: 1) company image; 2) communications; 3) price and value; 4) billing and payment; 5) field service; and 6) customer service. For 2010, J.D. Power measured residential customer satisfaction for the country's 75 largest gas utilities, serving over 54 million customers. Since 2001, the results of the J.D. Power studies indicate that Duke Energy's Midwest Operations, including Duke Energy Kentucky, consistently deliver high-quality customer satisfaction. Duke Energy ranked seventh in the Midwest Region, Midsize segment in 2010, increasing our score from 595 in 2009 to 605 for 2010. For the 2010 J.D. Power Electric Residential study, Duke Energy Midwest ranked 6th in the Midwest Region, large segment, increasing our score from 609 in 2009 to 632 in 2010.

Duke Energy Kentucky Customer Surveys

In addition to the independent J.D. Power studies, our internal customer satisfaction measurements continue to reflect strong performance in meeting the needs of Duke Energy Kentucky customers. We regularly survey residential,

mass market, and large business customers who have had a recent service contact with Duke Energy Kentucky.

The Residential Transactional Survey is conducted continuously using direct mail among a random sample of customers who have recently had interactions with Duke Energy Kentucky in one of three categories: service interruptions; turning on or turning off service; and billing and payment inquiries. Each of these categories comprises one-third of the Transactional Satisfaction score. Survey results are compiled monthly. Customers are asked to rate their satisfaction with their overall transaction on a scale of 1 to 5 and the percentage of customers who provide a 4 or 5 are included in the score. Duke Energy Kentucky and Duke Energy Ohio's combined 2010 year-end score was 78.1%.

The Residential and Small Business Surveys are monthly studies conducted by Thoroughbred Research (Louisville, Kentucky) for a random sample of customers. Customers are contacted by telephone and asked to rate their overall satisfaction with Duke Energy Kentucky on a scale of 1 to 10. Duke Energy Kentucky's 2010 year-end score for residential customer satisfaction shows that 65.5% of surveyed residential customers gave the Company a ranking of 8 or higher. Similarly, Duke Energy Kentucky's 2010 small business satisfaction survey indicates 64.3% of its small business customers gave the Company a satisfaction score of 8 or higher.

The Community Leaders Survey is an online survey. Respondents are e-mailed an invitation with a link to participate in the survey. The survey solicits community leaders in tier 1 and 2 communities who have high or medium

political or policy influence at the state, regional or local level. Tier 1 communities represent populations greater than 20,000. Tier 2 communities are those with a population range of 6,000 to 20,000. Duke Energy Kentucky's overall satisfaction score is measured as the percent of leaders responding with an 8, 9, or 10 on a 10-point scale. Duke Energy Kentucky's 2010 score was 76.2%.

The Major Account Survey is an online survey. Respondents are e-mailed an invitation with a link to participate in the survey. The survey reaches large business customers that do not meet the Key Account National Benchmark survey criteria, but are still large accounts (typically 1MW or above). Duke Energy Kentucky's overall satisfaction score is measured as the percent of customers responding with an 8, 9, or 10 on a 10-point scale. Duke Energy Kentucky's 2010 score was 91.3%.

E. Workforce

Q. PLEASE DESCRIBE DUKE ENERGY KENTUCKY'S WORKFORCE.

A. Duke Energy Kentucky currently employs approximately 248 union employees. Duke Energy Kentucky's last collective bargaining negotiations took place in 2009 and the current agreement extends to 2013. As I previously described, Duke Energy Kentucky also receives many corporate services through employees working for DEBS.

F. Economic Development Efforts

Q. PLEASE GIVE AN OVERVIEW OF DUKE ENERGY KENTUCKY'S ECONOMIC DEVELOPMENT ACTIVITIES.

A. Duke Energy Kentucky's long-standing support for state and local economic development efforts, combined with Duke Energy Kentucky's reasonably-priced rates, have resulted in a number of Kentucky economic development successes in which the Company has played a role. Duke Energy Kentucky's economic development staff and community relations personnel actively serve on several committees of the Kentucky Association for Economic Development, including the Marketing Committee and Program Committee. Duke Energy Kentucky's Vice President of Community Relations and Economic Development serves as co-chair for the "Economic Competitiveness Working Group," for the Northern Kentucky Chamber of Commerce. Our economic development staff is also an active partner with the Tri-County Economic Development Corporation (Tri-ED), consisting of Boone, Kenton, and Campbell Counties. As President of Duke Energy Kentucky, I also serve on the Tri-ED Board and the Marketing Committee, having been appointed by the Kenton County Judge Executive and the Vision 2015 Regional Stewardship Board of Directors. In addition, I also serve on the Executive Committee and as a Director of the Kentucky Chamber of Commerce.

For the last 12 years, Duke Energy and/or Cinergy have been named as having one of the "Top 10 Best" utility economic development programs by *Site Selection* magazine. Duke Energy Kentucky currently offers an Economic Development incentive through its Development Incentive Rider, available to qualifying customers in Duke Energy Kentucky's service territory. In 2010, the

Kentucky Supreme Court upheld our economic development rider and, since that time, we have been actively marketing its availability.

We estimate that our cooperative efforts, along with state and local economic development officials, have contributed to the creation of nearly 26,200 Kentucky jobs and more than $2.4 billion of capital investment in Northern Kentucky since 1995. In 2010, Duke Energy Kentucky piloted its Site Readiness Pilot Program which provides funding and expertise to communities to help identify, improve and increase awareness of promising potential development sites. The program is designed to advance prime parcels further in development pipelines, easing burdens for local and state governments through initial screening and assessments. In 2010, two sites in Northern Kentucky were selected for participation.

Clearly, Duke Energy Kentucky plays a vital role in economic development activities within our service territory and we will continue to do so after the completion of the merger.

G. Community Investment

Q. PLEASE DESCRIBE DUKE ENERGY KENTUCKY'S APPROACH TO COMMUNITY INVESTMENT.

A. Duke Energy Kentucky has made good corporate citizenship a priority by giving back to the communities we serve. In his testimony, Mr. Rogers described the substantial resources we have committed to empowering our employees and retirees to personally engage in community service projects and initiatives. Our involvement in the community reflects a "hands-on" approach to community

investment that is rewarding not only to the communities we serve, but also to the thousands of Duke Energy employees who volunteer their time.

Since 1994, our philanthropic affiliate, the Duke Energy Foundation and formerly the Cinergy Foundation, has contributed over $3.76 million to Northern Kentucky charitable organizations in the communities we serve. We strongly encourage a spirit of volunteerism among our employees, who contribute countless hours of volunteer time to support the many communities in which they live and work. Duke Energy Kentucky also supports heating assistance programs, which I will describe in more detail later.

As part of our community investment focus, we also sponsor a speaker's bureau. Any organization can request a Duke Energy Kentucky speaker to visit with them about new energy generation, energy efficiency, renewable energy, national energy policies, and how these issues could affect families, businesses and communities. It is an opportunity to open a forum for dialogue regarding energy issues in a comprehensive but easy-to-follow manner.

H. Commitment to Energy Efficiency and the Environment

Q. PLEASE DESCRIBE IN DETAIL DUKE ENERGY'S COMMITMENT TO ENERGY EFFICIENCY AND THE ENVIRONMENT.

Duke Energy has proven itself to be a leader on sustainability and the environment. I would be happy to highlight our energy efficiency efforts in particular. Duke Energy has helped the national effort to encourage and implement energy efficiency and demand side management programs. We have joined in a collaborative with the U.S. Department of Energy, U.S. Environmental

Protection Agency, state regulators and other utilities to produce the National Action Plan for Energy Efficiency, which is co-chaired by Mr. Rogers. The collaborative has been a great success and has spurred many consumers to invest in energy efficiency measures which are good for their pocketbooks and good for the environment. Duke Energy's focus has been on making sure our customers are aware of the opportunities to improve their energy efficiency and to help them implement cost-effective solutions. I'll describe some of these initiatives.

One of the key portals into our energy efficiency program is the information we share with customers on our website. At Duke Energy Kentucky, we offer several pages of helpful hints on how to use energy wisely and how to minimize inefficiencies. For example, our website features a wealth of information geared towards helping customers understand how they use energy – both gas and electric – and how that usage affects their bills. Establishing the nexus between usage and bills is the critical first step toward helping customers understand the benefits of being more efficient in their usage of energy.

As part of this, our website features information on "energy vampires" – electronic devices that consume electricity even when they are turned off. It has been estimated that such devices can account for up to 20% of a customer's energy bill. Simply unplugging the devices will save customers money and we want to share that information with Duke Energy Kentucky's customers. Our website also offers helpful information on air conditioning units, home appliances, winter heating tips, heating units, home lighting tips and the advantages of using compact florescent light bulbs. Elsewhere on the website, we

offer interactive calculators that allow customers to gain a better understanding of just how much money they can save by using their appliances and electric devices more efficiently. This provides a tangible savings that they can achieve simply by taking modest steps toward greater efficiency.

In addition to our web-based customer outreach efforts, we also sponsor more proactive energy efficiency programs through our Home Energy House Call program and our Power Manager® program. Home Energy House Call is a free, in-home energy assessment designed to help customers learn how their home uses energy and how they can save on monthly bills. The program provides personalized information unique to each participating customer's home and energy practices. This service is available to Duke Energy customers that meet the following qualifications: 1) be a Duke Energy customer; and 2) own a single-family home and have lived there for at least four months. With the participating homeowner present, a trained energy specialist will visit the home, analyze the total home energy usage, check for air leaks, examine insulation levels and review appliances and heating/cooling system. From the information collected, a custom-tailored report detailing steps that can be taken to increase efficiency and reduce the customer's energy bill is prepared and provided to the customer before the energy specialist leaves. As part of our commitment to saving our customers money on their energy bills through energy efficiency, we also provide a free Energy Efficiency Starter Kit that includes CFL bulbs. The energy specialist can install the items at the time of the Home Energy House Call, so the customer can begin saving money immediately.

The Power Manager® Program is a voluntary program that pays customers to reduce their air conditioning use during times of high demand for electricity. A radio-controlled switch located near a participating customer's outdoor air conditioning unit will cycle the unit off and on when demand is especially high. Cycling events will most likely occur during periods of peak electricity demand.

Duke Energy Kentucky has also teamed up with People Working Cooperatively ("PWC") to provide eligible customers with free home weatherization improvements to help lower energy bills and decrease energy usage. These energy conservation measures can also help customers improve the overall comfort, durability and value of their home. Duke Energy Kentucky has set money aside specifically for making home weatherization improvements for income-qualified customers. Services provided are based on each qualifying customer's specific home energy usage and needs and may include: furnace or heat pump cleaning and tuning; health and safety checks; energy efficient light bulbs; water heater wraps; weather stripping and piping wrap; duct sealing; wall and attic insulation; or other air leakage sealing measures. To qualify, customers must: 1) have a Duke Energy gas or electric account; 2) have a primary heating source of gas or electricity from Duke Energy; 3) be responsible for paying utility bills; 4) live in a single-family home or apartment building; 5) meet annual energy usage criteria; and 6) satisfy income requirements.

For commercial customers, we provide an educational outreach on energy efficiency issues through our Business Services Newsline. This publication offers helpful tips on energy management, industry trends and services and products

available from Duke Energy. We also offer a Smart $aver® program that provides cash incentives to business customers that install high efficiency equipment. To qualify, a business must be a Duke Energy commercial or industrial retail electric customer and not be on our time-of-day rate for service at transmission voltage and apply for the program within 90 days after new high energy efficiency equipment is installed and operational. The Smart $aver® program provides incentives for lighting, cooling, motors, pumps and process applications. In addition, we offer a school incentive for K-12 school facilities as part of the program.

Q. DOES DUKE ENERGY KENTUCKY SHARE THE SAME COMMITMENT TO SUSTAINABILITY AND THE ENVIRONMENT AS DUKE ENERGY?

A. Yes. Duke Energy Kentucky is as equally committed to sustainability and the environment as our parent, Duke Energy. Although I already mentioned several of the energy efficiency measures we have taken here in Kentucky, I will highlight a couple of other ways in which we are making a significant contribution to sustaining the wildlife of Northern Kentucky. Duke Energy Kentucky's East Bend Generating Station in Boone County partners each year with the Kentucky Department of Fish and Wildlife to band wood ducks. About 100 ducks are banded annually at a managed wetland area on the East Bend property. Banding wood ducks is one of many methods used to improve waterfowl populations across the country. The process starts in late June with the Kentucky Department of Fish and Wildlife preparing the site and Duke Energy

employees baiting the area each day with corn. On the day of the banding, a biologist observes the bait site and triggers rockets to cast a net over the ducks. Employees safely retrieve the ducks from the net and place them in holding boxes where they are then taken, one by one, to the biologist for banding. Once the sex, age and other data are determined, the ducks are released unharmed. The leg bands contain an identification number and a toll-free telephone number. When a hunter takes a banded duck during the hunting season, they may simply call the U.S. Fish and Wildlife Service to report the duck's identification number. The information is gathered annually to draw a flight line showing when and where ducks were banded and harvested. This valuable information allows fish and wildlife services across the country to develop wetlands and refuges along the ducks' flyway to aid in winter migrations.

In Kentucky, we have also had a role in helping to re-establish the peregrine falcon population. For more than 10 years, a pair of peregrines has nested at Miami Fort Station in Cleves, Ohio. The same pair returned again last year, but the eggs laid in early spring did not hatch. Another pair of peregrines were spotted for the first time at the East Bend Station. Peregrine falcons prefer a habitat with tall cliffs that provide a clear view of the surroundings for hunting. A nearby source of water also helps to attract small prey for the birds to feed. The tall facilities at East Bend Station and its location on the Ohio River provide an ideal nesting site for the birds.

In addition, at our East Bend Station in Rabbit Hash, Kentucky, we have been implementing a program to store carbon dioxide in a subterranean geologic

formation on a demonstration scale. We are also participating in a pilot program using algae to scrub carbon from emissions at this plant. This program is yielding important information to Duke Energy on the concepts, principles and processes of carbon capture and emissions management. These maturing technologies may one day afford Duke Energy and the Commonwealth additional options for managing carbon dioxide emissions from its coal-fired generating assets.

I. Integration into PJM

Q. PLEASE DESCRIBE THE STATUS OF DUKE ENERGY'S INTERACTION WITH ANY REGIONAL TRANSMISSION ORGANIZATIONS.

A. On December 22, 2010, the Commission conditionally approved Duke Energy Kentucky's functional transfer of control of its transmission assets to the PJM Interconnection Regional Transmission System ("PJM") from the Midwest Independent System Transmission Operator ("Midwest ISO"). As part of its approval, the Commission imposed six conditions on the transfer of functional control. Duke Energy Kentucky accepted all of these conditions and is currently working with PJM and Midwest ISO to coordinate the transfer of functional control of its transmission assets. We anticipate that this process will be completed by January of 2012.

Q. ARE ANY OF THE OTHER AFFILIATES OF DUKE ENERGY MEMBERS OF REGIONAL TRANSMISSION ORGANIZATIONS?

A. Duke Energy Kentucky's realignment with PJM is contingent upon the realignment of its parent Duke Energy Ohio, whose bulk transmission system

Duke Energy Kentucky relies upon to serve its customers. Upon the completion of the transfer of functional control, both Duke Energy Kentucky and Duke Energy Ohio will be members of PJM. Duke Energy Indiana, the other operating company of Cinergy, will remain a member of Midwest ISO.

Presently, Duke Energy Carolinas, Progress Energy Carolinas and Progress Energy Florida are not members of regional transmission organizations. Duke Energy Carolinas and Progress Energy Carolinas do, however, participate in PJM markets and purchase products offered by PJM and its members from time to time.

J. Benefits from the Duke Energy/Cinergy Merger

Q. HOW HAS THE DUKE ENERGY/CINERGY MERGER BENEFITTED DUKE ENERGY KENTUCKY'S CUSTOMERS?

A. The merger between Duke Energy and Cinergy combined two outstanding companies with a strong track record of reasonable rates, high customer satisfaction, and safe and reliable services. Duke Energy continues to build on the combined foundation of these two companies, which better enables Duke Energy Kentucky to provide safe, reliable and reasonably-priced gas and electric service to its customers. Duke Energy Kentucky benefits from Duke Energy's strong financial and generation profile.

The increased scale, scope and strength of operations resulting from the 2006 merger has strengthened the post-merger Duke Energy's balance sheet and financial flexibility, compared with the balance sheet and financial resources of the pre-merger Duke Energy Corporation or Cinergy. These synergies have

reduced costs from eliminating overlapping functions, avoiding duplicative expenditures, consolidating operations and increasing purchasing power.

Customers immediately benefited from the merger via the merger savings sharing mechanism, approved by the Commission's November 29, 2005, Order in Case No. 2005-00228. Future merger savings will continue to flow to customers through base rates. In addition, the 2006 merger created a broader base of employees over a larger geographic area. This has better enabled Duke Energy's operating companies to provide mutual assistance to each other during severe weather conditions. Many Progress Energy executives and managers with significant managerial and technical experience will work for the new company. This will allow a continued sharing of best practices among the companies. Duke Energy Kentucky's customers will continue to enjoy safe, reliable and reasonably-priced service as a result of the Duke Energy/Progress Energy merger.

III. IMPACT OF THE MERGER UPON DUKE ENERGY KENTUCKY

Q. WILL THE MERGER HAVE ANY NEGATIVE IMPACT UPON THE COMMISSION'S JURISDICTION OVER DUKE ENERGY KENTUCKY?

A. No. The Commission will continue to have jurisdiction over Duke Energy Kentucky. The merger will have no impact upon the Commission's jurisdiction. We are also willing to renew the merger commitments from the 2005 merger case to the extent that they would apply to this transaction.

Q. PLEASE DESCRIBE DUKE ENERGY KENTUCKY'S MISSION AND WHETHER THE MERGER WILL HAVE ANY IMPACT UPON THAT MISSION.

A. Duke Energy Kentucky's mission is to provide our customers with safe and reliable electric and gas service at reasonable prices, to provide our employees with a safe workplace, to positively impact the Northern Kentucky communities we serve and to be good stewards of the resources we are entrusted with managing. We strive to be the energy supplier of choice, the investment of choice, the employer of choice and a leader by choice. We are committed to achieving these goals through careful and purposeful management of our business, for the benefit of all our stakeholders.

Importantly, Duke Energy Kentucky's mission will not change following the merger. The management team at Duke Energy Kentucky will remain the same and both Duke Energy and Progress Energy share similar goals and a common vision for our industry and our company. Following the merger, Duke Energy Kentucky will continue to provide reliable, cost-effective and efficient utility and customer service.

Q. PLEASE EXPLAIN HOW THE MERGER WILL AFFECT DUKE ENERGY KENTUCKY'S LOCAL PRESENCE.

A. It will not have any noticeable impact. Duke Energy Kentucky will maintain a presence throughout its Northern Kentucky service territory. The corporate headquarters will remain in Cincinnati, Ohio and the existing field offices in Northern Kentucky will remain. Moreover, Duke Energy's commitment to

customer service, economic development and community investment – which I discussed earlier – will not diminish.

Q. PLEASE DESCRIBE THE IMPACT OF THE MERGER ON DUKE ENERGY KENTUCKY'S FINANCIAL INTEGRITY.

A. The merger should have no adverse impact upon Duke Energy Kentucky's financial integrity. The increased scale and scope of operations resulting from the merger will strengthen the balance sheet of the post-merger Duke Energy and increase financial flexibility. Additionally, Duke Energy Kentucky will retain the ability to obtain its own financing, subject to regulatory approvals, just as today. Duke Energy Kentucky will not guarantee the credit of any of its affiliates unless specifically approved by the Commission.

Q. PLEASE DESCRIBE HOW THE MERGER WILL AFFECT DUKE ENERGY KENTUCKY'S RELIABILITY OF SERVICE AND SAFETY.

A. The merger will have no adverse impact upon Duke Energy Kentucky's commitment to reliability of service and safety. Each of the initiatives and programs we currently have in place to promote reliability and safety and that I described above will continue. When Cinergy merged with Duke in 2006, both companies were able to enjoy the benefits of an expanded workforce to respond to outages caused by weather or disaster. With the resources of Progress Energy being added, Duke Energy will have the best intra-company mutual aid system in place in the United States. This will definitely benefit Duke Energy Kentucky's customers for many years to come.

We are proud of the recognition we have received for reliability. As an example, *Electric Light & Power* magazine recognized three Duke Energy fossil stations among the nation's Top 20 performers in its 2008 operating performance survey of the nation's electric generating stations. In the Carolinas, Belews Creek and Marshall steam stations were recognized for their outstanding heat rate. Belews Creek was ranked No. 1 and Marshall No. 8. Heat rate is a measure of how efficiently a fossil station burns coal to generate electricity. In the Midwest, Gibson Steam Station ranked third in the survey category for total megawatt-hours (MWh) generated by producing 21,887,608 MWh.

Progress Energy places an equally high priority on system reliability and safety. Upon the completion of the merger, the focus will not change.

Q. PLEASE SUMMARIZE WHY THIS MERGER IS IN THE BEST INTEREST OF DUKE ENERGY KENTUCKY'S CUSTOMERS.

A. This merger is about creating a company with the right size, scale and diversity to manage the transformation our industry is facing. Due to the geographical diversity of the Progress Energy utilities in relation to Duke Energy Kentucky, Duke Energy Kentucky will not see the immediate benefits of the merger that relate to joint dispatch and fuel procurement. The future efficiencies we expect to gain from this transaction, such as implementation of best practices and a stronger financial position, will help Duke Energy Kentucky mitigate future rate increases as we reinvest in the business for the future. That means further investments to replace aging plants and infrastructures, modernizing our smart grid technology, and meeting new environmental standards with renewable and

alternative energy options that are environmentally responsible. Our new combined company will continue the shared traditions of superior customer service, safety and reliability that customers have come to expect, and will be better positioned for effective restoration response going forward.

Q. HOW WILL THE MERGER OF DUKE ENERGY AND PROGRESS ENERGY AFFECT DUKE ENERGY KENTUCKY'S ABILITY TO PROVIDE THE SAME LEVEL OF CUSTOMER SERVICE IN THE FUTURE?

A. The merger between Duke Energy and Progress Energy will have no adverse impact upon customer service. Like reliability, customer service is a high priority at both Duke Energy and Progress Energy. The merger will allow Duke Energy Kentucky to access Progress Energy's substantial customer service experience. This will enable the post-merger Duke Energy to further refine its best-in-class procedures and enhance Duke Energy Kentucky's ability to provide superior customer service.

Our goal and belief is that the merger will appear seamless to our customers as the merger will not adversely change the quality of services they currently receive. Duke Energy Kentucky will continue to offer a variety of service options that provide accessibility and convenience, as well as a consistent customer service experience, regardless of the service channel. We will continue to have qualified and skilled customer service representatives available 24 hours a day to respond to power outage calls. Customers will also have access to our

online services and automated telephone service, 24 hours a day to perform routine interactions or to obtain general billing and customer information.

We will also continue to staff qualified and skilled customer service representatives during core business hours to handle all types of customer inquiries. The quality and effectiveness of our call centers will continue to be monitored and assessed by reviews from trained mentors who provide feedback to customer service representatives. We will also continue to survey our customers to make sure that we are meeting their needs. We will seek out the measures of their satisfaction and we will integrate this information into our processes, programs, and services. We will also continue to work closely with the Commission's Division of Consumer Services to resolve any complaints that are made to the Commission in a timely and fair manner.

Duke Energy Kentucky is committed to customer service and the merger with Progress Energy will only strengthen that commitment. As we learn from their systems, processes, operations and strategies for achieving superior customer service, we will adopt the best-in-class practices of our combined companies for the benefit of Duke Energy Kentucky's customers.

Q. HOW WILL THE MERGER IMPACT DUKE ENERGY KENTUCKY'S WORKFORCE?

A. As Mr. Rogers testified, a reduction in labor force is not one of the primary motivations for entering into this merger. Duke Energy expects that most of the workforce reductions will be accomplished through ordinary attrition and retirement. Due in part to the geographical diversity in the post-merger Duke

Energy's Midwestern, Carolina and Florida operations, it is not anticipated at this time that the merger will have any noticeable impact on Duke Energy Kentucky's workforce.

Q. HOW WILL THE MERGER IMPACT DUKE ENERGY KENTUCKY'S ECONOMIC DEVELOPMENT PROGRAMS?

A. Duke Energy Kentucky's commitment to economic development will not be adversely impacted by the merger. As Mr. Johnson points out in his testimony, Progress Energy has a solid track record for supporting and contributing to economic development and combining the resources and expertise of the companies will only add to our overall ability to help local leaders attract investment and create jobs. Economic development will remain a top priority for Duke Energy Kentucky following the completion of the merger.

Q. HOW WILL THE MERGER IMPACT DUKE ENERGY KENTUCKY'S EFFORTS TO INVEST IN THE NORTHERN KENTUCKY REGION?

A. Duke Energy Kentucky's commitment to the communities within our service region will not be diminished by the merger. Our commitment to charitable giving through the Duke Energy Foundation will continue. Our commitment to promoting volunteerism by our employees will continue. We will continue to partner with our local communities to make the areas in which we serve better.

Q. HOW WILL THE MERGER IMPACT DUKE ENERGY KENTUCKY'S COMMITMENT TO SUSTAINABILITY AND THE ENVIRONMENT?

A. Duke Energy Kentucky will remain just as committed to sustainability and the environment following the completion of the merger. This merger combines two

companies that have been widely recognized for what they have already accomplished and for what they aspire to achieve in the future. Duke Energy Kentucky is the focus of several unique environmental programs and stewardship initiatives. That will not change following the completion of the merger.

Q. WILL THE MERGER HAVE ANY IMPACT UPON DUKE ENERGY KENTUCKY'S RECENT DECISION TO BECOME A MEMBER OF THE PJM REGIONAL TRANSMISSION ORGANIZATION INSTEAD OF REMAINING A MEMBER OF THE MIDWEST INDEPENDENT SYSTEM OPERATOR?

A. The merger will have no adverse impact upon Duke Energy Kentucky's transition of functional control of its transmission assets from MISO to PJM. Duke Energy Kentucky's need to realign its RTO membership actually arose due to the Company's dependence upon the bulk transmission system of Duke Energy Ohio. Duke Energy Kentucky owns very few bulk transmission facilities, and the Company's generating stations are actually connected to the Duke Energy Ohio-owned transmission system. Duke Energy Kentucky is in the process of completing its realignments in accordance with the Commission's December 22, 2010 order and is planning to complete the realignment by January 1, 2012, subject to Duke Energy Ohio completing its own realignment. Duke Energy Kentucky will continue to abide by the conditions set forth in the Commission's December 22, 2010 order and does not anticipate a need to seek any further relief or judgment from the Commission on those issues. By creating the largest utility in the United States, Duke Energy will be able to maximize its transmission assets

and develop planning processes for future transmission needs which will be beneficial to Duke Energy Kentucky over the long term.

IV. MERGER COMMITMENTS

Q. WHAT COMMITMENTS FROM PAST MERGERS ARE CURRENTLY BINDING ON DUKE ENERGY KENTUCKY?

A. In 1994, the Commission imposed numerous conditions on the indirect acquisition of control of the Union Light, Heat & Power Company by CG&E. When the Commission considered the merger of Duke Energy and Cinergy in 2005, it asked whether the Joint Applicants preferred to adopt the 1994 merger commitments as the merger commitments of the Duke Energy/Cinergy merger or whether it preferred to have new merger commitments issued that would supersede the 1994 commitments. The Joint Applicants in the Duke Energy/Cinergy merger expressed their preference for new merger commitments, which the Commission accepted. Thus, the 46 conditions issued as part of the Commission's approval of the merger of Duke Energy and Cinergy in 2005 (Commission Case No. 2005-00228) provide the complete list of merger commitments. However, some of those merger commitments – such as the merger savings sharing mechanism – have now expired.

Q. WHAT COMMITMENTS IS DUKE ENERGY KENTUCKY WILLING TO MAKE AS PART OF THIS MERGER?

A. To the extent that they would reasonably apply to this transaction, the Joint Applicants are willing to continue to abide by the merger commitments set forth

in the Commission's final order in Case No. 2005-00228, the Duke Energy/Cinergy merger.

Q. CAN YOU DESCRIBE EACH OF THESE MERGER COMMITMENTS AND GIVE YOUR OPINION AS TO WHETHER THEY SHOULD OR SHOULD NOT CONTINUE TO APPLY FOLLOWING THE MERGER OF DUKE ENERGY AND PROGRESS ENERGY?

A. Yes. Merger Commitment #1 essentially required Duke Energy to keep the books and records of Duke Energy Kentucky available to the Commission for inspection and examination. It also required Duke Energy to make the books and records of any of its subsidiaries in which it had a controlling interest available for inspection and examination to the extent that it may be necessary to verify transactions with Duke Energy Kentucky. Finally, Merger Commitment #1 required the books and records of Duke Energy Kentucky to be kept either in Cincinnati, Ohio, Plainfield, Indiana or Charlotte, North Carolina. The Joint Applicants are willing to continue to abide by this merger commitment as part of this transaction.

Merger Condition #2 prohibited Duke Energy Kentucky from incurring any additional indebtedness, issuing any additional securities, or pledging any assets to finance any part of the Duke Energy/Cinergy merger. It expressly allowed Duke Energy Kentucky to loan and borrow money from affiliates under the terms of the Utility Money Pool Agreement with other parties to that agreement. The Joint Applicants are willing to continue to abide by this merger commitment as part of this transaction, subject to the revisions to the Utility

Money Pool Agreement attached as Exhibit I to the application and discussed in more detail by Mr. De May in his testimony.

Merger Commitment #3 required the payment for Cinergy's stock to be recorded on the books of the post-merger Duke Energy and excluded from the books of Duke Energy Kentucky for retail ratemaking and accounting purposes, except to the extent that such treatment would be inconsistent with the principles of the U.S. Securities and Exchange Commission. The Joint Applicants are willing to continue to abide by this merger commitment as part of this transaction.

Merger Commitment #4 prohibited the use of a "push-down" treatment for retail ratemaking and accounting purposes of any acquisition premium paid by Duke Energy for the stock of Cinergy, unless such treatment would be inconsistent with the principles of the U.S. Securities and Exchange Commission. Mr. Wiles discusses this issue in more detail in his testimony and explain why this particular commitment is no longer necessary and does not apply in this transaction.

Merger Commitment #5 prohibited the allocation to retail customers of Duke Energy Kentucky for retail ratemaking and accounting purposes of any change in control payments, unless such treatment would be inconsistent with the principles of the U.S. Securities and Exchange Commission. The Joint Applicants are willing to continue to abide by this merger commitment as it may apply to this transaction.

Merger Commitment #6 required Duke Energy Kentucky to make an annual filing with the Commission that sets forth its CAIDI, SAIDI and SAIFI

data for the previous year for purposes of monitoring Duke Energy Kentucky's continuing commitment to reliability and service quality. This requirement has been effectively superseded by the Commission's administrative order in Case No. 2006-00494 which requires all jurisdictional electric utilities to file this information annually. Although Duke Energy Kentucky supports the annual reporting of this information to the Commission, there is no need for this particular merger commitment to continue to apply to Duke Energy Kentucky following the merger.

Merger Commitment #7 required executive level personnel to continue to be based in the Cincinnati/Northern Kentucky area with direct responsibility for gas and electric operations in Kentucky. It also required Duke Energy Kentucky to file annual reports regarding sustained outages – which was defined as an outage having a duration of greater than five minutes – and the outage duration for the circuits at each substation. The commitment also required gas and electric personnel of Duke Energy Kentucky to also be present when Duke Energy's Chief Executive Officer held annual meetings with the Commission. The Joint Applicants are willing to continue to abide by this merger commitment as part of this transaction.

Merger Commitment #8 required the applicants to the Duke Energy/Cinergy merger to commit to not achieving merger savings at the expense of a material degradation of the adequacy and reliability of Duke Energy Kentucky's retail gas and electric service. The Joint Applicants are willing to continue to abide by this merger commitment as part of this transaction.

Merger Commitment #9 required Duke Energy Kentucky to maintain a substantial level of involvement in community activities, through annual charitable and electric service. Duke Energy Kentucky is willing to continue to abide by this merger commitment as part of this transaction.

Merger Commitment #10 required Duke Energy Kentucky to maintain a pro-active stance on developing economic opportunities in Kentucky and supporting economic development activities throughout its service territory. Duke Energy Kentucky is willing to continue to abide by this merger commitment as part of this transaction.

Merger Commitment #11 required Duke Energy Kentucky to maintain accounting and reporting systems that would adequately provide assurance that directly assignable utility and non-utility costs were accounted for properly and that reports on the utility and non-utility operations were accurately presented. Duke Energy Kentucky is willing to continue to abide by this merger commitment as part of this transaction.

Merger Commitment #12 required the applicants to the Duke Energy/Cinergy merger to implement and maintain cost allocation procedures that would accomplish the objective of preventing cross-subsidization. The applicants were required to be prepared to fully disclose all allocated costs and the portion allocated to Duke Energy Kentucky, with complete details of the allocation methods and justification for the amount and the method. The applicants were required 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/Non-Utility Companies Services Agreement and the Operating Companies Service Agreement approved as part of the merger proceeding. The Applicants also committed to periodic comprehensive third-party independent audits of the affiliate transactions under the affiliates agreements approved in the Duke Energy/Cinergy merger, with such audits to be performed every two years and reports to be filed with the Commission and the Attorney General. Such audit reports were to be filed with Duke Energy Kentucky's annual report, if possible, although the applicants could request a change to the frequency of the audit reports in future years, subject to the agreement of the Commission and the Attorney General. The Joint Applicants are willing to continue to abide by this merger commitment as part of this transaction, but suggest that it should apply only for the first six years following the completion of the merger.

Merger Commitment #13 required Duke Energy Kentucky to protect against cross-subsidization in transactions with affiliates. Duke Energy Kentucky is willing to continue to abide by this merger commitment as part of this transaction.

Merger Commitment #14 required Duke Energy Kentucky to acknowledge, for rate-making purposes, that the Commission has jurisdiction over Duke Energy's capital structure, financing and cost of capital and that the Commission would continue to exercise such jurisdiction. Duke Energy Kentucky is willing to continue to abide by this merger commitment as part of this transaction.

Merger Commitment #15 required the applicants to the Duke Energy/Cinergy merger to commit that the merger would have no adverse impact on the base rates or the operation of the fuel adjustment clause, gas supply clause and demand side management clause of Duke Energy Kentucky. The Joint Applicants are willing to continue to abide by this merger commitment as part of this transaction.

Merger Commitment #16 prohibited Duke Energy Kentucky from seeking a higher rate of return on equity than would have been sought if the merger had not occurred. Duke Energy Kentucky is willing to continue to abide by this merger commitment as part of this transaction.

Merger Commitment #17 stipulated that Duke Energy Kentucky's excess deferred income taxes would not be affected by the merger of Duke Energy and Cinergy. Duke Energy Kentucky is willing to continue to abide by this merger commitment as part of this transaction.

Merger Commitment #18 required Duke Energy and Cinergy to take an active and ongoing role in managing and operating Duke Energy Kentucky in the interests of customers, employees, and the Commonwealth of Kentucky, and to take the lead in enhancing Duke Energy Kentucky's relationship with the Commission, state and local governments and other community interests. The commitment required Duke Energy's Chief Executive Officer to meet with the Commission at least once per year, but also more frequently if deemed necessary by the Commission. The Joint Applicants are willing to continue to abide by this merger commitment as part of this transaction.

Merger Commitment #19 required Duke Energy Kentucky to update the Commission at least annually on the adoption and implementation of best practices at Duke Energy Kentucky following the completion of the merger. Duke Energy Kentucky is willing to continue to abide by this merger commitment as part of this transaction.

Merger Commitment #20 required the applicants to the Duke Energy/Cinergy merger to notify 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. The Joint Applicants are willing to continue to abide by this merger commitment as part of this transaction.

Merger Commitment #21 required Duke Energy to notify the Commission subsequent to its board's approval and as soon as practicable following any public announcement of any acquisition of a regulated or non-regulated business representing five percent or more of Duke Energy's market capitalization. Duke Energy is willing to continue to abide by this merger commitment as part of this transaction.

Merger Commitment #22 required Duke Energy Kentucky to pay dividends only out of its retained earnings and to maintain a capital structure which contains a minimum of thirty-five percent equity. The Joint Applicants are willing to continue to abide by this merger commitment as part of this transaction.

Merger Commitment #23 required Duke Energy Kentucky to include a schedule of the current capital structure and a schedule of any capital contribution made to Duke Energy Kentucky in the applicable quarter as part of its quarterly

filings with the Commission. Duke Energy Kentucky is willing to continue to abide by this merger requirement.

Merger Commitment #24 required the applicants to commit that customers of Duke Energy Kentucky will experience no adverse change in utility service due to the creation of Duke Energy Shared Services, LLC. Because Duke Energy Shared Services and Duke Energy Business Services, LLC were consolidated in July 2008, this commitment is outdated. Nevertheless, the Joint Applicants are willing to continue to abide by this merger commitment as it would apply to Duke Energy Business Services, LLC as part of this transaction.

Merger Commitment #25 required the applicants to the Duke Energy/Cinergy merger to commit to: a) adequately funding and maintaining Duke Energy Kentucky's transmission and distribution system; b) complying with all Commission regulations and statutes; and c) supplying Duke Energy Kentucky's customers' service needs. The Joint Applicants are willing to continue to abide by this merger commitment as part of this transaction.

Merger Commitment #26 required the applicants to the Duke Energy/Cinergy merger to take into account the impact upon customer service, customer satisfaction and negative impacts of workforce reductions when implementing best practices. The Joint Applicants are willing to continue to abide by this merger commitment as part of this transaction.

Merger Commitment #27 required the applicants to the Duke Energy/Cinergy merger to minimize, to the extent possible, any negative impacts upon customer service and customer satisfaction arising from any workforce

reductions. The Joint Applicants are willing to continue to abide by this merger commitment as part of this transaction.

Merger Commitment #28 required Duke Energy Kentucky to give the Commission 30 days prior notice of any material changes in its participation in funding for research and development. Material changes were described as including, but not being limited to, any change in funding equal to or greater than 25% from Duke Energy Kentucky's previous budget for research and development. The commitment also required Duke Energy to give the notice in writing with an explanation for the reasons for the change in policy. Duke Energy Kentucky is willing to continue to abide by this merger commitment as part of this transaction.

Merger Commitment #29 required the applicants to the Duke Energy/Cinergy merger to commit to not closing Duke Energy Kentucky's local customer service office as a result of that merger and, in the event that any customer service offices may be closed to achieve best practices, consideration would be given as to the impact of the closures on customer service. This commitment is no longer necessary. Duke Energy Kentucky closed its local walk-in customer service office in 2009 as part of its implementation of best practices and in consideration of employee safety. To mitigate the impact of the closure on customer service, the Company increased the number of local pay stations throughout its service territory and implemented new electronic bill payment alternatives for its customers. Customer service representatives continue to be available by telephone 24 hours a day.

Merger Commitment #30 required the applicants to the Duke Energy/Cinergy merger to dedicate Duke Energy Kentucky's existing and future rate-based generation facilities to the first call requirements of its existing and future native load customers. The Joint Applicants are willing to continue to abide by this merger commitment as part of this transaction.

Merger Commitment #31 required Duke Energy Kentucky to file with the Commission a notice setting forth an analysis of any changes or implications for its customers of any utility merger, disposition or acquisition in the United States that is exempted under KRS 278.020(5) and (6), within 60 days of the closing of the relevant transaction. Duke Energy Kentucky is willing to continue to abide by this merger commitment as part of this transaction.

Merger Commitment #32 required Duke Energy Ohio to hold 100% of the common stock of Duke Energy Kentucky and that no common stock of Duke Energy Kentucky would be transferred without prior notice to the Commission even if the transaction is exempt under KRS 278.020(5) and (6). The Joint Applicants are willing to continue to abide by this merger commitment as part of this transaction.

Merger Commitment #33 required, at a minimum, the Chief Executive Officer of Duke Energy Kentucky (or his or her designee) to participate in any consideration or debates by Duke Energy of Duke Energy Kentucky's budgets, investments, dividend policies, projects and business plans on a real-time basis so that a Kentucky perspective could be given on the decisions to be made. The

Joint Applicants are willing to continue to abide by this merger commitment as part of this transaction.

Merger Commitment #34 required the President of Duke Energy Kentucky to live within Kentucky or the Cincinnati metropolitan area. The Joint Applicants are willing to continue to abide by this merger commitment as part of this transaction.

Merger Commitment #35 required the applicants to the Duke Energy/Cinergy merger to commit that management talent would not be diverted from Duke Energy Kentucky to Duke Energy or any of its affiliates in a manner which threatened the continued efficient operation of Duke Energy Kentucky. The Joint Applicants are willing to continue to abide by this merger commitment as part of this transaction.

Merger Commitment #36 required Duke Energy Kentucky to make certain filing requirements with the Commission in light of a Federal Energy Regulatory Commission ("FERC") rule-making following the repeal of the Public Utility Holding Company Act of 1935 and the enactment of the Energy Policy Act of 2005. In the event that Form U5S and Form U-13-60 were no longer required to be filed, Duke Energy Kentucky was required to meet with the Commission to discuss and reach agreement on alternative reporting requirements. In addition, Duke Energy, Cinergy and Duke Energy Ohio committed to filing copies of their annual reports with the Commission. Duke Energy Kentucky currently files its FERC Form 1 data on an annual basis. Duke Energy Kentucky is willing to continue to abide by this merger commitment as part of this transaction.

Merger Commitment #37 required Duke Energy Kentucky to continue to provide a variety of customer programs and services that enable its customers to better manage their energy bills based on the varied needs of its customers. In addition, Duke Energy Kentucky was required to offer a variety of service options that provide accessibility and convenience, as well as consistent customer service experiences, regardless of service channel. Duke Energy Kentucky is willing to continue to abide by this merger commitment as part of this transaction.

Merger Commitment #38 required Duke Energy Kentucky to continue to have qualified and skilled customer service representatives available 24 hours a day, to respond to power outage calls. It also required Duke Energy Kentucky to assure that customers had access to its online services and automated telephone service 24 hours a day to perform routine interactions or to obtain general billing and customer information. Duke Energy Kentucky is willing to continue to abide by this merger commitment as part of this transaction.

Merger Commitment #39 required Duke Energy Kentucky to continue to employ qualified and skilled customer service representatives during core business hours to handle all types of customer inquiries and to continue its commitment to a quality assurance program. Duke Energy Kentucky is willing to continue to abide by this merger commitment as part of this transaction.

Merger Commitment #40 required Duke Energy Kentucky to survey its customers regarding their satisfaction and to integrate this information into its processes, programs, and services that impact customers. Duke Energy Kentucky

is willing to continue to abide by this merger commitment as part of this transaction.

Merger Commitment #41 required Duke Energy Kentucky to receive approval from the Commission prior to issuing any long-term debt. Duke Energy Kentucky is willing to continue to abide by this merger commitment as part of this transaction.

Merger Commitment #42 prohibited Duke Energy Kentucky from guaranteeing the credit of any of its affiliates unless such a guarantee has been pre-approved by the Commission. Duke Energy Kentucky is willing to continue to abide by this merger commitment as part of this transaction.

Merger Commitment #43 required all debt at the Duke Energy and Cinergy levels to be non-recourse to Duke Energy Kentucky. The Joint Applicants are willing to continue to abide by this merger commitment as part of this transaction.

Merger Commitment #44 applied only in the situation where the Duke Energy/Cinergy merger was not completed. In that event, neither the cost nor the receipt of any termination payment would be allocated to Duke Energy Kentucky's books. Likewise, Duke Energy Kentucky's customers would not bear any costs resulting from a failed transaction. The Joint Applicants are willing to continue to abide by this merger commitment as applied to the merger between Duke Energy and Progress Energy.

Merger Commitment #45 related to the effect of the Commission's approval of "at-cost" pricing for the Utility Service Agreement, Services

Agreements and Operating Companies Services Agreement on any subsequent rulemaking by FERC following repeal of the Public Utility Holding Company Act of 1935 and the enactment of the Energy Policy Act of 2005. This merger commitment is now out of date and should be eliminated.

Finally, Merger Commitment #46 simply confirmed that no determination had been made as to whether Duke Energy should separate its retail electric and domestic natural gas business from its interstate gas pipeline business. This merger commitment is now out of date because Duke Energy has divested its interstate natural gas pipeline business and the merger commitment should be eliminated.

Q. DOES DUKE ENERGY KENTUCKY PREFER THAT THE MERGER COMMITMENTS MADE IN CASE NO. 2005-00228 BE CARRIED OVER INTO THIS CASE OR DOES IT PREFER THAT THE COMMISSION ISSUE NEW MERGER COMMITMENTS THAT WOULD SUPERSEDE THE COMMITMENTS SET FORTH IN CASE NO. 2005-00228?

A. The Joint Applicants take the same position that was taken by the applicants in Case No. 2005-00228. It would be preferable for the Commission to release the Joint Applicants from any merger commitments not expressly contained in a final order approving this merger. Thus, any merger commitments which would otherwise carry over from either the 1994 ULH&P acquisition or the 2005 Duke Energy/Cinergy merger should be expressly superseded by new merger commitments applying to this merger.

V. AFFILIATE AGREEMENTS

Q. WHAT AFFILIATE AGREEMENTS WILL NEED TO BE AMENDED AS A RESULT OF THE MERGER?

A. Duke Energy Kentucky is already authorized to engage in transactions for products and services with affiliates, provided that the transactions are in compliance with Kentucky law and, where applicable, pursuant to Commission-approved service agreements. Duke Energy Kentucky and many of its affiliates are already parties to Commission-approved service agreements that permit certain transactions to occur between the signatory parties and under defined pricing terms and conditions. The affiliate agreements requiring an amendment include: 1) the Service Company Utility Service Agreement, which allows DEBS to perform services for each of the public utilities; 2) the Asymmetrically Priced Operating Company/Non-Utility Agreement, which allows the utilities and non-utility affiliates to perform various services for each other in accordance with FERC pricing rules and in accordance with KRS 278.2207(1); 3) the Operating Companies Services Agreement, which allows the utilities to perform services for each other; 4) the Utility Money Pool Agreement, which allows for inter-company loans among the utility companies, service company, and holding company; 5) the Intercompany Asset Transfer Agreement, which permits the transfer of inventory assets, excluding commodities, at the transferring company's fully-allocated cost, subject to certain limitations; and 6) the Tax Sharing Agreement, which allows for the joint filing of federal tax returns. Duke Energy Kentucky has several other service agreements in place that are not impacted by this merger transaction, and

will not require Commission approval for any amendments. Those additional agreements generally involve the operation of the Company's generating stations which it acquired from Duke Energy Ohio or govern service between affiliates and are priced in accordance with Kentucky asymmetric pricing requirements. Copies of all these agreements – as currently in effect – are on file with the Commission as part of Duke Energy Kentucky's annual reporting and update to its Cost Allocation Manual, which was last filed in March 2010. The agreements which Duke Energy Kentucky is seeking Commission approval to amend are included as Exhibit I of the Joint Applicants' application.

Q. WHEN WERE EACH OF THESE AFFILIATE AGREEMENTS LAST APPROVED BY THE COMMISSION?

A. All of the subject affiliate agreements were approved in the course of the Duke-Cinergy merger, Commission Case No. 2005-00228, with the exception of the Intercompany Asset Transfer Agreement that was approved in Case No. 2008-00122.

Q. PLEASE DESCRIBE THE NATURE OF THE NECESSARY AMENDMENTS.

A. As explained by Messrs. Wathen and De May, the Joint Applicants are adding the Progress Energy companies to the affiliate agreements.

Q. WHICH OF THE AMENDED AFFILIATE AGREEMENTS WILL REQUIRE COMMISSION APPROVAL?

A. Only those affiliate agreements directly authorizing transactions between Duke Energy Kentucky and the Progress Energy companies will need Commission

approval for a deviation from KRS 278.2207. At this time, Joint Applicants expect that the Progress companies will be added to the following affiliate agreements: 1) the Service Company Utility Service Agreement; 2) the Operating Companies Services Agreement; 3) the Utility Money Pool Agreement; 4) the Intercompany Asset Transfer Agreement; and 5) the Tax Sharing Agreement. Only the Asymmetrically Priced Operating Company/Non-Utility Agreement will not require Commission approval. Mr. Wathen will provide more detailed information about most of these affiliate agreements in his testimony. Mr. De May will provide more detailed information about the Utility Money Pool Agreement.

VI. THE MERGER'S CONSISTENCY WITH KENTUCKY LAW

Q. DO YOU BELIEVE THAT DUKE ENERGY WILL CONTINUE TO HAVE THE FINANCIAL, MANAGERIAL AND TECHNICAL ABILITY TO OWN AND OPERATE DUKE ENERGY KENTUCKY AND PROVIDE REASONABLE SERVICE TO CUSTOMERS FOLLOWING THE COMPLETION OF THE MERGER?

A. Absolutely. For all of the reasons that I have testified to earlier, this merger will have no adverse impact upon Duke Energy Kentucky, its customers, investors, employees or communities. More than that, however, this merger will provide Duke Energy Kentucky with a stronger financial balance sheet, stable earnings, a highly experienced leadership team and the ability to implement best-in-class practices in our operations and customer service. All of this will benefit our

customers in the form of affordable rates, our investors in the form of consistent returns, our employees in the form of safe and desirable work environments and our communities in the form of greater investment and involvement. Duke Energy will clearly have the financial, managerial and technical ability to own and operate Duke Energy Kentucky and to provide reasonable service following the completion of the merger.

Q. DO YOU BELIEVE THAT THE MERGER IS FOR A PROPER PURPOSE AND CONSISTENT WITH THE PUBLIC INTEREST?

A. Yes. The proposed merger will not adversely affect the existing level of utility service or rates. Duke Energy will emerge from this transaction as a stronger utility with a size, scale and scope that is properly calibrated to meeting the challenges and opportunities confronting the utility industry today. As I've outlined, all of our stakeholders will benefit from this merger and for that reason the merger is being accomplished for a proper purpose. Moreover, making sure that we have the financial, technical and managerial wherewithal to meet the challenges and opportunities that lay ahead of us is certainly consistent with the public interest. We will continue to provide safe and reliable gas and electric service to our customers at affordable rates. Over time, customers will benefit from improved service quality, enhanced service reliability, the availability of additional services and a reduction in utility expenses to provide the service they are currently receiving. Therefore, the merger is for a proper purpose and consistent with the public interest.

Q. ONE OF THE REQUIREMENTS OF KENTUCKY LAW IS FOR THE PROPOSED MERGER TO BE IN ACCORDANCE WITH LAW. IN ADDITION TO THIS PROCEEDING, WHAT ELSE HAVE THE JOINT APPLICANTS DONE TO MAKE SURE THE MERGER IS IN ACCORDANCE WITH LAW?

A. As an initial matter, the Boards of Directors of both companies approved the merger at meetings held on January 8, 2011. Completion of the merger is conditioned upon the approval of the shareholders of both companies, so part of the process is making sure that both companies comply with their governing documents. Both Duke Energy and Progress Energy are doing this. In addition, the Joint Applicants are seeking regulatory approvals from the FERC, the United States Department of Justice, the Federal Communications Commission, the Nuclear Regulatory Commission, the North Carolina Utilities Commission and the South Carolina Public Service Commission in addition to this Commission. The Joint Applicants will make all required federal and state regulatory filings on a timely basis, and fully expect to receive all required approvals in time to close the transaction by the end of 2011. A copy of each application for regulatory approval listed above will be filed with the Commission promptly after it has been filed with the appropriate regulatory body.

The Joint Applicants will provide information regarding the merger to their other state regulators, including the public utility commissions in Florida, Indiana and Ohio. In Florida, there is no statutory merger approval requirement,

and the ownership structure of Indiana and Ohio does not change directly or indirectly as a result of this transaction. We do not expect this transaction, by itself, to impact the timing of our anticipated rate cases covering any test periods prior to the merger's effective date.

Q. DO YOU EXPECT THE MERGER WILL SATISFY FERC'S MARKET POWER TEST?

A. Even though this is beyond the scope of the Commission's jurisdiction, it is important for the Commission to understand why we do not anticipate any trouble gaining FERC's approval of the merger. As does the Commission, FERC has a well-established set of rules for evaluating a potential merger transaction. We will make a filing with FERC, outlining the Joint Applicants' position related to these rules and provisions. We do not anticipate any issues in meeting the FERC standards. The nature of the wholesale generation markets regulated by FERC have evolved and changed over the past few years. For example, Progress has divested all of its unregulated merchant generation fleet in the Southeast since 2005. Additionally, there is now less excess generation available for sale after the companies satisfy their native load obligations than in years past. In fact, the companies, especially Progress Energy Carolinas, tend to be net buyers of excess generation now rather than net sellers. Therefore, the combination of these two companies should satisfy the market power test typically applied by FERC in evaluating transactions in markets like those in which the companies operate.

VII. SUMMARY

Q. WOULD YOU LIKE TO SUMMARIZE YOUR TESTIMONY?

A. Duke Energy Kentucky is a vital part of the Northern Kentucky region. We have consistently provided safe and reliable service at affordable rates to our customers while offering stable returns to our investors. We have proudly invested in our community and taken a leadership role on important issues relating to sustainability and stewardship of the environment. Duke Energy Kentucky also has a long track record of successful mergers – each merger making the Company stronger than it was before. This merger is no different. Duke Energy Kentucky will enjoy the benefits of being part of a much larger enterprise while retaining all of the regulatory oversight that allows it successfully perform its statutory mission as a public utility. This merger is fully consistent with the requirements of Kentucky law and I would respectfully ask the Commission to approve it.

Q. DOES THIS CONCLUDE YOUR PRE-FILED TESTIMONY?

A. Yes.

VERIFICATION

State of Ohio)
)
County of Hamilton)

The undersigned, Julia S. Janson, being duly sworn, deposes and says that she is the President, Duke Energy Ohio, Inc. and Duke Energy Kentucky, Inc. that she has personal knowledge of the matters set forth in the foregoing testimony, and that the answers contained therein are true and correct to the best of her information, knowledge and belief.

Julia S. Janson, Affiant

Subscribed and sworn to before me by Julia S. Janson on this 10th day of March 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

COMMONWEALTH OF KENTUCKY

BEFORE THE KENTUCKY PUBLIC SERVICE COMMISSION

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.	)	**Case No. 2011-_____**

DIRECT TESTIMONY OF

WILLIAM DON WATHEN JR.

ON BEHALF OF

JOINT APPLICANTS

April 4, 2011

TABLE OF CONTENTS

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is William Don Wathen Jr., and my business address is 139 East Fourth Street, Cincinnati, Ohio 45202.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by Duke Energy Business Services LLC ("DEBS") as General Manager and Vice President of Rates, Ohio and Kentucky. DEBS provides various administrative and other services to Duke Energy Kentucky, Inc., ("Duke Energy Kentucky" or the "Company") and other affiliated companies of Duke Energy Corporation ("Duke Energy").

Q. PLEASE SUMMARIZE YOUR EDUCATION AND PROFESSIONAL EXPERIENCE.

A. I received Bachelor Degrees in Business and Chemical Engineering, and a Master of Business Administration Degree, all from the University of Kentucky. After completing graduate studies, I was employed by Kentucky Utilities Company as a planning analyst. In 1989, I began employment with the Indiana Utility Regulatory Commission as a senior engineer. From 1992 until mid-1998, I was employed by SVBK Consulting Group, where I held several positions as a consultant focusing principally on utility rate matters. I was hired by Cinergy Services, Inc. in 1998 as an Economic and Financial Specialist in the Budgets and Forecasts Department. In 1999, I was promoted to the position of Manager, Financial Forecasts. In August 2003, I was named to the position of Director -

Rates. On December 1, 2009, I took the position of General Manager and Vice President of Rates, Ohio and Kentucky.

Q. PLEASE SUMMARIZE YOUR DUTIES AS GENERAL MANAGER AND VICE PRESIDENT OF RATES, OHIO AND KENTUCKY.

A. As General Manager and Vice President of Rates, Ohio and Kentucky, I am responsible for all state and federal rate matters involving Duke Energy Kentucky and Duke Energy Ohio, Inc. ("Duke Energy Ohio").

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. I will describe Duke Energy Kentucky's current retail electric and gas rates and explain how the merger of Duke Energy and Progress Energy, Inc. ("Progress Energy") will have no adverse impact upon Duke Energy Kentucky or its ratepayers from a ratemaking perspective. I will also discuss the proposed amendments to four of the five existing Duke Energy Kentucky affiliate agreements that will need to occur as part of the merger between Duke Energy and Progress Energy. Joint Applicant Witness Stephen De May will discuss the Money Pool Agreement, the fifth such affiliate agreement, in his testimony.

II. DUKE ENERGY KENTUCKY'S CURRENT RATES

Q. WHEN WERE DUKE ENERGY KENTUCKY'S PRESENT ELECTRIC RATES APPROVED BY THE KENTUCKY PUBLIC SERVICE COMMISSION?

A. Duke Energy Kentucky's present electric rates were approved by the Kentucky Public Service Commission ("Commission") pursuant to its Order dated December 21, 2006, in Case No. 2006-00172. The test period in that proceeding was the twelve months ending December 31, 2007. Among other things, the Commission approved an annual revenue increase of $49,000,000, including fuel. The new rates went into effect on January 1, 2007.

Q. WHEN WERE DUKE ENERGY KENTUCKY'S PRESENT GAS RATES APPROVED BY THE COMMISSION?

A. Duke Energy Kentucky's present gas rates were approved by the Commission pursuant to its Order dated December 29, 2009, in Case No. 2009-00202. The test period in that proceeding was the twelve-month period ending January 31, 2011. The Commission approved an increase of $13,000,000 in annual revenues with a 10.375% return on equity. The rates went into effect on January 4, 2010.

Q. WHAT ELECTRIC AND GAS SURCHARGES AND RIDERS ARE CURRENTLY INCLUDED IN DUKE ENERGY KENTUCKY'S TARIFF IN ADDITION TO ITS BASE RATES?

A. Duke Energy Kentucky's electric tariffs include adjustment mechanisms for energy efficiency, fuel and an off-system sales profit sharing mechanism. In addition, Duke Energy Kentucky offers several optional services for its electric customers through various riders to the standard tariff rates. These other riders include but are not limited to, real-time pricing alternative rate structure ("Rate-RTP"), Green Power alternatives ("Rider GP"), line extensions ("Rider X"), peak load management ("Rider PLM"), net metering ("Rider NM"), back-up delivery

power ("Rider BDP") and an economic development incentive rider ("Rider-DIR").

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

Q. HOW DO DUKE ENERGY KENTUCKY'S ELECTRIC AND GAS RATES COMPARE TO THE NATIONAL AVERAGE?

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

III. THE MERGER'S IMPACT UPON DUKE ENERGY KENTUCKY

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

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

year for recovery in electric or gas rates by Duke Energy Kentucky. And, over time, Duke Energy Kentucky believes that it will be able to achieve savings as a result of leveraging best-in-class practices and having steady access to capital markets. Due to the nature of the merger, it is not possible to precisely quantify the benefits that may accrue to Duke Energy Kentucky at this time.

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

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

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

A. Duke Energy Kentucky will not use "push down accounting" as part of the proposed merger. However, even if Duke Energy Kentucky would be required to do so to comply with any general accounting or financial statement reporting requirement, it will exclude the impact of "push down accounting" for retail ratemaking purposes.

Q. WHEN DOES DUKE ENERGY KENTUCKY PLAN TO FILE ITS NEXT ELECTRIC RATE CASE AND NATURAL GAS RATE CASE?

A. The Company is currently reviewing its financial condition and evaluating the need for an increase in base rates. Based on preliminary analysis, Duke Energy Kentucky may file for an increase in base electric rates by June of this year. As part of the settlement of the Company's most recent natural gas rate case, Duke Energy Kentucky agreed that it would not file an application to increase its natural gas delivery base rates or to request a change in rates to implement a straight fixed variable rate design for retail natural gas customers for eighteen months from the date on which the Commission approved the stipulation in that case.

Q. IS THERE ANY CONNECTION BETWEEN THE ANTICIPATED FILING OF DUKE ENERGY KENTUCKY'S NEXT ELECTRIC RATE CASE AND THE PROPOSED MERGER?

A. No. As I previously discussed, Duke Energy Kentucky's last electric rate case was more than four years ago. Duke Energy Kentucky will support and justify any rate filing independent of the proposed merger. Since the implementation of rates from the prior rate case, the Company's revenues have not grown at the

same rate as its expenses; consequently it is no longer earning a reasonable rate of return.

Q. WILL THE MERGER HAVE ANY IMPACT UPON THE SURCHARGE AND RIDER MECHANISMS IN DUKE ENERGY KENTUCKY'S TARIFF THAT ARE NOT REPRESENTED IN ITS BASE RATES?

A. No. The merger will have no impact upon the various riders and rate mechanisms that are set forth in Duke Energy Kentucky's tariff in addition to its base rates.

Q. DO YOU BELIEVE THAT THE MERGER WILL ADVERSELY IMPACT DUKE ENERGY KENTUCKY'S RATEPAYERS BY LEADING TO HIGHER RATES?

A. Duke Energy Kentucky's ratepayers will not be adversely impacted through a rate increase precipitated by the merger. Although there are a number of factors, such as increased operational and maintenance costs and increased plant investment, that could require Duke Energy Kentucky to seek an increase in base rates, the proposed merger is not a factor that would contribute to these cost increases and will not accelerate the need or increase the magnitude of a base rate increase. The merger commitments that the Commission included as part of the merger of Duke Energy and Cinergy in 2005 guaranteed that Duke Energy Kentucky's ratepayers would not be adversely impacted by the costs of that merger, and Ms. Janson testified that the Company is willing to continue abiding by those merger conditions in this proceeding. Consequently, the merger will have no adverse impact upon Duke Energy Kentucky's rates.

Q. HAS AN ADOPTION NOTICE BEEN FILED IN THIS CASE PURSUANT TO 807 KAR 5:001, SECTION 11?

A. The Joint Applicants do not believe that filing a tariff Adoption Notice pursuant to 807 KAR 5:001, Section 11, is required as a result of this transaction because: (1) there will not be any change in the "operating utility" as Duke Energy Kentucky will remain as the "utility" under KRS 278.010(3) that is subject to the jurisdiction of the Commission; and, (2) none of Duke Energy Kentucky's "rates, rules, classifications or administrative regulations" will change. In the event, however, that the Commission finds that 807 KAR 5:011, Section 11, is applicable to this transaction, the Joint Applicants respectfully request the Commission to grant a deviation under 807 KAR 5:011, Section 14, thereby relieving the Joint Applicants from the requirements of 807 KAR 5:011, Section 11.

IV. AMENDMENT OF AFFILIATE AGREEMENTS

Q. WHAT IS AN AFFILIATE AGREEMENT?

A. An affiliate agreement is any agreement by which two or more companies within the overall Duke Energy enterprise agree to provide services, assets or other benefits to one another at stated consideration. For example, DEBS is an unregulated company owned by Duke Energy that provides various categories of services (*e.g.* managerial, administrative, human resources, *etc.*) to the utility operating companies owned by Duke Energy pursuant to a service agreement between the affiliates. Although most of the affiliate agreements at issue in this

case are services agreements – meaning one company is contractually allowed to provide services for another company – one agreement relates to the sale of assets, one agreement relates to the lending of money, and one agreement relates to the filing of consolidated tax returns.

Q. PLEASE BROADLY DESCRIBE THE PROPOSED AMENDMENTS TO THE VARIOUS AFFILIATE AGREEMENTS.

A. The anticipated amendments to the agreements are merely to add the new Progress companies that will become part of Duke Energy upon completion of the merger. The affected agreements were previously approved by this Commission as part of the merger of Duke Energy and Cinergy in Case No. 2005-00228 and as part of Case No. 2008-00122. To help the Commission understand how these agreements work in practice, I will describe the processes to be used to assign DEBS' costs to Duke Energy Kentucky and its regulated and unregulated affiliates. Next, I will discuss other proposed agreements that will govern certain service-related transactions between Duke Energy Kentucky and its utility and non-utility affiliates following consummation of the merger.

Q. PLEASE DESCRIBE THE VARIOUS AFFILIATE AGREEMENTS THAT WILL BE AMENDED AS PART OF THE MERGER BETWEEN DUKE ENERGY AND PROGRESS.

A. Duke Energy Kentucky is authorized to engage in transactions for products and services with affiliates provided the transactions are in compliance with Kentucky law and, where applicable, pursuant to Commission-approved service agreements. Duke Energy Kentucky and many of its affiliates are already parties to

Commission-approved service agreements that permit certain transactions to occur between the signatory parties under defined pricing terms and conditions. The Progress Energy companies will be made parties to existing affiliate service agreements already reviewed and approved by this Commission as part of the merger between Duke Energy and Cinergy Corp., in Case No. 2005-00228. At this time, Joint Applicants expect that the Progress Energy companies will be added to the following affiliate agreements that will require Commission approval: (1) Service Company Utility Service Agreement (allows service company to perform services for each of the Duke Energy public utilities); (2) Operating Companies Services Agreement (allows the Duke Energy utilities to perform services for each other); (3) Utility Money Pool Agreement (allows for inter-company loans among various Duke Energy companies); (4) Intercompany Asset Transfer Agreement (permits the transfer of inventory assets, excluding commodities, at the transferring company's fully–allocated cost, subject to certain limitations); and (5) Tax Sharing Agreement (allows for joint filing of federal tax returns). I will discuss each of these agreements in my testimony, with the exception of the Utility Money Pool Agreement, which will be discussed by Mr. De May. Copies of the effective agreements are on file with this Commission as part of Duke Energy Kentucky's annual reporting and update to its March 2010 Cost Allocation Manual. The agreements are also attached as Exhibit I to the application.

Q. PLEASE BRIEFLY DESCRIBE THE SERVICE COMPANY UTILITY SERVICE AGREEMENT AND THE CHANGES THAT DUKE ENERGY

KENTUCKY IS REQUESTING THE COMMISSION APPROVE IN THIS CASE.

A. Following the consummation of the merger, DEBS will remain the subsidiary service company of Duke Energy, which will continue to be the ultimate parent company of Duke Energy Kentucky. DEBS will continue to provide the administrative, management, and support services to Duke Energy Kentucky as well as other companies that will also become subsidiaries of Duke Energy upon consummation of the merger. Those services will be provided to Duke Energy Kentucky and other public utility subsidiaries of Duke Energy pursuant to the proposed Service Company Utility Service Agreement ("Service Agreement") that is attached to the Joint Application as Exhibit I, pages 1 to 29. The companies that will receive administrative, management and support services from DEBS are referred to in the Service Company Agreement as "Client Companies." The various DEBS functions that will provide administrative, management and support services to the Client Companies, such as accounting, human resources and other corporate services, are referred to in the Service Company Agreement as "Functions."

The new Service Agreement is similar to the existing service agreement that currently governs DEBS' provision of administrative, management and support services to Duke Energy Kentucky and its public utility affiliates, which has been accepted or approved by the Securities and Exchange Commission ("SEC"), this Commission, the Public Utilities Commission of Ohio, the North Carolina Utilities Commission, the Public Service Commission of South Carolina,

and the Indiana Utility Regulatory Commission. The proposed changes are to add the Progress Energy companies as Client Companies. In addition, the Progress Service Company will be added as a service provider under the agreement. It is anticipated that the current Progress Service Company will continue to provide services to the Progress Energy companies until the service company is consolidated into DEBS sometime in the future. It is unknown at this time when this consolidation will occur. The reason there will be two separate service companies is that it will take some time to consolidate the two accounting systems and other processes from the separate entities. As an example, Duke Energy Shared Services and Duke Energy Business Services were consolidated a little more than two years after the Duke Energy/Cinergy merger closed. It is likely that prior to the consolidation of two service companies, the Progress Service Company will provide corporate support services to Duke Energy companies, including Duke Energy Kentucky as part of the implementation of best practices. As a result, corporate costs from the two service companies will be allocated to the Client Companies in accordance with the terms of the Service Company Agreement. This process is similar to how the service companies of Cinergy and Duke Energy were consolidated following the consummation of the last merger.

Q. HOW WILL SERVICES PROVIDED BY DEBS TO DUKE ENERGY KENTUCKY AND OTHER CLIENT COMPANIES BE PRICED?

A. The pricing of services permitted under the Service Company Agreement will not change as a result of the amendments to the agreement. The Service Company Agreement provides that services shall be provided at fully embedded costs,

except that, solely for the purpose of Internal Revenue Code ("IRC") Section 482, Duke Energy Kentucky shall pay DEBS as required by that Section. The exception provision of the agreement recognizes the requirements of the IRC and the Company's intent to comply with those requirements, which likely will require the pricing of services provided by DEBS to be adjusted to reflect the market value of those services. However, notwithstanding the Section 482 exception, for ratemaking purposes, services will be rendered to Duke Energy Kentucky at cost, as is the current practice under the existing service agreement.

Q. PLEASE EXPLAIN THE MEANING OF THE TERM "COST" UNDER THE SERVICE COMPANY AGREEMENT.

A. Cost, or fully embedded cost, refers to all components of costs incurred by DEBS in providing services to the Client Companies, including: (1) direct costs; (2) indirect costs; and (3) costs of capital. Direct costs include labor, material and other expenses incurred specifically for a particular service and any associated loadings. Indirect costs include labor, material and other expenses, and any associated loadings that cannot be directly identified with any particular service. Examples of indirect costs are overhead costs, administrative support costs and certain taxes. Costs of capital represent financing costs, including, but not limited to, interest on debt and a fair return on equity.

Q. WHAT ARE LOADINGS?

A. Loadings represent costs that are incurred and aggregated in cost pools that are then subsequently "loaded" out to specific entities and projects by attaching an additional charge (termed a "loading") to the associated direct cost. Loadings

include costs such as fringe benefits (*e.g.,* medical, dental, pension, post-retirement), indirect labor (*e.g.,* vacation, holiday, sick time), storage, freight and handling (*e.g.,* materials management labor, freight), transportation (*e.g.,* vehicle leases, fuel, oil), and payroll taxes (*e.g.,* Federal Insurance Contributions Act, or FICA, and state and federal unemployment taxes).

Q. DO YOU ANTICIPATE A MATERIAL SHIFT OF ADMINISTRATIVE, MANAGEMENT, AND SUPPORT COSTS AMONG DUKE ENERGY KENTUCKY AND THE OTHER CLIENT COMPANIES AS A RESULT OF THE PROPOSED ADDITIONS TO THE SERVICE COMPANY AGREEMENT?

A. No. First, costs specific to Duke Energy Kentucky will continue to be directly assigned or distributed to Duke Energy Kentucky whenever possible. Second, the ratios to be utilized to allocate costs of a general nature will proportionately allocate such costs to Duke Energy Kentucky and Progress Energy companies based on the level of services provided to each Client Company.

Q. WILL DEBS CONTINUE TO PROVIDE ADMINISTRATIVE, MANAGEMENT AND SUPPORT SERVICES TO NON-UTILITY SUBSIDIARIES OF DUKE ENERGY FOLLOWING COMPLETION OF THE MERGER?

A. Yes. The nature of the services provided by DEBS will not change.

Q. HOW WILL DEBS' COSTS BE ASSIGNED TO NON-UTILITY SUBSIDIARIES OF DUKE ENERGY?

A. The proposed non-utility cost assignment process will be consistent with the proposed utility cost assignment process. DEBS' provision of services to non-utility subsidiaries of Duke Energy will be governed by a separate but similar agreement to the proposed Service Company Agreement. When possible, costs will be directly assigned or distributed to non-utility companies. The method utilized to allocate costs of a general nature will be based on functions and allocation methods developed for the non-utility companies, which are consistent with and similar to the functions and allocation methods in the proposed Service Company Agreement.

Q. HOW WILL COSTS INCURRED BY DEBS ON BEHALF OF BOTH UTILITY AND NON-UTILITY CLIENT COMPANIES BE ALLOCATED AMONG THE UTILITY AND NON-UTILITY COMPANIES?

A. When DEBS performs a service that benefits both utility and non-utility companies, the costs will be apportioned by a common allocation ratio between the utility companies and the non-utility companies in the aggregate. For example, costs incurred by DEBS for human resource functions will be allocated to both utility and non-utility companies based on the respective number of employees each utility and non-utility company employs.

Q. WHAT PROCESSES WILL DEBS EMPLOYEES FOLLOW TO ALLOCATE THEIR TIME AND EXPENSES TO UTILITY AND NON-UTILITY COMPANIES?

A. DEBS employees will follow the same processes as today. Source documents utilized by DEBS employees require input codes that are used to indicate whether

costs will be assigned directly, distributed or allocated. The codes also determine the appropriate allocation percentages to be used.

Q. WILL DUKE ENERGY KENTUCKY FILE THE SERVICE COMPANY AGREEMENT WITH THE COMMISSION AFTER IT HAS BEEN EXECUTED?

A. Yes.

Q. PLEASE DESCRIBE THE OPERATING COMPANIES SERVICE AGREEMENT AND THE PROPOSED CHANGES TO THAT AGREEMENT.

A. The Operating Companies Service Agreement (the "Operating Companies Agreement") governs certain service-related transactions between Duke Energy Kentucky and its utility affiliates, Duke Energy Carolinas, Duke Energy Indiana, and Duke Energy Ohio. A copy of the proposed Operating Companies Agreement is attached to the Joint Application as Exhibit I, pages 30-39. The Operating Companies Agreement allows Duke Energy Kentucky to provide services (including, but not limited to, engineering, construction, and operation and maintenance services) to, and receive services (such as operations, maintenance, inspecting, meter reading, and vegetation management) from its utility affiliates. These services will also be priced at cost for ratemaking purposes. The changes reflected in the Operating Companies Agreement are merely to add the Progress Energy utilities. One of the benefits of being a part of a large corporation of utilities with multiple service jurisdictions is that Duke Energy Kentucky has access to additional resources from its sister utilities in

Ohio, Indiana, and the Carolinas who can provide emergency support and assistance during severe weather emergencies.

Q. HOW WILL TRANSACTIONS BETWEEN DUKE ENERGY KENTUCKY AND ITS UTILITY AFFILIATES BE INITIATED UNDER THE OPERATING COMPANIES AGREEMENT?

A. Transactions between Duke Energy Kentucky and its utility affiliates will be initiated in much the same way transactions are initiated today between Duke Energy Kentucky and its current utility affiliates. Specifically, any transaction between Duke Energy Kentucky and a utility affiliate is currently initiated with an electronic written request using a service request form. Similar forms will be utilized under the Operating Companies Agreement going forward. The purpose of the written request is to ensure that internal accounting is done properly and that the request is permitted by the applicable agreement and is correctly priced. No work can be initiated without a signed service request form on file. If the company from which services are requested agrees to provide the services, it will approve the request electronically.

Q. HOW WILL COSTS INCURRED BY DUKE ENERGY KENTUCKY ON BEHALF OF AN AFFILIATE BE ACCOUNTED FOR UNDER THE OPERATING COMPANIES AGREEMENT?

A. When the transaction is with an affiliate that utilizes Duke Energy's accounting system, Duke Energy Kentucky will process source documents, such as labor tickets and expense accounts, through Duke Energy's accounting system, using the appropriate accounting information provided by the affiliate requesting the

services. This accounting will indicate the company (*e.g.,* Duke Energy Kentucky) providing the services and the affiliate company receiving the services, as well as the appropriate project information required by the service request form documentation. On a monthly basis, the accounting departments will summarize this accounting, at which time overheads and cost of capital charges will be applied. Using internal accounting reports, each entity providing and receiving service can review the costs charged, at which time any discrepancies are resolved.

Q. HOW WILL COSTS INCURRED BY A DUKE ENERGY KENTUCKY AFFILIATE ON BEHALF OF DUKE ENERGY KENTUCKY BE ACCOUNTED FOR UNDER THE OPERATING COMPANIES AGREEMENT?

A. Again, that will depend on whether the affiliate maintains its own accounting system or whether it utilizes Duke Energy's accounting system. If the affiliate providing the service does not utilize Duke Energy's accounting system, Duke Energy Kentucky will be invoiced directly for the services received.

Q. HAS THE PROPOSED OPERATING COMPANIES AGREEMENT BEEN EXECUTED?

A. No.

Q. WILL DUKE ENERGY KENTUCKY FILE THAT AGREEMENT WITH THE COMMISSION AFTER THEY HAVE BEEN EXECUTED?

A. Yes.

Q. PLEASE DESCRIBE THE INTERCOMPANY ASSET TRANSFER AGREEMENT AND THE CHANGES DUKE ENERGY KENTUCKY IS REQUESTING THE COMMISSION TO APPROVE.

A. On July 18, 2008 the Commission approved the Intercompany Asset Transfer Agreement whereby Duke Energy Kentucky may enter into asset transfer transactions with its regulated utility affiliates at the transferring party's cost or through in-kind replacements, providing the transfer does not jeopardize the transferring party's ability to provide utility service. A copy of the proposed Intercompany Asset Transfer Agreement is attached to the Joint Application as Exhibit I, pages 40-49. The Commission approved this agreement under the condition that Duke Energy Kentucky agree it would continue to seek Commission approval under KRS 278.218 of all transactions that have an original book value of over $1,000,000 and that are to be transferred for reasons other than obsolescence or if the parts are to be used to continue to provide service to the utility customers. Further, Duke Energy Kentucky agreed that as a condition of approval of this agreement in Case No. 2008-00122, that it would abide by this approval threshold for transfers involving gas assets since KRS 278.218, by its express language, only applies to electric utility assets. Duke Energy Kentucky is required to maintain a list of all transactions under the Intercompany Asset Transfer Agreement in its Cost Allocation Manual. Duke Energy Kentucky is requesting that the Commission approve the addition of the Progress Energy utilities to this agreement.

Q. PLEASE DESCRIBE THE TAX SHARING AGREEMENT AND THE CHANGES DUKE ENERGY KENTUCKY IS REQUESTING THE COMMISSION TO APPROVE.

A. Duke Energy Corp. and its subsidiaries, including Duke Energy Kentucky, have entered into an Agreement for Filing Consolidated Income Tax Returns and for Allocation of Consolidated Income Tax Liabilities and Benefits ("Tax Sharing Agreement"), effective for consolidated tax year 2006 and thereafter. A copy of the proposed Tax Sharing Agreement is attached to the Joint Application as Exhibit I, pages 50-69. This agreement was originally approved by the Commission in Case No 2005-228, as part of the merger of Duke Energy Corporation and Cinergy Corporation. Under this agreement, Duke Energy and its subsidiaries agree to join annually in the filing of a consolidated federal income tax return and to allocate the consolidated federal income tax liabilities and benefits among the members of the consolidated group in accordance with the provisions of the Tax Sharing Agreement. The Tax Sharing Agreement provides generally that consolidated federal, state and local income tax liabilities and benefits will be allocated, where appropriate, among members by calculating each member's taxable income as if that member had filed a separate return on the same basis as used in the applicable consolidated return. Duke Energy Kentucky is requesting that the Commission approve the addition of the Progress Energy companies as part of this proceeding.

Q. WILL DUKE ENERGY KENTUCKY PROVIDE OR RECEIVE SERVICES INVOLVING NON-REGULATED AFFILIATES?

A. Yes. Duke Energy Kentucky is a party to two service agreements that involve services between and among non-regulated affiliates. The first of these agreements, the Operating Company/Non-Utility Company Service Agreement, was approved by the Commission as part of the merger between Duke Energy and Cinergy in Case No. 2005-00228. That agreement permits specified transactions among the listed affiliates at cost. Duke Energy Kentucky has not added any new parties to that agreement since FERC's 707 Ruling requiring transactions between utilities and their non-regulated affiliates to be priced asymmetrically. That agreement has been grandfathered under the 707 Ruling and, although parties have been removed, no new entities have been added. Because Duke Energy Kentucky is not seeking any changes to that agreement or adding any new parties, the Company is not requesting approval for any modifications.

Similarly, Duke Energy Kentucky is a part to a second service agreement, the Asymmetrically Priced Non-Utility Service Agreement. That agreement requires Duke Energy Kentucky to pay the lower of cost or market for services it receives and to receive the higher of cost or market for services it provides to non-utility affiliates. It is my understanding that since that agreement is priced asymmetrically and is consistent with the default pricing required under Kentucky law, Duke Energy Kentucky is not seeking approval for modifications to that agreement to add Progress Energy non-utility companies.

Q. HOW WILL SERVICES UNDER THE VARIOUS SERVICE AGREEMENTS YOU DESCRIBED BE TREATED FOR RATEMAKING PURPOSES?

A. Under those agreements, services will be provided to and from Duke Energy Kentucky and its affiliates at cost, unless tax rules require a different pricing (*e.g.*, competitive pricing at fair market value). For ratemaking purposes, we are proposing that all services provided to and from Duke Energy Kentucky be reflected in rates at cost, with any IRS-required difference in pricing and the associated income tax impact be reflected "below-the-line." This is identical to how the Commission approved the Company's treatment of these costs in the prior Duke Energy/Cinergy merger.

Q. DO YOU HAVE AN OPINION AS TO WHETHER THE PROCESSES THAT WILL BE USED TO ASSIGN COSTS TO DUKE ENERGY KENTUCKY, PURSUANT TO THE PROPOSED AFFILIATE AGREEMENTS YOU HAVE DESCRIBED, ARE REASONABLE AND APPROPRIATE?

A. Yes, I do. The cost assignment processes are reasonable methods for pricing and allocating the costs of services among the various companies. The cost assignment processes will fairly and accurately assign the costs of providing services to the correct entity responsible for the costs. These cost assignment methods are similar to the processes currently used to assign service company costs to Duke Energy Kentucky and its affiliates, which have been approved by this Commission and the SEC, and have proven to work well in actual practice.

V. SUMMARY

Q. WOULD YOU LIKE TO SUMMARIZE YOUR TESTIMONY?

A. From the perspective of rates, this merger will have no adverse impact upon Duke Energy Kentucky's customers. Customers will be fully insulated from the costs of the merger and will essentially be "held harmless" from the costs of the transaction. Moreover, as time goes by, Duke Energy Kentucky's ratepayers will see benefits from the merger reflected in rates as the combined Duke Energy is able to optimize best-in-class practices and use its financial strength and flexibility to attract capital on favorable terms. These savings will benefit customers in future base rate proceedings, although the amount of those benefits cannot be precisely quantified at this time.

With regard to the four affiliate agreements I have discussed, each plays an important role in helping Duke Energy Kentucky and its affiliates realize the benefits of being part of a larger enterprise. For each of the reasons I have outlined above, the allocation methods ensure that Duke Energy Kentucky – and hence its ratepayers – are treated fairly with regard to the allocation of costs and the procedures in place are designed to make sure that costs are in fact fairly allocated. The nature of the proposed amendments is very straightforward. Duke Energy Kentucky is seeking permission to add the various Progress Energy affiliates as parties to these agreements, as appropriate, so that the benefits to Duke Energy Kentucky and its customers may be fully recognized.

Q. DOES THIS CONCLUDE YOUR PRE-FILED TESTIMONY?

A. Yes.

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 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 31st day of March 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

COMMONWEALTH OF KENTUCKY

BEFORE THE KENTUCKY PUBLIC SERVICE COMMISSION

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.	)	**Case No. 2011-_____**

DIRECT TESTIMONY OF

STEPHEN G. DE MAY

ON BEHALF OF

JOINT APPLICANTS

April 4, 2011

TABLE OF CONTENTS

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Stephen G. De May. My business address is 550 South Tryon Street, Charlotte, North Carolina 28202.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by Duke Energy Business Services LLC, an affiliate service company of Duke Energy Kentucky, Inc. ("Duke Energy Kentucky" or the "Company"), as Senior Vice President of Investor Relations and Treasurer for Duke Energy Corporation ("Duke Energy").

Q. PLEASE SUMMARIZE YOUR EDUCATION AND PROFESSIONAL QUALIFICATIONS.

A. I have a Bachelor of Arts degree in Political Science from the University of North Carolina in Chapel Hill, North Carolina, and a Master of Business Administration degree from the McColl School of Business at Queens University in Charlotte, North Carolina. In 2010 I completed the Advanced Management Program at the Wharton School of the University of Pennsylvania. I am a Certified Public Accountant (CPA) in the state of North Carolina and I am a member of the American Institute of Certified Public Accountants and the North Carolina Association of Certified Public Accountants.

Q. PLEASE SUMMARIZE YOUR PROFESSIONAL EXPERIENCE.

A. My professional work experience began in 1986 with the public accounting firm of Price Waterhouse (now PricewaterhouseCoopers) and, subsequently, Deloitte, Haskins and Sells (now Deloitte & Touche), where my work focused on tax

accounting and consulting for a variety of clients, including C-corporations, S-corporations, partnerships, and high-net-worth individuals. In 1990, I joined Crescent Resources Inc., a then-wholly-owned real estate development subsidiary of Duke Power Company (a predecessor company to today's Duke Energy), where I was responsible for real estate, accounting and finance. In 1994, I moved to the Treasury and Corporate Finance Department where I have held, except for a two-year period of time, various positions of increasing responsibility. The two-year exception was for the majority of 2004 and 2005, during which time I had the lead responsibility for developing and managing Duke Energy's energy and regulatory policies. I was named Treasurer in November 2007.

Q. PLEASE DESCRIBE YOUR DUTIES AS SENIOR VICE PRESIDENT OF INVESTOR RELATIONS AND TREASURER.

A. As Senior Vice President of Investor Relations and Treasurer, I am responsible for investor relations and treasury related services to Duke Energy and its subsidiaries, including Duke Energy Kentucky. As head of investor relations, I monitor trends in the investment markets and maintain key relationships with debt and equity investors, analysts and financial institutions. Under my supervision, the Treasury Department arranges and executes all capital raising and liquidity transactions, including credit facilities and commercial paper, debt securities, preferred and hybrid securities, and common stock, as well as daily cash management for Duke Energy and its subsidiaries. My responsibilities include managing Duke Energy's and its subsidiaries' credit ratings and relationships with the major credit rating agencies, commercial banks and the capital markets.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to discuss the impact of the Progress Energy merger on Duke Energy Kentucky's ability to maintain its credit quality and achieve its financial objectives. I will discuss the reverse stock split that Duke Energy is undertaking in connection with this transaction. Finally, I will discuss the Utility Money Pool Agreement (attached as Exhibit I to the application) that we propose to amend to add the Progress Energy, Inc. ("Progress Energy") companies as parties and the benefits of that agreement for Duke Energy Kentucky and its customers.

II. DUKE ENERGY KENTUCKY'S FINANCIAL OBJECTIVES

Q. WHAT ARE DUKE ENERGY KENTUCKY'S FINANCIAL OBJECTIVES?

A. Duke Energy Kentucky at all times seeks to maintain its financial strength and flexibility, including its strong investment-grade credit ratings, ensuring reliable access to capital on reasonable terms. Financial strength and access to capital are necessary for Duke Energy Kentucky to provide cost-effective, safe, environmentally-compliant and reliable service to its customers. Specific objectives that support financial strength and flexibility include: a) maintaining at least a 50% common equity for Duke Energy Kentucky on a financial capitalization basis; b) maintaining current credit ratings; c) ensuring timely recovery of prudently incurred costs; d) maintaining sufficient cash flows to meet

obligations; and e) maintaining a sufficient return on equity to fairly compensate shareholders for their invested capital.

Q. HOW DO DUKE ENERGY KENTUCKY'S CUSTOMERS BENEFIT WHEN THE COMPANY ACHIEVES ITS FINANCIAL OBJECTIVES?

A. To assure reliable and cost effective service, fund infrastructure projects, and refinance maturing debt, Duke Energy Kentucky must be able to finance without interruptions, regardless of capital market conditions. Capital markets can exhibit extreme volatility, as we have recently witnessed, and Duke Energy Kentucky must be able to finance its needs throughout such periods. Lack of access to capital can force interruption of capital projects to the long-term detriment of customers. Although recent market conditions have improved, the financial crisis of 2008-2009 illustrates the importance of maintaining the financial strength, flexibility and strong credit ratings that Duke Energy Kentucky currently enjoys.

Like debt investors, equity investors provide a significant part of the total capitalization of Duke Energy Kentucky's balance sheet. Duke Energy Kentucky compensates equity investors for the risk of their investment by targeting fair and adequate returns, a stable dividend, and earnings growth, thereby preserving access to this form of capital.

Q. PLEASE EXPLAIN THE TERMS CREDIT QUALITY AND CREDIT RATINGS AND THEIR IMPORTANCE TO DUKE ENERGY KENTUCKY.

A. Credit quality (or creditworthiness) is a term used to describe a company's overall financial health and its willingness and ability to repay all financial obligations in

full and on time. An assessment of Duke Energy Kentucky's creditworthiness is performed by two of the three major credit rating agencies, and results in Duke Energy Kentucky's credit rating and outlook.

Many qualitative and quantitative factors go into this assessment. Qualitative aspects may include Duke Energy Kentucky's regulatory climate, its track record for delivering on its commitments, the strength of its management team, its operating performance, and the strength of its service area. Quantitative measures generally focus on cash flow and coverage metrics and include Funds From Operations ("FFO") divided by total debt, FFO plus Interest divided by interest expense, debt divided by total capitalization, and liquidity.

Q. WHAT IS THE ROLE OF REGULATION IN THE DETERMINATION OF THE FINANCIAL STRENGTH OF A UTILITY COMPANY?

A. Investors, investment analysts and credit rating agencies regard regulation as one of the most important factors in assessing a utility company's financial strength. These stakeholders want to be confident that the company operates in a stable regulatory environment that will allow the company to recover prudently incurred costs and earn a reasonable return on investments necessary to meet the demand, reliability, service and environmental requirements of its customers and service area. Important considerations include the allowed rate of return, the cash quality of earnings, the timely recovery of capital investments, the stability of earnings and the strength of its capital structure. Positive consideration is also given for utilities operating in states where the regulatory process is streamlined and outcomes are equitably balanced between customers and investors.

Q. HOW ARE DUKE ENERGY KENTUCKY'S OUTSTANDING SECURITIES CURRENTLY RATED BY THE CREDIT RATING AGENCIES?

A. As of the date of this testimony, Duke Energy Kentucky has a stable outlook by both Standard & Poor's ("S&P") and Moody's Investors Service ("Moody's") and its outstanding debt is rated as follows:

Rating Agency	S&P	Moody's
Senior Unsecured Rating	A-	Baa1

Q. HAVE THE CREDIT RATING AGENCIES IDENTIFIED ANY ISSUES REGARDING DUKE ENERGY KENTUCKY'S CREDIT QUALITY?

A. The rating agencies believe Duke Energy Kentucky operates in a generally supportive regulatory environment and expect that the Company's regulatory relationships will support long-term credit quality with timely and sufficient recovery for prudently incurred costs and expenses. Nonetheless, the credit rating agencies have identified the challenges of managing Duke Energy's higher capital expenditure program and prospects for more stringent environmental mandates among the issues that could affect the credit quality of Duke Energy and its operating utilities.

Q. HOW DO YOU EXPECT THIS MERGER TO IMPACT DUKE ENERGY KENTUCKY'S ABILITY TO MEET ITS FINANCIAL OBJECTIVES?

A. Assuming that the Commission approves the merger with Progress Energy and that any conditions imposed are reasonable, it is my opinion that the customers of Duke Energy Kentucky will benefit from the merger. Duke Energy will become

the largest utility in the United States, positioning the combined company with size and scale, diversification and operational excellence that will be among the foremost in the industry. This will translate into continued financial strength and flexibility for dealing with circumstances such as changing regulatory requirements, volatility in the capital markets, economic downturns, etc.

Post-merger, Duke Energy will maintain strong investment-grade credit ratings. Both Moody's and S&P reviewed the transaction and, on that basis, affirmed the credit ratings of Duke Energy and subsidiaries (including Duke Energy Kentucky) on the date of the merger announcement. Size, scale and financial strength are important to investors and should support the ability of Duke Energy Kentucky to attract capital on favorable terms, which is a clear benefit to customers. Additionally, investors will benefit from more stable returns resulting from a higher proportion of regulated businesses (approximately 88% of Duke Energy's business will be regulated after the merger, versus 79% before).

III. KEY DUKE ENERGY KENTUCKY FINANCIAL POLICIES AND MERGER SAFEGUARDS

Q. WHAT IS DUKE ENERGY KENTUCKY'S CURRENT CAPITAL STRUCTURE?

A. As of December 31, 2010, Duke Energy Kentucky's capital structure is 43% debt and 57% common equity.

Q. DESCRIBE DUKE ENERGY KENTUCKY'S DIVIDEND POLICY WITH RESPECT TO PAYING DIVIDENDS TO ITS PARENT.

A. Duke Energy's dividend policy targets a 65-70% payout, based on adjusted diluted earnings per share. Duke Energy Kentucky and all of Duke Energy's operating subsidiaries are expected to mirror this policy over the long term by paying dividends of approximately 65-70% of their earnings to the parent company. In any given year, Duke Energy Kentucky will vary the level of dividend payments based upon its capital needs and as needed to properly maintain its desired capital structure.

Q. ARE THERE ANY PROTECTIONS IN PLACE TO PREVENT DUKE ENERGY KENTUCKY FROM PAYING A DIVIDEND TO ITS PARENT THAT ULTIMATELY IS DETRIMENTAL TO DUKE ENERGY KENTUCKY'S FINANCIAL WELL-BEING?

A. As Ms. Janson testifies, one of the merger commitments imposed by the Commission in the course of approving the Duke Energy/Cinergy merger was that Duke Energy Kentucky could pay dividends only out of its retained earnings and that it must maintain a capital structure which contains a minimum of 35% equity. As Ms. Janson testifies, the Joint Applicants are willing to continue to abide by this merger commitment.

Q. WHAT OTHER FINANCIAL PROTECTIONS HELP INSULATE DUKE ENERGY KENTUCKY AND ITS CUSTOMERS FROM THE OBLIGATIONS OF DUKE ENERGY UNDER THE MERGER?

A. In addition to the dividend and minimum equity requirements I just mentioned, the Commission will continue to approve, under Kentucky law, the setting of

Duke Energy Kentucky's capital structure and cost of capital for ratemaking purposes, as well as its financing authority.

Q. WHAT SAFEGUARDS WILL EXIST TO PROTECT DUKE ENERGY KENTUCKY'S CUSTOMERS FROM DEBT INCURRED BY DUKE ENERGY OR ANY OF ITS AFFILIATES?

A. All debt issued by Duke Energy and its affiliates will be non-recourse to Duke Energy Kentucky unless otherwise expressly authorized by the Commission in advance. This means that the holders of those debt securities will not have recourse against the assets, revenues or income of Duke Energy Kentucky to fulfill those obligations. This is the same protection that currently exists today.

IV. REVERSE STOCK SPLIT

Q. IN BROAD TERMS, PLEASE DESCRIBE THE MERGER TRANSACTION.

A. Under the terms of the Merger Agreement, Progress Energy shareholders will receive 2.6125 shares of Duke Energy common stock for each share of Progress Energy common stock they own upon the closing of the transaction. After taking into account the reverse stock split being executed by Duke Energy in connection with the closing of the transaction, this exchange ratio will be adjusted to 0.87083 shares of Duke Energy stock for each Progress Energy share. Duke Energy shareholders will continue to hold their existing Duke Energy shares, adjusted for the reverse stock split with respect to Duke Energy common stock. Upon completion of the merger, Duke Energy's existing shareholders will own

approximately 63% of the outstanding shares of the post-merger Duke Energy and Progress Energy's existing shareholders will own approximately 37% of the outstanding shares of the post-merger Duke Energy.

Q. EXPLAIN WHAT YOU MEAN BY A REVERSE STOCK SPLIT AND HOW THAT WILL WORK.

A. As part of the merger, Duke Energy's Board of Directors approved a reverse stock split. In a reverse stock split, a publicly traded company reduces the number of outstanding shares in proportion to the split ratio. Because the company will only be changing the number of outstanding shares, this should not change the company's overall valuation. Assuming the company's overall valuation does not change, the price per share will increase proportionally. The company's total market capitalization should not change solely because of the reverse stock split.

There are several reasons why doing a reverse stock split makes sense at this time. First and foremost, the reverse stock split ensures that Duke Energy will have enough shares authorized for issuance to Progress Energy shareholders to complete the merger. Furthermore, the reverse stock split is expected to bring the company's stock price more in line with our peer companies and will reduce the number of shares outstanding. Currently, Duke Energy has more than 1.3 billion outstanding shares. After the merger closes, if there were no reverse stock split, the company would have to issue approximately 750 million additional shares, bringing the total to more than 2 billion shares, which is a very large number. Doing a reverse stock split makes sense for the company so that the total

number of outstanding shares is more manageable. The reverse stock split, by itself, will have no adverse affect on investors.

V. THE UTILITY MONEY POOL AGREEMENT

Q. PLEASE DESCRIBE THE UTILITY MONEY POOL AGREEMENT.

A. The Utility Money Pool Agreement authorizes Duke Energy, Duke Energy Business Services and Duke Energy's utility operating companies (including Duke Energy Kentucky) to participate in a money pool arrangement to better manage cash and working capital requirements. The Utility Money Pool Agreement was approved by the Commission in Case No. 2005-00228, as part of the merger of Duke Energy and Cinergy. The Utility Money Pool Agreement was revised on November 8, 2008 to reflect the deletion of Duke Energy Shared Services, which was consolidated into Duke Energy Business Services. The substantive terms of the Agreement have not been changed. Under this arrangement, those companies with surplus short-term funds provide short-term loans to affiliates (other than Duke Energy and Cinergy) participating under this arrangement. This surplus cash may be from internal or external sources.

Q. PLEASE DESCRIBE THE CHANGES THAT DUKE ENERGY KENTUCKY IS REQUESTING THE COMMISSION TO APPROVE.

A. Duke Energy Kentucky is requesting that the Commission approve the addition of Progress Energy, its two utility companies (Progress Energy Florida, Inc. and Progress Energy Carolinas, Inc.) and Progress Energy Service Company, LLC to this agreement.

Q. DO YOU BELIEVE THAT DUKE ENERGY KENTUCKY'S RETAIL ELECTRIC AND GAS CUSTOMERS HAVE BENEFITTED FROM THE UTILITY MONEY POOL AGREEMENT? IF YES, PLEASE EXPLAIN.

A. Duke Energy Kentucky's retail customers have benefitted from the Utility Money Pool Agreement. The Utility Money Pool Agreement gives Duke Energy Kentucky and the other participating companies a lower cost source of short-term funds as compared to the available bank borrowings and commercial paper. Participating companies with excess cash can extend loans to other participating companies that are in need of short-term funds. The rate at which these loans are extended is lower than borrowing rates from external sources and higher than what can be earned on a short-term investment. This results in a positive outcome for both the lender and the borrower. The outcome will also be beneficial to Duke Energy Kentucky's customers as their utility will now be able to participate in a larger money pool – again the size, scope and strength of the post-merger Duke Energy Kentucky will benefit customers.

VI. SUMMARY

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. In my opinion, the customers of Duke Energy Kentucky will benefit from the merger between Duke Energy and Progress Energy. Duke Energy Kentucky is currently in a strong financial condition. It is adequately capitalized and it has strong credit ratings. Kentucky law and the existing merger commitments are sufficient to protect Duke Energy Kentucky and its customers from merger-

related risks. Duke Energy's credit quality will be enhanced by the transaction and the company will have the size, scope and scale necessary to meet the challenges that utilities are likely to encounter in the years ahead. The reverse stock split will provide the company with the shares necessary to complete the transaction and reduce the managerial and analytical challenges of an extremely high share count. Finally, the Utility Money Pool Agreement will also have a positive impact on Duke Energy Kentucky and its customers by giving the company an opportunity to both borrow and lend money on terms that are better than what it would be able to obtain from unaffiliated lenders. This merger is in the best interests of Duke Energy Kentucky's customers and its investors.

Q. DOES THIS CONCLUDE YOUR PRE-FILED TESTIMONY?

A. Yes.

VERIFICATION

State of North Carolina)
) **SS:**
County of Mecklenburg)

The undersigned, Stephen De May, being duly sworn, deposes and says that he is the Senior Vice President of Duke Energy Business Services LLC, that he has personal knowledge of the matters set forth in the foregoing testimony, and that the answers contained therein are true and correct to the best of his information, knowledge and belief.

Stephen De May, Affiant

Subscribed and sworn to before me by Stephen De May on this 30 day of March 2011.

NOTARY PUBLIC

My Commission Expires: 10-22-2011

COMMONWEALTH OF KENTUCKY

BEFORE THE KENTUCKY PUBLIC SERVICE COMMISSION

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.	)	**Case No. 2011-_____**

DIRECT TESTIMONY OF

JIM L. STANLEY

ON BEHALF OF

JOINT APPLICANTS

April 4, 2011

TABLE OF CONTENTS

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Jim Stanley and my business address is 526 South Church Street, Charlotte, North Carolina 28208.

Q. WHAT IS YOUR CURRENT POSITION?

A. I am Senior Vice President of Power Delivery for Duke Energy Corporation's ("Duke Energy") Franchised Electric and Gas Business, which includes Duke Energy Kentucky, Inc. ("Duke Energy Kentucky" or the "Company").

Q. WILL YOU PLEASE SUMMARIZE YOUR EDUCATION AND PROFESSIONAL QUALIFICATIONS?

A. I hold a Bachelor of Science degree in Accounting from Ball State University. I joined Duke Energy Indiana, Inc. ("Duke Energy Indiana" f/k/a PSI Energy, Inc.), as Staff Accountant/Corporate Accounting Analyst in the Accounting Department. I progressed through assignments of increasing responsibility in accounting, human resources and field operations, including service as district manager and regional manager for field operations. I have also served as general manager of employee and union relations, general manager of transmission and distribution projects, and as vice president of transmission and distribution construction and maintenance. I was named President of Duke Energy Indiana in November 2006 and held that position through May 2010, when I assumed my current role as Senior Vice President of Power Delivery.

Q. PLEASE SUMMARIZE YOUR DUTIES AS SENIOR VICE PRESIDENT OF POWER DELIVERY FOR DUKE ENERGY'S FRANCHISED ELECTRIC AND GAS BUSINESS.

A. As part of my duties and responsibilities, I provide executive management of the electric transmission and distribution systems for Duke Energy's regulated utility operations in Kentucky, Ohio, Indiana, North Carolina and South Carolina. With almost 5,000 employees and dozens of operating centers throughout the company's five states, Power Delivery tackles Duke Energy's basic mission – keeping the power flowing to customers.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to describe the technical aspects of Duke Energy Kentucky's electric delivery system and its current operational characteristics and to explain why the proposed transaction will not adversely impact Duke Energy Kentucky or its stakeholders. I will explain why the post-merger Duke Energy will have the requisite technical ability to continue to allow Duke Energy Kentucky to provide reasonable service.

II. DUKE ENERGY KENTUCKY'S ELECTRIC DELIVERY SYSTEM

Q. PLEASE GENERALLY DESCRIBE THE DUKE ENERGY KENTUCKY ELECTRIC DELIVERY SYSTEM.

A. Duke Energy Kentucky owns and operates all of its electric distribution and local transmission facilities. Its parent, Duke Energy Ohio, Inc. ("Duke Energy Ohio"),

owns and operates, subject to the functional control of the independent system operator, the bulk transmission facilities located in Duke Energy Kentucky's service territory. The Duke Energy Kentucky electric delivery system is used, among other things, to deliver retail electric service to nearly 136,000 customers located in all or portions of six counties in northern Kentucky. Duke Energy Kentucky's electric delivery system includes approximately 107 circuit miles of transmission lines operating at 69 kV. It also includes 2,134 miles of primary distribution circuits operating at 12.5 kV or lower and approximately 799 miles of secondary distribution circuits operating at 480 volts or below. The delivery system also includes 37 distribution substations, and combined transmission and distribution substations with a combined capacity of approximately 1,800,000 kVA and various other equipment and facilities. The Duke Energy Kentucky electric system is interconnected with the Duke Energy Ohio system at 12.5 kV, 69 kV and 138 kV at multiple locations, with two normally open 69 kV connections to the East Kentucky Power Cooperative transmission system. The Duke Energy Ohio electric system is interconnected with 6 neighboring electric systems at 69 kV, 138 kV and 345 kV.

Q. WHAT ARE DUKE ENERGY KENTUCKY'S OBJECTIVES IN DESIGNING, CONSTRUCTING, OPERATING AND MAINTAINING ITS ELECTRIC DELIVERY SYSTEM?

A. In designing, constructing, operating and maintaining its facilities, Duke Energy Kentucky strives to provide safe, cost-effective and reliable electric service.

Q. PLEASE GENERALLY DESCRIBE HOW DUKE ENERGY KENTUCKY'S TRANSMISSION AND DISTRIBUTION SYSTEM IS DESIGNED, CONSTRUCTED AND OPERATED.

A. The electric transmission system is designed to deliver bulk electric power from local generating plants and other resources to regional substations, or to interconnect with other systems in order to enhance system reliability. Typical transmission voltages for Duke Energy Kentucky are 69 kV.

Duke Energy Kentucky is a transmission dependent utility relying upon the bulk transmission system of Duke Energy Ohio to provide safe and reliable service to its Kentucky customers. Currently, Duke Energy Kentucky is a party to a Joint Transmission Agreement that provides for the planning and operation of the combined transmission system of Duke Energy Kentucky, Duke Energy Ohio and Duke Energy Indiana as an integrated utility system. The Joint Transmission Agreement also provides criteria for cost assignment and allocation of transmission facilities and revenues for the combined transmission system of the three utilities. As I discuss later in my testimony, Duke Energy Kentucky and its parent, Duke Energy Ohio, are in the process of realigning regional transmission organization ("RTO") membership from the Midwest Independent System Operator ("Midwest ISO") to PJM Interconnection, LLC ("PJM"). Duke Energy Indiana is planning on remaining a member of the Midwest ISO. As a result, the Joint Transmission Agreement will no longer be in place following the RTO realignment.

The physical design of the electric transmission system is generally

governed by the National Electrical Safety Code ("NESC"). The system is operated in accordance with ReliabilityFirst Corporation ("RFC") and North American Electric Reliability Corporation ("NERC") guidelines, and is currently under the functional control of the Midwest ISO, although we are in the midst of transferring functional control to PJM.

The electric distribution system is designed to receive bulk power at transmission voltages, reduce the voltage to 12.5 kV or 4 kV for delivery to distribution transformers and ultimate delivery of power to customers' premises. The physical design of the distribution system is also generally governed by the National Electric Safety Code ("NESC"). The Company monitors system performance with various systems such as Supervisory Control and Data Acquisition ("SCADA") and the Distribution Outage Management System ("DOMS").

Q. PLEASE GENERALLY DESCRIBE HOW DUKE ENERGY KENTUCKY'S DELIVERY SYSTEM IS MAINTAINED.

A. Duke Energy Kentucky maintains its delivery system in accordance with good utility practice by following several inspection, monitoring, testing, and periodic maintenance programs. Examples of these programs include: substation inspections, line inspections, vegetation management, underground cable testing and replacement and capacitor maintenance. Duke Energy Kentucky uses various reliability indices to measure the effectiveness of its maintenance programs and system reliability.

Q. PLEASE DESCRIBE SOME OF THE FACTORS THAT THE COMPANY MUST CONSIDER IN ATTEMPTING TO ACHIEVE ITS OBJECTIVES OF PROVIDING SAFE, COST-EFFECTIVE AND RELIABLE ELECTRIC SERVICE.

A. Duke Energy Kentucky must provide safe and reliable service while at the same time responsibly managing the costs of providing such service. The Company weighs various factors in selecting the electric delivery system projects in which to invest, including the Company's planning criteria, requirements mandated either by regulatory authorities or reliability councils, and project cost versus customer benefits to name a few.

Q. HOW DOES THE COMPANY BALANCE ALL OF THESE FACTORS?

A. Annually, electric system studies are performed to determine where and when system modifications are needed to ensure load is adequately served. When these needs are identified, multiple solutions are developed, addressing not only the capacity need, but also providing opportunities to maintain or improve reliability and operating flexibility. Recommendations are made and discussed with the operations staff to ensure a balanced, workable plan has been developed.

Q. WHAT IS THE STATUS OF THE TRANSFER OF FUNCTIONAL CONTROL OF DUKE ENERGY KENTUCKY'S ELECTRIC TRANSMISSION FACILITIES FROM MIDWEST ISO TO PJM?

A. Duke Energy Kentucky continues to believe that RTO realignment was in the best interests of its customers and the Company. Duke Energy Kentucky's need to realign its RTO membership actually arose due to the Company's dependence

upon the bulk transmission system of Duke Energy Ohio. Duke Energy Kentucky owns very few bulk transmission facilities, and the Company's generating stations are actually connected to the Duke Energy Ohio-owned transmission system. When Duke Energy Ohio made the decision to realign its RTO membership to PJM, Duke Energy Kentucky determined it was prudent to realign as well to maintain the current efficiencies and avoid additional operational complexities and costs to remain in the Midwest ISO. Duke Energy Kentucky sought and received Kentucky Public Service Commission ("Commission") approval to realign its RTO membership from the Midwest ISO to PJM in Case No. 2010-00203. Duke Energy Kentucky is in the process of completing its realignment in accordance with the Commission's December 22, 2010 order. Currently, Duke Energy Kentucky is planning to complete the realignment by January 1, 2012, subject to Duke Energy Ohio completing its own realignment.

III. RELIABILITY OF DUKE ENERGY KENTUCKY'S ELECTRIC DELIVERY SYSTEM

Q. DO YOU HAVE AN OPINION AS TO THE RELIABILITY OF DUKE ENERGY KENTUCKY'S SERVICE TO ITS CUSTOMERS?

A. Yes. In my opinion Duke Energy Kentucky does a very good job of maintaining reliability of service. This opinion is based on my experience and observations as well as the various indices that we track and use to measure the reliability of our system.

Q. YOU STATED THAT DUKE ENERGY KENTUCKY USES VARIOUS INDICES TO MEASURE SYSTEM RELIABILITY. PLEASE EXPLAIN THESE RELIABILITY INDICES.

A. These electric reliability indices are generally recognized standards for measuring the number, scope and duration of outages. Customer Average Interruption Duration Index ("CAIDI") is the average interruption duration or average time in minutes to restore service per interrupted customer, and is expressed by the sum of the customer interruption durations divided by the total number of customer interruptions. System Average Interruption Duration Index ("SAIDI") is the average time in minutes each customer is interrupted, and is expressed by the sum of customer interruption durations divided by the total number of customers served. System Average Interruption Frequency Index ("SAIFI") is the system average interruption frequency index, and represents the average number of interruptions per customer. SAIFI is expressed by the total number of customer interruptions divided by the total number of customers served. The Commission standardized the use of these reliability indices in Administrative Case No. 2006-00494. Each year we file reliability reports with the Commission in accordance with the Commission's order.

In addition, a significant portion of the incentive compensation for employees responsible for system reliability is tied to system performance as measured by reliability indices, such as these. Incentive compensation is also tied to how our customers grade or judge our response after an outage occurs.

Q. HOW HAS DUKE ENERGY KENTUCKY'S SYSTEM PERFORMED AS MEASURED BY THESE RELIABILITY INDICES?

A. Duke Energy Kentucky's system has performed well. Exhibit O-1 to my testimony shows the data for these three indices for the last 10 years, both with and without effects of major storms. In my opinion, this is an excellent reliability record and demonstrates how our overall system reliability has improved over the years. Virtually all utilities that have implemented outage management software systems have experienced deterioration in their reliability indices' statistics. This does not mean that reliability has deteriorated, just that the utility is capturing more and better outage data. I believe that overall service improves with the use of such systems because it promotes better service restoration, as discussed below.

Q. WHAT FACTORS CONTRIBUTE TO THE RELIABILITY OF DUKE ENERGY KENTUCKY'S DELIVERY SYSTEM?

A. In my opinion there are a number of factors, beginning with the design, construction, operation and maintenance of the system, as discussed above. Duke Energy Kentucky has spent $31.2 million on the Kentucky electric delivery system over the past two years and will invest approximately $20.1 million this year. We will inspect 1,613 miles of electric transmission and distribution lines this year (making necessary repairs) and we will continue with our normal vegetation control.

Even the best design, construction, operations and maintenance of transmission and distribution facilities will not prevent all outages. When storms

and other events create outages, restoration of service becomes the priority for providing reliable service. Because we are part of a much larger enterprise, Duke Energy Kentucky has the ability to call upon the resources of all the Duke Energy utilities to assist with restoration operations when needed. This has been very valuable to Duke Energy Kentucky and its customers following the 2008 windstorm caused by remnants of Hurricane Ike and the 2009 ice storm that swept through the Ohio River Valley.

Q. WHAT ARE SOME OF THE KEY FACTORS FOR SUPERIOR SERVICE RESTORATION?

A. That depends on the type and magnitude of the outages Duke Energy Kentucky is experiencing. Routine minor outages, such as ones caused by a vehicle knocking down a pole or a minor equipment failure, are normally handled by our local service personnel located throughout Duke Energy Kentucky's service territory. Having experienced people and the necessary equipment available in the area is essential.

Major service restoration efforts, such as those required after a significant storm, require far more effort and planning. Duke Energy has emphasized emergency planning and preparation for dealing with these events. We have a comprehensive emergency plan in place that has been refined over time and incorporates the lessons we have learned from our experience and the experiences of others. This emergency plan provides for the quick response and highly coordinated efforts of a large number of employees for different levels and types of emergency situations. For example, system operators continuously monitor

weather conditions. When lightning, wind or ice storms approach or hit Duke Energy Kentucky's service territory, line crews are called or held over to respond. We will often call in several hundred employees to respond to severe storms, including crews stationed in Ohio, Indiana and, occasionally, the Carolinas. We also mobilize other employees such as transportation, information technology, and engineering personnel as necessary or required.

If necessary, Duke Energy Kentucky will contact other utilities for additional line crews through an external mutual assistance program. We routinely set up an emergency response center adjacent to the System Operation Center to coordinate storm operations and use several sophisticated tools such as DOMS, crew tracking and outage reporting to provide decision support. In some cases, we locate emergency response centers in affected areas to better coordinate our response.

Q. PLEASE DESCRIBE HOW THE DOMS SYSTEM HELPS THE RELIABILITY OF THE DUKE ENERGY KENTUCKY SYSTEM.

A. DOMS is a state-of-the-art outage management software application that Duke Energy Kentucky adopted to improve its ability monitor and respond to outages. DOMS replaced the former trouble call outage management system (a/k/a "TCOMS") and was fully implemented in 2010 across the entire Duke Energy footprint. DOMS now provides Duke Energy with common data for efficient reporting and outage management among and across all five of its utility service territories. DOMS is used both for routine outages and for major events. Customers typically report outages by telephone through Duke Energy Kentucky's

call center. The call center creates an outage call through a telephone software application that interfaces with DOMS. DOMS analyzes the calls and identifies to Duke Energy Kentucky's dispatchers the piece of equipment (*e.g.*, circuit breaker, recloser, fuse, transformer, etc.) that has isolated the probable location of the outage. The dispatcher contacts the field trouble response person through the radio system to direct them to the location to make repairs and restore electric service to the customers. Generally, the field trouble response person inspects the circuit or segment of line in question to identify and report the cause of the outage.

Q. WHAT IS DUKE ENERGY'S POSITION REGARDING INVESTMENT IN SMART GRID TECHNOLOGY AND SMART METERS AND HOW WILL THOSE INVESTMENTS IMPROVE SYSTEM RELIABILITY IN THE FUTURE?

A. Duke Energy has already begun implementing smart grid solutions in its service territories in Ohio and North Carolina. Duke Energy is taking a measured approach and is still evaluating its deployment strategy for other jurisdictions, including Kentucky. In general, Duke Energy believes smart grid provides many opportunities for greater reliability of operations and improved services and interactions with our customers. For example, smart grid will provide better data to assist the utility in pinpointing outage locations as well as causes, and even allow the utility to proactively assess the condition of the delivery system prior to an actual outage occurring. This in turn means shorter, and possibly even fewer, outages to customers. Through the deployment of smart meter technology, the

smart grid will allow Duke Energy to offer enhanced services to its customers, including innovative energy efficiency programs, time of use rates, and greater convenience in terms of remote connection of new service and disconnection of old services. The smart grid represents the next step in grid modernization.

Q. IN 2009, THE COMMISSION ISSUED ITS REPORT ON HURRICANE IKE AND THE ICE STORM. THE "IKE AND ICE REPORT" INCLUDED MANY RECOMMENDATIONS FOR IMPROVING SYSTEM RELIABILITY AND RESTORATION EFFORTS. WHAT HAS DUKE ENERGY KENTUCKY DONE IN RESPONSE TO THE ISSUANCE OF THE COMMISSION'S "IKE AND ICE REPORT"?

A. Duke Energy Kentucky filed its comments regarding the Commission's recommendations and discussed detailed implementation efforts for many of those recommendations. Rather than simply recite our prior response, I will highlight a few of our efforts to implement the recommendations and ideas in the Ike and Ice Report. First, Duke Energy Kentucky maintains and regularly updates contact information for local emergency response agencies and governmental leaders. When local emergencies occur, we want to make sure that we have an open line of communication with first responders and government decision-makers.

Duke Energy Kentucky also has a comprehensive vegetation management program that includes a "danger tree" removal protocol. Updates on this plan are filed with the Commission on an annual basis. Duke Energy Kentucky also uses an on-the-ground inspection protocol for its distribution system and has

implemented a post-restoration follow-up inspection for areas in which an outage impacts more than 1,000 customers. We also continue to work with our customers who request and wish to pay for enhanced reliability through conversion to underground facilities wherever feasible.

With regard to the Ike and Ice Report's outage response recommendations, Duke Energy Kentucky utilizes the outage management system that I described earlier, DOMS, to optimize our response to weather related outages. The DOMS system is updated regularly. To assure that we have good communications, Duke Energy Kentucky has obtained satellite phones to assist in outage coordination when other phone service is unavailable due to severe weather events. Additionally, Duke Energy Kentucky employs meteorologists who monitor and forecast the weather and who also participate in National Weather Service pre-storm conference calls. This allows us to anticipate outages caused by major storm events and to pro-actively prepare to respond to any damage caused to our electric distribution system.

One of the benefits of being a part of Duke Energy, which has multiple service jurisdictions, is that Duke Energy Kentucky has ready access to additional resources from its sister utilities in Ohio, Indiana and the Carolinas. They know our system and can provide emergency support and assistance during severe weather emergencies. This asset will grow in value as we add the Progress Energy Carolinas and Progress Energy Florida teams to our roster of resources.

Duke Energy Kentucky has also taken steps to keep our customers informed electronically during severe weather events. For example, Duke Energy

Kentucky activates a storm response web page during severe weather events which contains updated news releases, messages and links to key storm information and outage restoration progress. Duke Energy Kentucky has also implemented the use of social networking tools, such as Twitter, to give its customers regular updates on the status of outage response efforts and repairs.

The Ike and Ice Report contained many valuable lessons and recommendations for all utilities and we have been proactive in our efforts to implement the Commission's recommendations.

IV. RELIABILITY AFTER THE MERGER

Q. WILL THE PROPOSED MERGER OF DUKE ENERGY AND PROGRESS ENERGY HAVE ANY IMPACT ON THE RELIABILITY OF DUKE ENERGY KENTUCKY'S ELECTRIC SERVICE?

A. There should be no adverse impact upon Duke Energy Kentucky's electric system reliability following the merger. The indices I have cited above demonstrate that Duke Energy Kentucky has a solid track record for providing reliable service. Moreover, the testimony of Mr. James E. Rogers, Mr. William D. Johnson and Ms. Julia S. Janson all demonstrate that both Duke Energy and Progress Energy are committed to providing reliable service. This commitment will continue after the merger. There are no plans to eliminate any service centers or control centers affecting Duke Energy Kentucky as a part of the merger. Likewise, there are no plans to reduce Duke Energy Kentucky's equipment or the number of critical field

personnel such as electric linemen and plant personnel. In my opinion, the only impacts on reliability arising from this merger will be positive.

Q. WHY DO YOU BELIEVE THAT THERE WILL BE POSITIVE IMPACTS ON RELIABILITY ARISING OUT OF THE PROPOSED MERGER?

A. My belief is based on our experience implementing the Duke Energy/Cinergy merger. We found that Duke Energy and Cinergy had different approaches to some issues. Following the merger, we were able to select the best practices from both companies and combine them in a manner that allowed us to provide even better service. Since the merger was completed in 2006, the operating companies have also been able to share personnel, call center capacity, equipment and spare parts. This has led to better service for our customers throughout the Duke Energy footprint – including the service territory of Duke Energy Kentucky. I would expect to see some of the same results from this merger. We will also have a larger pool of resources to draw from when we are responding to major outages.

V. SUMMARY

Q. WOULD YOU LIKE TO SUMMARIZE YOUR TESTIMONY?

A. For all of the reasons that I have mentioned, this merger will have no adverse impact upon Duke Energy Kentucky's electric system or its customers. We will be able to leverage best practices from both the Duke Energy and Progress Energy companies to improve our system reliability. When major outage events occur, Duke Energy Kentucky will have a greater amount of resources to tap into just within the Duke Energy enterprise. Moreover, the Commission's annual

reliability reporting requirements provide even greater assurance that any issues affecting Duke Energy Kentucky's electric system will be identified and mitigated quickly and efficiently. The merger will have no impact upon our transition from Midwest ISO to PJM. The merger is for a proper purpose and in the public's interest and, certainly, Duke Energy will continue to have the technical ability to own and operate Duke Energy Kentucky upon the completion of the merger.

Q. WAS EXHIBIT O-1 TO YOUR TESTIMONY PREPARED BY YOU OR BY SOMEONE WORKING UNDER YOUR SUPERVISION?

A. Yes, it was.

Q. DOES THIS CONCLUDE YOUR PRE-FILED TESTIMONY?

A. Yes.

VERIFICATION

State of North Carolina)
) **SS:**
County of Mecklenburg)

The undersigned, Jim Stanley, being duly sworn, deposes and says that he is the Senior Vice President of Duke Energy Business Services LLC, that he has personal knowledge of the matters set forth in the foregoing testimony, and that the answers contained therein are true and correct to the best of his information, knowledge and belief.

Jim Stanley, Affiant

Subscribed and sworn to before me by Jim Stanley on this 23rd day of March 2011.

NOTARY PUBLIC

My Commission Expires:

DIANE M. WILKINSON
Notary Public
North Carolina
Lincoln County

EXHIBITS

Document	Exhibit
Schedule of Duke Energy Kentucky's Reliability Index Data for 2001-2010	O-1

Duke Kentucky Year-End Reliability Indices

	Major Event Days Included				Major Event Days Excluded		
Year	SAIFI	CAIDI	SAIDI		SAIFI	CAIDI	SAIDI
2001	1.67	215.3	359.6		1.15	98.3	113.5
2002	1.66	86.0	142.5		1.55	82.5	127.7
2003	1.72	100.1	172.3		1.49	77.3	115.1
2004	1.07	74.4	79.9		1.07	74.3	79.7
2005	1.24	94.5	117.1		1.04	85.2	88.6
2006	2.05	141.0	289.7		1.43	81.3	116.5
2007	1.59	179.8	286.7		1.15	94.1	108.3
2008	2.38	741.7	1,762.1		1.28	83.1	106.4
2009	1.58	126.6	199.9		1.13	101.3	114.2
2010	1.48	92.0	136.1		1.30	87.9	114.3

COMMONWEALTH OF KENTUCKY

BEFORE THE KENTUCKY PUBLIC SERVICE COMMISSION

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.	)	**Case No. 2011-_____**

DIRECT TESTIMONY OF

DANNY WILES

ON BEHALF OF

JOINT APPLICANTS

April 4, 2011

TABLE OF CONTENTS

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Danny Wiles, and my business address is 550 South Tryon Street, Charlotte, North Carolina 28202.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by Duke Energy Business Services, LLC as Vice President of Accounting for the U.S. Franchised Electric & Gas ("USFE&G") Business of Duke Energy Corporation ("Duke Energy").

Q. PLEASE DESCRIBE YOUR DUTIES AS VICE PRESIDENT OF ACCOUNTING FOR THE U.S. FRANCHISED ELECTRIC & GAS BUSINESS UNIT.

A. I am responsible for the accounting functions of Duke Energy's U.S. Franchised Electric & Gas business unit, which comprises Duke Energy's regulated utility businesses in Kentucky, Ohio, Indiana, North Carolina and South Carolina. I am responsible for the books of account and accounting records for these regulated utility businesses, which include Duke Energy Kentucky, Inc. ("Duke Energy Kentucky").

Q. PLEASE BRIEFLY DESCRIBE YOUR EDUCATION AND PROFESSIONAL EXPERIENCE.

A. I graduated from the University of North Carolina at Chapel Hill with a Bachelor of Science in Business Administration. I am a certified public accountant and a member of the American Institute of Certified Public Accountants. I practiced public accounting for sixteen years with Arthur Andersen, LLP, where I was

promoted to Audit Partner in 1999. I joined Duke Energy in 2002 as Managing Director of Corporate Accounting Research. I was named to my current position in February 2008. I am also one of Duke Energy's accounting representatives with the Edison Electric Institute, a trade association of electric utility companies.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. I will explain the accounting considerations that arise as a result of the merger between Duke Energy and Progress Energy, Inc. ("Progress Energy"). In particular, I will describe the impact of rules of accounting as they relate to Duke Energy Kentucky and I will explain why this transaction, from an accounting perspective, is significantly different than the 2006 merger of Duke Energy and Cinergy Corp. ("Cinergy") as it relates to the potential impact on the financial statements for Duke Energy Kentucky.

II. ACCOUNTING CONSIDERATIONS

Q. PLEASE BRIEFLY EXPLAIN THE BASIS FOR DUKE ENERGY KENTUCKY'S ACCOUNTING AND FINANCIAL STATEMENTS.

A. Duke Energy Kentucky's accounting and financial reporting policies and practices conform to generally accepted accounting principles ("GAAP") in the United States.

Q. WHAT IS MEANT BY THE TERM GAAP?

A. GAAP refers to the common set of accounting conventions, rules and procedures established by the Financial Accounting Standards Board ("FASB") under the authority of the United States Securities Exchange Commission ("SEC"). GAAP is recognized as authoritative by the Public Company Accounting Oversight Board ("PCAOB"), which promulgates auditing standards in the United States. GAAP is primarily used by non-governmental entities as the basis of accounting for their external financial statements and reporting.

Q. WHAT IS THE UNIFORM SYSTEM OF ACCOUNTS FOR MAJOR ELECTRIC UTILITIES?

A. The Uniform System of Accounts ("USofA") is the set of accounts prescribed by the Federal Energy Regulatory Commission ("FERC") that is applicable to investor-owned electric public utilities in the United States. The USofA is set forth in Part 101 of Title 18 of the Code of Federal Regulations.

Q. ARE DUKE ENERGY KENTUCKY'S BOOKS AND ACCOUNTING RECORDS KEPT IN COMPLIANCE WITH THE USofA?

A. Yes.

Q. WHAT PRONOUNCEMENTS GOVERN THE ACCOUNTING FOR BUSINESS COMBINATIONS SUCH AS DUKE ENERGY?

A. Section 805 ("Business Combinations") of the FASB's Accounting Standards Codification ("ASC 805") is the primary authoritative accounting pronouncement covering the subject of accounting for business combinations such as Duke Energy. ASC 805 applies to combinations of business entities in general,

however, not just to combinations of regulated entities such as investor-owned utilities.

Q. PLEASE BRIEFLY EXPLAIN PURCHASE ACCOUNTING.

A. In general terms, the purchase accounting method treats a business combination as the acquisition of one company by another. The purchase price is allocated to all of the purchased company's identified assets acquired and liabilities assumed, based on their fair values. If the purchase price exceeds the fair value of the acquired company's identified assets and liabilities, the excess is recorded as goodwill. Earnings and losses of the purchased company are included in the acquiring (purchasing) company's financial statements from the consummation of the date of the acquisition forward.

Q. IN THIS MERGER, WHO WILL BE THE ACQUIRING (PURCHASING) COMPANY AND WHO WILL BE THE ACQUIRED (PURCHASED) COMPANY FOR PURPOSES OF ASC 805?

A. Duke Energy will be the acquiring company and Progress Energy will be the acquired company.

Q. HOW WILL PURCHASE ACCOUNTING AFFECT THE FINANCIAL STATEMENTS OF DUKE ENERGY?

A. Effective with the closing of the merger, Progress Energy will become part of Duke Energy and therefore Duke Energy's financial statements will include the results of the operations of Progress Energy. Duke Energy will apply purchase accounting to the assets and liabilities it is acquiring from Progress Energy, whereby the purchase price of the transaction will be applied to the assets and

liabilities acquired. The resulting accounting is that the assets and liabilities of Progress Energy will be reflected in the balance sheet of Duke Energy at the respective fair values, with any residual allocated to goodwill. The Form S-4 filed by Duke Energy on March 17, 2011 with the SEC includes certain *pro forma* financial information that reflects the results of operations and financial condition of the merged companies (Duke Energy and Progress Energy) on an "as-if combined" basis. A copy of the *pro forma* financial information contained in the Form S-4 is attached to my testimony as Exhibit P-1.

Q. HOW WILL PURCHASE ACCOUNTING AFFECT THE FINANCIAL STATEMENTS OF DUKE ENERGY KENTUCKY?

A. Purchase accounting for the acquisition of Progress Energy by Duke Energy will have no impact on the financial statements of Duke Energy Kentucky. In the current transaction, Duke Energy Kentucky is part of the acquiring company, but Duke Energy Kentucky itself is not acquiring any assets or assuming any liabilities of the acquired company, so there is no purchase accounting impact to the financial statements of Duke Energy Kentucky from this transaction.

Q. DOES THE USofA CONTAIN ANY SPECIFIC PROVISIONS WITH RESPECT TO ACCOUNTING FOR BUSINESS COMBINATIONS INVOLVING REGULATED ELECTRIC PUBLIC UTILITIES?

A. The USofA does not provide broad guidance on the accounting for business combinations, but rather the specific accounts that must be used in relation to electric plant that is purchased or sold. However, just as the current transaction will not have any impact on the financial statements of Duke Energy Kentucky

from a GAAP standpoint, it will also not have any impact from a USofA or FERC reporting standpoint.

Q. IN LIGHT OF THE ACCOUNTING TREATMENTS YOU HAVE DESCRIBED, DO YOU BELIEVE THAT THE SEC WILL REQUIRE DUKE ENERGY KENTUCKY TO BE THE RECIPIENT OF ANY "PUSH-DOWN" ACCOUNTING AS PART OF THIS MERGER TRANSACTION?

A. No. The topic of "push-down" accounting is not applicable to the financial statements of Duke Energy Kentucky for this transaction. "Push-down" accounting only applies to the financial statement of the acquired entity and, in this transaction, Duke Energy Kentucky is part of the acquiring entity rather than part of the acquired entity.

Q. "PUSH-DOWN" ACCOUNTING WAS A SIGNIFICANT ISSUE IN THE 2005 COMMISSION CASE CONSIDERING THE MERGER BETWEEN DUKE ENERGY AND CINERGY. WHY IS IT NOT A SIGNIFICANT ISSUE IN THIS PROCEEDING?

A. In the Duke Energy/Cinergy transaction, Duke Energy Kentucky was part of the acquired entity, and therefore "push-down" accounting would have been required if certain conditions were met. As explained above, in the current transaction Duke Energy Kentucky is part of the acquiring entity, and therefore the topic of "push-down" accounting is not applicable to Duke Energy Kentucky.

III. SUMMARY

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. The transaction between Duke Energy and Progress Energy will have no impact on the financial statements of Duke Energy Kentucky. Since, for this transaction Duke Energy Kentucky is part of the acquiring entity, there will be no accounting impact to the financial statements of Duke Energy Kentucky from the application of purchase accounting by Duke Energy.

Q. CAN YOU IDENTIFY THE DOCUMENT THAT IS ATTACHED AS EXHIBIT 1 TO YOUR TESTIMONY AND VERIFY THAT IT IS A TRUE AND CORRECT COPY OF THE ORIGINAL?

A. Yes. The document attached as Exhibit P-1 to my testimony is a true and correct copy of the S-4 *Pro Forma* Financial Statement filed with the United States Securities and Exchange Commission following the announcement of this merger.

Q. DOES THIS CONCLUDE YOUR PRE-FILED TESTIMONY?

A. Yes.

VERIFICATION

State of North Carolina)
) **SS:**
County of Mecklenburg)

The undersigned, Danny Wiles, being duly sworn, deposes and says that he is the General Manager and Vice President, Accounting, FIN - Corporate Controller of Duke Energy Business Services, LLC, that he has personal knowledge of the matters set forth in the foregoing testimony, and that the answers contained therein are true and correct to the best of his information, knowledge and belief.

Danny Wiles
Danny Wiles, Affiant

Subscribed and sworn to before me by Danny Wiles on this 24 day of March 2011.

Kim V. Beal
NOTARY PUBLIC

My Commission Expires: October 24, 2014

As filed with the Securities and Exchange Commission on March 17, 2011

Registration No. 333-

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM S-4
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

Duke Energy Corporation
(Exact name of registrant as specified in its charter)

Delaware	4931	20-2777218
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

526 South Church Street
Charlotte, North Carolina 28202
(704) 594-6200
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Marc E. Manly, Esq.
Group Executive, Chief Legal Officer and Corporate Secretary
Duke Energy Corporation
526 South Church Street
Charlotte, North Carolina 28202
(704) 594-6200
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Steven A. Rosenblum, Esq.
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John R. McArthur, Esq.
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410 South Wilmington Street
Raleigh, North Carolina 27601
(919) 546-6111

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Hunton & Williams LLP
421 Fayetteville Street Mall
Raleigh, North Carolina 27601
(919) 899-3000

Approximate date of commencement of the proposed sale of the securities to the public: As soon as practicable after this registration statement becomes effective and upon completion of the merger described in the enclosed document.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. ☐

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (check one):

☑ Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer (Do not check if a smaller reporting company) ☐ Smaller reporting company

If applicable, place an X in the box to designate the appropriate rule provision relied upon in conducting this transaction:

Exchange Act Rule 13e-4(i) (Cross-Border Issuer Tender Offer) ☐

Exchange Act Rule 14d-1(d) (Cross-Border Third-Party Tender Offer) ☐

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered(1)	Proposed maximum offering price per share	Proposed maximum aggregate offering price(2)	Amount of registration fee(3)
Common stock, par value $0.001 per share	264,000,000	N/A	$13,601,231,047	$1,579,103

(1) The number of shares of common stock, par value $0.001 per share, of the registrant ("Duke Energy common stock") being registered is based upon the product obtained by multiplying (x) the sum of (a) 293,795,627 shares of common stock, no par value per share, of Progress Energy, Inc. ("Progress Energy common stock") estimated to be outstanding immediately prior to the merger plus (b) 9,363,429 shares of Progress Energy common stock issuable upon exercise of Progress Energy options or other equity-based awards estimated to be outstanding immediately prior to the merger by (y) an exchange ratio of 0.87083 (being the exchange ratio provided for in the merger agreement after adjustment to reflect a 1-for-3 reverse stock split with respect to the issued and outstanding Duke Energy common stock prior to the effective time of the merger).

(2) Estimated solely for the purpose of calculating the registration fee required by Section 6(b) of the Securities Act and calculated pursuant to Rules 457(f) and 457(c) under the Securities Act. The proposed maximum aggregate offering price of the Duke Energy common stock was calculated based upon the market value of shares of Progress Energy common stock (the securities to be canceled in the merger) in accordance with Rule 457(c) and is equal to the product of (i) $44.865, the average of the high and low prices per share of Progress Energy common stock on the New York Stock Exchange on March 16, 2011, multiplied by (ii) 303,159,056, the estimated maximum number of shares of Progress Energy common stock that may be canceled and exchanged in the merger or otherwise issuable under Progress Energy equity-based awards.

(3) Calculated pursuant to Section 6(b) of the Securities Act and Securities and Exchange Commission Fee Rate Advisory #5 for Fiscal Year 2011 at a rate equal to $116.10 per $1,000,000 of the proposed maximum aggregate offering price.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until this registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to Section 8(a), may determine.

UNAUDITED PRO FORMA CONDENSED COMBINED CONSOLIDATED FINANCIAL INFORMATION

The Unaudited Pro Forma Condensed Combined Consolidated Financial Statements (which we refer to as the pro forma financial statements) have been primarily derived from the historical consolidated financial statements of Duke Energy and Progress Energy incorporated by reference into this document.

The Unaudited Pro Forma Condensed Combined Consolidated Statement of Operations (which we refer to as the pro forma statement of operations) for the year ended December 31, 2010 gives effect to the merger as if it were completed on January 1, 2010. The Unaudited Pro Forma Condensed Combined Consolidated Balance Sheet (which we refer to as the pro forma balance sheet) as of December 31, 2010 gives effect to the merger as if it were completed on December 31, 2010.

The merger agreement provides that each outstanding share of Progress Energy common stock (other than shares owned by Progress Energy (other than in a fiduciary capacity), Duke Energy, or Diamond Acquisition Corporation, which will be cancelled) will be converted into the right to receive 2.6125 shares of Duke Energy common stock subject to appropriate adjustment for a reverse stock split of the Duke Energy common stock as contemplated in the merger agreement and with cash generally to be paid in lieu of fractional shares. The exchange ratio will be adjusted proportionately to reflect a 1-for-3 reverse stock split with respect to the issued and outstanding Duke Energy common stock that Duke Energy plans to implement prior to, and conditioned on, the completion of the merger. The resulting adjusted exchange ratio will be 0.87083 of a share of Duke Energy common stock for each share of Progress Energy common stock. The pro forma statement of operations illustrates pro forma earnings per common share and weighted average common shares outstanding based both on the unadjusted exchange ratio of 2.6125 and the reverse stock split adjusted exchange ratio of 0.87083.

The historical consolidated financial information has been adjusted in the pro forma financial statements to give effect to pro forma events that are: (1) directly attributable to the merger; (2) factually supportable; and (3) with respect to the statement of operations, expected to have a continuing impact on the combined results of Duke Energy and Progress Energy. As such, the impact from merger related expenses is not included in the accompanying pro forma statement of operations. However, the impact of these expenses is reflected in the pro forma balance sheet as an increase to accounts payable and a decrease to retained earnings.

The pro forma financial statements do not reflect any cost savings (or associated costs to achieve such savings) from operating efficiencies (e.g., savings related to fuel and joint dispatch of the combined entity's generation) or synergies that could result from the merger. Further, the pro forma financial statements do not reflect the effect of any regulatory actions that may impact the pro forma financial statements when the merger is completed. In addition, the pro forma financial statements do not purport to project the future financial position or operating results of the combined company. Transactions between Progress Energy and Duke Energy during the periods presented in the pro forma financial statements have been eliminated as if Duke Energy and Progress Energy were consolidated affiliates during the periods.

United States generally accepted accounting principles require that one party to the merger be identified as the acquirer. In accordance with these standards, the merger of Duke Energy and Progress Energy will be accounted for as an acquisition of Progress Energy common stock by Duke Energy and will follow the acquisition method of accounting for business combinations. The purchase price ultimately will be determined on the acquisition date based on the fair value of the shares of Duke Energy common stock issued in the merger. The purchase price for the pro forma financial statements is based on the closing price of Duke Energy common stock on the NYSE on March 10, 2011 of $18.32 per share and the exchange of Progress Energy's outstanding shares of common stock for the right to receive 2.6125 shares of Duke Energy common stock (refer to Note 2 to the pro forma financial statements for additional information related to the preliminary purchase price).

Assumptions and estimates underlying the pro forma adjustments are described in the accompanying notes, which should be read in connection with the pro forma financial statements. Since the pro forma financial statements have been prepared based on preliminary estimates, the final amounts recorded at the date of the merger may differ materially from the information presented. These estimates are subject to change pending further review of the assets acquired and liabilities assumed and the final purchase price.

The pro forma financial statements have been presented for illustrative purposes only and are not necessarily indicative of results of operations and financial position that would have been achieved had the pro forma events taken place on the dates indicated, or the future consolidated results of operations or financial position of the combined company.

The following pro forma financial statements should be read in conjunction with:

- the accompanying notes to the pro forma financial statements;
- the separate historical consolidated financial statements of Duke Energy as of and for the year ended December 31, 2010 included in Duke Energy's Form 10-K and incorporated by reference into this document;
- the separate historical consolidated financial statements of Progress Energy as of and for the year ended December 31, 2010 included in Progress Energy's Form 10-K and incorporated by reference into this document; and
- the other information contained in or incorporated by reference into this document.

DUKE ENERGY CORPORATION AND PROGRESS ENERGY, INC.
UNAUDITED PRO FORMA CONDENSED COMBINED CONSOLIDATED STATEMENT OF OPERATIONS

For the Year Ended December 31, 2010
(In millions, except per share amounts)

	Duke Energy Corporation 3(a)	Progress Energy, Inc. 3(a)	Pro Forma Adjustments	Note 3	Pro Forma Combined
Operating Revenues:					
Regulated electric	$10,723	$10,176	($ 30)	(b)	$20,869
Non-regulated electric, natural gas and other	2,930	14	—		2,944
Regulated natural gas	619	—	—		619
Total operating revenues	14,272	10,190	(30)		24,432
Operating Expenses:					
Fuel used in electric generation and purchased power—regulated	3,345	4,579	(30)	(b)	7,894
Fuel used in electric generation and purchased power—non-regulated	1,199	—	—		1,199
Cost of natural gas and coal sold	381	—	—		381
Operation, maintenance and other	3,825	2,043	—		5,868
Depreciation and amortization	1,786	920	—		2,706
Property and other taxes	702	580	—		1,282
Goodwill and other impairment charges	726	10	—		736
Total operating expenses	11,964	8,132	(30)		20,066
Gains (Losses) on Sales of Other Assets and Other, net	153	(4)	—		149
Operating Income	2,461	2,054	—		4,515
Other Income and Expenses, Net	589	99	—		688
Interest Expense	840	747	(65)	(c)	1,522
Income From Continuing Operations Before Income Taxes	2,210	1,406	65		3,681
Income Tax Expense From Continuing Operations	890	539	26	(d)	1,455
Income From Continuing Operations	1,320	867	39		2,226
Less: Net Income From Continuing Operations Attributable to Noncontrolling Interests	3	7	—		10
Net Income From Continuing Operations Attributable to Controlling Interests	$ 1,317	$ 860	$ 39		$ 2,216
Earnings Per Common Share and Common Shares Outstanding, Assuming Unadjusted Exchange Ratio of 2.6125					
Basic Earnings Per Share From Continuing Operations Attributable to Common Shareholders	$ 1.00	$ 2.96			$ 1.06
Diluted Earnings Per Share From Continuing Operations Attributable to Common Shareholders	$ 1.00	$ 2.96			$ 1.06
Weighted Average Common Shares Outstanding					
Basic	1,318	291	478	(e)	2,087
Diluted	1,319	291	478	(e)	2,088
Pro Forma Earnings Per Common Share and Common Shares Outstanding, Assuming Exchange Ratio of 0.87083, Adjusted for 1-for-3 Reverse Stock Split					
Basic Earnings Per Share From Continuing Operations Attributable to Common Shareholders	$ 3.00	$ 2.96			$ 3.18
Diluted Earnings Per Share From Continuing Operations Attributable to Common Shareholders	$ 3.00	$ 2.96			$ 3.18
Weighted Average Common Shares Outstanding					
Basic	439	291	(35)	(e)	695
Diluted	440	291	(35)	(e)	696

See accompanying Notes to the Unaudited Pro Forma Condensed Combined Consolidated Financial Statements, which are an integral part of these statements.

DUKE ENERGY CORPORATION AND PROGRESS ENERGY, INC.
UNAUDITED PRO FORMA CONDENSED COMBINED CONSOLIDATED BALANCE SHEET

As of December 31, 2010
(In millions)

	Duke Energy Corporation 3(a)	Progress Energy, Inc. 3(a)	Pro Forma Adjustments	Note 3	Pro Forma Combined
ASSETS					
Current Assets					
Cash and cash equivalents	$ 1,670	$ 611	$ —		$ 2,281
Receivables, net	2,157	1,033	(8)	(l)	3,182
Inventory	1,318	1,226	(7)	(f)	2,537
Other	1,078	606	(126)	(g)(l)(n)	1,558
Total current assets	6,223	3,476	(141)		9,558
Investments and Other Assets					
Nuclear decommissioning trust funds	2,014	1,571	—		3,585
Goodwill	3,858	3,655	4,297	(h)	11,810
Other	3,392	479	29	(f)(i)	3,900
Total investments and other assets	9,264	5,705	4,326		19,295
Property, Plant and Equipment					
Cost	58,539	33,920	—		92,459
Less accumulated depreciation and amortization	18,195	12,510	—		30,705
Net property, plant and equipment	40,344	21,410	—		61,754
Regulatory Assets and Deferred Debits	3,259	2,463	716	(g)(l)(n)	6,438
Total Assets	$59,090	$33,054	$ 4,901		$97,045
LIABILITIES AND EQUITY					
Current Liabilities					
Accounts payable	$ 1,587	$ 994	$ 82	(j)(l)	$ 2,663
Current maturities of long-term debt	275	505	16	(m)	796
Other	2,035	1,456	(71)	(l)	3,420
Total current liabilities	3,897	2,955	27		6,879
Long-term Debt	17,935	12,348	1,075	(m)	31,358
Deferred Credits and Other Liabilities					
Deferred income taxes	6,978	1,696	(126)	(k)	8,548
Investment tax credits	359	110	—		469
Asset retirement obligations	1,816	1,200	—		3,016
Other	5,452	4,625	(95)	(i)(l)	9,982
Total deferred credits and other liabilities	14,605	7,631	(221)		22,015
Commitments and Contingencies					
Preferred Stock of Subsidiaries	—	93	—		93
Equity					
Common Stock	1	7,343	(7,342)	(n)	2
Additional paid-in capital	21,023	—	14,097	(n)	35,120
Retained earnings	1,496	2,805	(2,860)	(n)	1,441
Accumulated other comprehensive income (loss)	2	(125)	125	(n)	2
Total shareholders' equity	22,522	10,023	4,020		36,565
Noncontrolling interests	131	4	—		135
Total equity	22,653	10,027	4,020		36,700
Total Liabilities and Equity	$59,090	$33,054	$ 4,901		$97,045

See accompanying Notes to the Unaudited Pro Forma Condensed Combined Consolidated Financial Statements, which are an integral part of these statements.

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Basis of Pro Forma Presentation

The pro forma statement of operations for the year ended December 31, 2010 gives effect to the merger as if it were completed on January 1, 2010. The pro forma balance sheet as of December 31, 2010 gives effect to the merger as if it were completed on December 31, 2010.

The pro forma financial statements have been derived from the historical consolidated financial statements of Duke Energy and Progress Energy that are incorporated by reference into this document. Assumptions and estimates underlying the pro forma adjustments are described in these notes, which should be read in conjunction with the pro forma financial statements. Since the pro forma financial statements have been prepared based upon preliminary estimates, the final amounts recorded at the date of the merger may differ materially from the information presented. These estimates are subject to change pending further review of the assets acquired and liabilities assumed.

The merger is reflected in the pro forma financial statements as an acquisition of Progress Energy by Duke Energy, based on the guidance provided by accounting standards for business combinations. Under these accounting standards, the total estimated purchase price is calculated as described in Note 2 to the pro forma financial statements, and the assets acquired and the liabilities assumed have been measured at estimated fair value. For the purpose of measuring the estimated fair value of the assets acquired and liabilities assumed, Duke Energy has applied the accounting guidance for fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. The fair value measurements utilize estimates based on key assumptions of the merger, including historical and current market data. The pro forma adjustments included herein are preliminary and will be revised at the time of the merger as additional information becomes available and as additional analyses are performed. The final purchase price allocation will be determined at the time that the merger is completed, and the final amounts recorded for the merger may differ materially from the information presented.

Estimated transaction costs have been excluded from the pro forma statement of operations as they reflect non-recurring charges directly related to the merger. However, the anticipated transaction costs are reflected in the pro forma balance sheet as an increase to accounts payable and a decrease to retained earnings.

The pro forma financial statements do not reflect any cost savings (or associated costs to achieve such savings) from operating efficiencies (e.g., savings related to fuel and joint dispatch of the combined entity's generation), synergies or other restructuring that could result from the merger. Further, the pro forma financial statements do not reflect the effect of any regulatory actions that may impact the pro forma financial statements when the merger is completed.

Progress Energy's regulated operations comprise electric generation, transmission and distribution operations. These operations are subject to the rate-setting authority of the Federal Energy Regulatory Commission, the North Carolina Utilities Commission, the Public Service Commission of South Carolina, and the Florida Public Service Commission and are accounted for pursuant to U.S. generally accepted accounting principles, including the accounting guidance for regulated operations. The rate-setting and cost recovery provisions currently in place for Progress Energy's regulated operations provide revenues derived from costs including a return on investment of assets and liabilities included in rate base. Thus, the fair values of Progress Energy's tangible and intangible assets and liabilities subject to these rate-setting provisions approximate their carrying values, and the pro forma financial statements do not reflect any net adjustments related to these amounts.

NOTES TO THE UNAUDITED PRO FORMA CONDENSED COMBINED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 2. Preliminary Purchase Price

The merger agreement provides that each outstanding share of Progress Energy common stock (other than shares owned by Progress Energy (other than in a fiduciary capacity), Duke Energy, or Diamond Acquisition Corporation, which will be cancelled) will be converted into the right to receive 2.6125 shares of Duke Energy common stock subject to appropriate adjustment for a reverse stock split of the Duke Energy common stock as contemplated in the merger agreement and with cash generally to be paid in lieu of fractional shares. Each outstanding option to acquire, and each outstanding equity award relating to, one share of Progress Energy common stock will be converted into an option to acquire, or an equity award relating to, 2.6125 shares of Duke Energy common stock, as applicable, subject to appropriate adjustment for the reverse stock split. The exchange ratio will be adjusted proportionately to reflect a 1-for-3 reverse stock split with respect to the issued and outstanding Duke Energy common stock that Duke Energy plans to implement prior to, and conditioned on, the completion of the merger. The resulting adjusted exchange ratio is 0.87083 of a share of Duke Energy common stock for each share of Progress Energy common stock.

The purchase price for the merger is estimated as follows (shares in thousands):

		Adjusted to Reflect Reverse Stock Split
Progress Energy shares outstanding as of December 31, 2010	293,202	293,202
Exchange ratio	2.6125	0.87083
Duke Energy shares issued for Progress Energy shares outstanding	765,990	255,329
Closing price of Duke Energy common stock on March 10, 2011	$ 18.32	$ 54.96
Purchase price (in millions) for common stock	$ 14,033	$ 14,033
Fair value of outstanding earned stock compensation awards (in millions)	$ 65	$ 65
Total estimated purchase price (in millions)	$ 14,098	$ 14,098

The preliminary purchase price was computed using Progress Energy's outstanding shares as of December 31, 2010, adjusted for the exchange ratio. The preliminary purchase price reflects the market value of Duke Energy's common stock to be issued in connection with the merger based on the closing price of Duke Energy's common stock on March 10, 2011. The preliminary purchase price also reflects the total estimated fair value of Progress Energy stock compensation awards outstanding as of December 31, 2010, excluding the value associated with employee service yet to be rendered.

The preliminary purchase price as adjusted for the reverse stock split assumes that the reverse stock split will result in the price of Duke Energy common stock increasing by a factor of 3. It should be noted that there is no guarantee that the Duke Energy reverse stock split will result in a proportionate increase in the market price of Duke Energy common stock.

The preliminary purchase price will fluctuate with the market price of Duke Energy's common stock until it is reflected on an actual basis when the merger is completed. An increase or decrease of 20 percent in Duke Energy's common share price from the price used above would increase or decrease the purchase price by approximately $2,800 million.

NOTES TO THE UNAUDITED PRO FORMA CONDENSED COMBINED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 3. Adjustments to Pro Forma Financial Statements

The pro forma adjustments included in the pro forma financial statements are as follows:

(a) *Duke Energy and Progress Energy historical presentation.* The accompanying pro forma statement of operations excludes the results of discontinued operations. Based on the amounts reported in the consolidated statements of operations and balance sheets of Duke Energy and Progress Energy as of and for year ended December 31, 2010, certain financial statement line items included in Progress Energy's historical presentation have been reclassified to conform to corresponding financial statement line items included in Duke Energy's historical presentation. These reclassifications have no material impact on the historical operating income, net income from continuing operations attributable to controlling interests, total assets, liabilities or shareholders' equity reported by Duke Energy or Progress Energy.

Additionally, based on Duke Energy's review of Progress Energy's summary of significant accounting policies disclosed in Progress Energy's financial statements and preliminary discussions with Progress Energy management, the nature and amount of any adjustments to the historical financial statements of Progress Energy to conform its accounting policies to those of Duke Energy are not expected to be material. Upon completion of the merger, further review of Progress Energy's accounting policies and financial statements may result in revisions to Progress Energy's policies and classifications to conform to Duke Energy.

The allocation of the preliminary purchase price to the fair values of assets acquired and liabilities assumed includes pro forma adjustments to reflect the fair values of Progress Energy's assets and liabilities. The allocation of the preliminary purchase price is as follows (in millions):

Current Assets	$ 3,300
Property, Plant and Equipment, Net	21,410
Goodwill	7,952
Other Long-Term Assets, excluding Goodwill	5,256
Total Assets	$ 37,918
Current Liabilities, including Current Maturities of Long-Term Debt	(2,892)
Long-Term Liabilities and Preferred Stock	(7,505)
Long-Term Debt	(13,423)
Total Liabilities and Preferred Stock	(23,820)
Total Estimated Purchase Price (in millions)	$ 14,098

Adjustments to Pro Forma Condensed Combined Consolidated Statement of Operations

(b) *Operating Revenues—Regulated Electric* and *Operating Expenses—Fuel Used in Electric Generation and Purchase Power—Regulated.* Primarily reflects the elimination of electric transmission transactions between Duke Energy and Progress Energy that occurred during 2010, as if Duke Energy and Progress Energy were consolidated affiliates during the period.

(c) *Interest Expense.* The net adjustment amount reflects a reduction in interest expense as a result of the amortization of the pro forma fair value adjustment of Progress Energy's parent company debt ($57 million for the year ended December 31, 2010) and the elimination of amortization of deferred costs related to this debt ($8 million for the year ended December 31, 2010). The effect of the fair value adjustment is being amortized

NOTES TO THE UNAUDITED PRO FORMA CONDENSED COMBINED CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

over the remaining life of the individual debt issuances, with the longest amortization period being approximately 28 years. The final fair value determination of the debt will be based on prevailing market interest rates at the completion of the merger and the necessary adjustment will be amortized as a reduction (in the case of a premium to book value) or an increase (in the case of a discount to book value) to interest expense over the remaining life of the individual debt issuances. The portion of the adjustment related to Progress Energy's regulated company debt is offset by a net increase to regulatory assets, and amortization of these adjustments ($84 million for the year ended December 31, 2010) will offset each other with no effect on earnings.

(d) *Income Tax Expense.* The pro forma adjustments include the income tax effects of the pro forma adjustments calculated using an estimated statutory income tax rate of 39%.

(e) *Shares Outstanding.* Reflects the elimination of Progress Energy's common stock and the issuance of approximately 766 million common shares of Duke Energy, using the unadjusted exchange ratio of 2.6125, or 255 million shares using the adjusted exchange ratio of 0.87083. The adjusted exchange ratio of 0.87083 reflects the planned 1-for-3 reverse stock split, as discussed in Note 2. This share issuance does not consider that fractional shares will be paid in cash, as applicable.

The pro forma weighted average number of basic shares outstanding is calculated by adding Duke Energy's weighted average number of basic shares outstanding for the year ended December 31, 2010 (presented without consideration of the planned reverse stock split and also presented to adjust for the planned reverse stock split) and the number of Duke Energy shares expected to be issued to Progress Energy shareholders as a result of the merger (presented without consideration of the planned reverse stock split and also presented to adjust for the planned reverse stock split). The pro forma weighted average number of diluted shares outstanding is calculated by adding Duke Energy's weighted average number of diluted shares outstanding for the year ended December 31, 2010 (presented without consideration of the planned reverse stock split and also presented to adjust for the planned reverse stock split) and the number of Duke Energy shares expected to be issued as a result of the merger (presented without consideration of the planned reverse stock split and also presented to adjust for the planned reverse stock split).

Year Ended December 31, 2010		Adjusted to Reflect Reverse Stock Split
Basic (millions):		
Duke Energy weighted average shares outstanding	1,318	439
Equivalent Progress Energy common shares after exchange*	766	255
Progress Energy employee equity-based awards outstanding	3	1
	2,087	695
Diluted (millions):		
Duke Energy weighted average shares outstanding	1,319	440
Equivalent Progress Energy common shares after exchange*	766	255
Progress Energy employee equity-based awards outstanding	3	1
	2,088	696

* Refer to Note 2 for supporting calculation.

Adjustments to Pro Forma Condensed Combined Consolidated Balance Sheet

(f) *Inventory.* Emission allowances and renewable energy certificates, accounted for as inventory by Progress Energy, have been reclassified as intangible assets within Investments and Other Assets—Other, to conform to Duke Energy's accounting policy (decrease of $7 million).

NOTES TO THE UNAUDITED PRO FORMA CONDENSED COMBINED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(g) *Regulatory Assets and Deferred Debits.* Includes a pro forma net increase to regulatory assets ($9 million in other current assets and $610 million in regulatory assets and deferred debits) to reflect the fair values of debt instruments of Progress Energy's regulated subsidiaries (an increase to current maturities of long-term debt and long-term debt of $9 million and $610 million, respectively, as described in Note 3(m)). An estimate of the future amortization of this regulatory asset fair value adjustment over the next five years, which will offset a portion of the debt fair value adjustment amortization (related to regulated operations) described in Note 3(m), is as follows (in millions):

	Preliminary Annual Amortization, pre-tax
2011	$82
2012	71
2013	51
2014	42
2015	36

Also, regulatory assets and deferred debits were reduced by $21 million to eliminate deferred costs on parent company debt. Additional adjustments to regulatory assets are discussed in Note 3(l) (decrease to regulatory assets of $18 million), and Note 3(n) (increase in regulatory assets of $145 million).

(h) *Goodwill.* Reflects the preliminary estimate of the excess of the purchase price paid over the fair value of Progress Energy's identifiable assets acquired and liabilities assumed. The estimated purchase price of the transaction, based on the closing price of Duke Energy's common stock on the NYSE on March 10, 2011, and the excess purchase price over the fair value of the identifiable net assets acquired is calculated as follows (in millions):

Preliminary purchase price	$14,098
Less: Fair value of net assets acquired	(6,146)
Less: Progress Energy existing goodwill	(3,655)
Pro forma goodwill adjustment	$ 4,297

The goodwill resulting from the merger, based on the preliminary purchase price, is estimated to be $7,952 million.

(i) *Other Long-Term Assets.* Represents the pro forma adjustment to reflect the fair value of Progress Energy's emission allowances and renewable energy certificates at current market prices (increase of $22 million, offset with an increase in regulatory liabilities). Also includes the reclassification of emission allowances and renewable energy certificates from inventory (increase of $7 million).

(j) *Accounts Payable.* Represents the accrual for estimated non-recurring merger transaction costs of $90 million for the combined companies to be incurred after December 31, 2010. Also refer to Note 3(n).

(k) *Deferred Income Taxes.* Primarily represents the estimated net deferred tax asset, based on the estimated post-merger composite domestic statutory tax rate of 39% multiplied by the fair value adjustments recorded to the assets acquired and liabilities assumed, excluding goodwill. This estimated tax rate is different from Duke Energy's effective tax rate for the year ended December 31, 2010, which includes other tax charges or benefits, and does not take into account any historical or possible future tax events that may impact the combined company.

NOTES TO THE UNAUDITED PRO FORMA CONDENSED COMBINED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(l) *Derivative Assets and Liabilities.* Represents a pro forma adjustment to conform Progress Energy's accounting policy of presenting derivative mark-to-market and posted collateral amounts on a gross basis, with Duke Energy's accounting policy to net derivative mark-to-market and posted collateral amounts, when such amounts exist with the same counterparty under a master netting agreement. These adjustments resulted in decreases in various asset and liability accounts ($8 million in accounts receivable, $170 million in other current assets, $18 million in regulatory assets, $8 million in accounts payable, $71 million in other current liabilities, and $117 million other deferred credits and other liabilities).

(m) *Long-Term Debt.* In connection with the merger, Duke Energy will consolidate all of Progress Energy's outstanding debt. The pro forma adjustment represents the fair value adjustments to increase Progress Energy's parent company debt (current maturities of long-term debt and long-term debt of $7 million and $465 million, respectively) and regulated companies' debt (current maturities of long-term debt and long-term debt of $9 million and $610 million, respectively) based on prevailing market prices for the individual debt securities as of December 31, 2010. The final fair value determination of the debt will be based on prevailing market prices at the completion of the merger. The resulting adjustment to the parent debt will be amortized as a reduction (if there continues to be a premium to book value) to interest expense over the remaining life of the debt, as described in Note 3(c). The portion of the adjustment related to Progress Energy's regulated company debt is offset by an increase to regulatory assets, and amortization of these adjustments will offset each other with no effect on earnings, as described in Note 3(g). An estimate of future amortization of the total fair value adjustments over the next five years is as follows (in millions):

	Preliminary Annual Amortization, pre-tax
2011	$133
2012	112
2013	88
2014	72
2015	65

(n) *Shareholders' Equity.* The pro forma balance sheet reflects the elimination of Progress Energy's historical equity balances, including the components of accumulated other comprehensive income/loss ("AOCI") not related to the regulated operations ($38 million, net of tax), the reclassification of certain AOCI amounts related to regulated operations to regulatory assets ($87 million, net of tax, or $145 million, pre-tax), and recognition of approximately 766 million new Duke Energy common shares issued ($1 million of common stock at $0.001 par value and $14,032 million of additional paid-in capital). Amounts in additional paid-in capital also include $65 million to reflect the portion of the purchase price related to the total estimated fair value of stock compensation awards outstanding as of December 31, 2010, excluding the value associated with employee service yet to be rendered. As discussed in Note 2 and Note 3(e), the exchange ratio will be adjusted proportionately to reflect a 1-for-3 reverse stock split with respect to the issued and outstanding Duke Energy common stock that Duke Energy plans to implement prior to, and is conditioned on, the completion of the merger. The reverse stock split will not change the amount of total shareholder's equity resulting from the merger.

Additionally, retained earnings were reduced by $55 million (net of tax, with the tax benefit reflected as an increase in other current assets and the pre-tax amount reflected in accounts payable) for estimated merger transaction costs of the combined companies directly related to the merger that would be expensed. Estimated merger transaction costs have been excluded from the pro forma income statement as they reflect non-recurring charges directly related to the merger.