

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF DUKE ENERGY KENTUCKY,)	CASE NO.
INC. FOR DECLARATORY ORDER)	2015-00413

COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION
TO DUKE ENERGY KENTUCKY, INC.

Duke Energy Kentucky, Inc. ("Duke Kentucky"), pursuant to 807 KAR 5:001, is to file with the Commission the original and ten copies of the following information, with a copy to all parties of record. The information requested herein is due within ten days of the date of this request. Responses to requests for information shall be appropriately bound, tabbed and indexed. Each response shall include the name of the witness responsible for responding to the questions related to the information provided.

Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

Duke Kentucky shall make timely amendment to any prior response if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request to which Duke Kentucky fails or refuses to furnish all or part of the requested information, it shall

provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention should be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request. When filing a paper containing personal information, Duke Kentucky shall, in accordance with 807 KAR 5:001, Section 4(10), encrypt or redact the paper so that personal information cannot be read.

1. Refer to Duke Kentucky's Application, numbered paragraph 9, which states that Duke Energy Corp.'s proposed acquisition of Piedmont Natural Gas Company, Inc. ("Piedmont") will not impact the corporate structure or local operations of Duke Kentucky, and that Duke Kentucky "will continue to maintain its current levels of local leadership following the Transaction, including local oversight of all Ohio and Kentucky natural gas utility operations," and that there will be "at least one regional Duke Energy Kentucky/Duke Energy Ohio executive who will maintain responsibility for Midwest natural gas operations" and will report to "the new Duke Energy Corp. executive responsible for all natural gas operations." Refer also to Duke Kentucky's Application, numbered paragraph 8, which states that "Duke Energy Corp. has also agreed to offer to retain Piedmont's existing executive operating management team in order to manage and facilitate best practices within Duke Energy Corp.'s utility subsidiaries' expanded natural gas operations."

a. Describe in detail the current corporate structure for Duke Kentucky's local and regional leadership in regards to supervision of Duke Kentucky's natural gas operation.

b. Describe in detail Duke Energy Corp.'s corporate structure in regards to oversight of Duke Kentucky's natural gas operations.

c. Describe in detail how the corporate structure for Duke Kentucky's local and regional leadership will change in regards to supervision of Duke Kentucky's natural gas operation once the proposed acquisition is consummated.

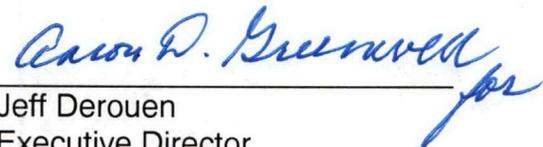
d. Describe in detail how Duke Energy Corp.'s corporate structure with change in regards to supervision of Duke Kentucky's natural gas operation once the proposed acquisition is consummated.

2. Refer to Appendix B of the August 2, 2011 Order in Case No. 2011-00124,¹ attached as an appendix to this request, which contains regulatory commitments entered into by Duke Energy Corp., among others, in connection with Commission approval of Duke Energy Corp.'s merger with Progress Energy, Inc.

a. In Commitment Number 34, Duke Energy Corp. committed that Duke Kentucky's president will reside within Kentucky or the Cincinnati metropolitan area. State whether Duke Kentucky is in compliance with Commitment Number 34, and explain whether and how the proposed acquisition of Piedmont will affect Duke Kentucky's compliance with this regulatory commitment.

¹ Case No. 2011-00124, *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.* (Ky. PSC Aug. 2, 2011).

b. In Commitment Number 48, Duke Energy Corp. committed that, for as long as Duke Energy Corp.'s operations include regulated utility service in Kentucky, its Board of Directors will include at least one non-employee member who is a customer of either Duke Kentucky, Duke Ohio, or Duke Energy Indiana. State whether Duke Energy Corp. is in compliance with Commitment Number 48, identify the Director, and explain whether and how the proposed acquisition of Piedmont will affect Duke Energy Corp.'s compliance with this regulatory commitment.



Jeff Derouen
Executive Director
Public Service Commission
P.O. Box 615
Frankfort, KY 40602

DATED JAN 08 2016

cc: Parties of Record

APPENDIX

APPENDIX TO A REQUEST FOR INFORMATION OF THE KENTUCKY
PUBLIC SERVICE COMMISSION IN CASE NO. 2015-00413 **JAN 08 2016**

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2011-00124 DATED **AUG 02 2011**

REGULATORY COMMITMENTS

1. Joint Applicants commit to make available to the Kentucky Public Service Commission ("Commission"), for inspection and examination at such time and place as the Commission designates, the books and records of Duke Energy Kentucky, Inc. ("Duke Energy Kentucky") and the books and records of any subsidiary of Duke Energy Corporation ("Duke Energy") in which Duke Energy holds a controlling interest, to the extent necessary to verify transactions with Duke Energy Kentucky. Joint Applicants commit that the books and records of Duke Energy Kentucky, Duke Energy Ohio, Inc. ("Duke Energy Ohio") and Cinergy Corp. ("Cinergy") will be located in Cincinnati, Ohio, Plainfield, Indiana, or Charlotte, North Carolina.

2. Joint Applicants commit that Duke Energy Kentucky shall not incur any additional indebtedness, issue any additional securities, or pledge any assets to finance any part of Duke Energy's merger with Progress Energy, Inc. ("Progress Energy"). Duke Energy Kentucky will loan and borrow money from affiliates only under the terms of, and only with the parties to, the Utility Money Pool Agreement that is approved as part of the Commission's review of the proposed merger transaction. Although Duke Energy and Progress Energy will be parties to the Utility Money Pool Agreement, Duke Energy Kentucky will not make money pool loans or otherwise make loans to Duke Energy, Progress Energy or any affiliate that is not a party to the Utility Money Pool Agreement.

3. The payment for Progress Energy's stock shall be recorded on Duke Energy's books, and shall be excluded from the books of Duke Energy Kentucky for retail ratemaking purposes and for accounting purposes, unless inconsistent with U.S. Securities and Exchange Commission ("SEC") principles.

4. Although there is no "push down" accounting applicable to Duke Energy Kentucky in this merger transaction, any acquisition premium paid by Duke Energy for the Progress Energy stock shall not be "pushed down" to Duke Energy Kentucky for retail ratemaking purposes or for accounting purposes, unless inconsistent with SEC principles.

5. No change in control payments will be allocated to the retail customers of Duke Energy Kentucky for retail ratemaking purposes or for accounting purposes, unless inconsistent with SEC principles.

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

7. Joint Applicants commit that they will not achieve merger savings at the expense of degradation in the adequacy and reliability of Duke Energy Kentucky's retail gas and electric service.

8. Joint Applicants commit that Duke Energy Kentucky shall continue to maintain a substantial level of involvement in community activities, through annual charitable and other contributions.

9. Joint Applicants commit to maintaining Duke Energy Kentucky's proactive stance on developing economic opportunities in Kentucky and supporting economic development activities throughout Duke Energy Kentucky's service territory.

10. Joint Applicants commit that the accounting and reporting system used by Duke Energy Kentucky will be adequate to provide assurance that directly assignable utility and non-utility costs are accounted for properly and that reports on the utility and non-utility operations are accurately presented.

11. Joint Applicants commit to implement and maintain cost allocation procedures that will accomplish the objective of preventing cross-subsidization, and be prepared to fully disclose all allocated costs, the portion allocated to Duke Energy Kentucky, complete details of the allocation methods, and justification for the amount and the method. Joint Applicants commit to give the Commission 30 days' advance notice of any changes in cost allocation methods set forth in the Service Company Utility Service Agreement, the Operating Company/Non-Utility Companies Service Agreements and the Operating Companies Service Agreement approved as part of the merger transaction.

12. Joint Applicants commit to periodic comprehensive third-party independent audits of the affiliate transactions under the affiliate agreements approved as part of the merger transaction. Such audits will be conducted no less often than every two years, and the reports will be filed with the Commission and the Attorney

General. Duke Energy Kentucky shall file the audit report, if possible, when Duke Energy Kentucky files its annual report. The audits will continue for six years or until three service company audits are performed, in the event more than six years are needed to perform three audits.

13. Duke Energy Kentucky commits to protect against cross-subsidization in transactions with affiliates.

14. Duke Energy Kentucky acknowledges that, for ratemaking purposes, the Commission has jurisdiction over its capital structure, financing and cost of capital and that the Commission will continue to exercise such jurisdiction.

15. Joint Applicants commit that the merger will have no adverse impact on the base rates or the operation of the fuel adjustment clause, gas cost recovery and demand side management clause of Duke Energy Kentucky.

16. In future rate cases, Duke Energy Kentucky will not seek a higher rate or return on equity than would have been sought if the merger transaction had not occurred.

17. The accounting and ratemaking treatments of Duke Energy Kentucky's excess accumulated deferred income taxes will not be affected by the merger of Duke Energy and Progress Energy.

18. Duke Energy and Progress Energy commit 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, with state and local governments, and with other community interests, including, but not limited to, meetings

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

19. Joint Applicants commit that, for a period of five years following the merger, Duke Energy Kentucky will advise the Commission at least annually on the adoption and implementation of best practices at Duke Energy Kentucky following the completion of the merger between Duke Energy and Progress Energy.

20. Joint Applicants commit 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.

21. Duke Energy Kentucky commits to notify the Commission subsequent to its board 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.

22. Joint Applicants commit that Duke Energy Kentucky will pay dividends only out of retained earnings. Applicants further commit to maintain a capital structure for Duke Energy Kentucky which contains a minimum of thirty-five (35) percent equity.

23. Joint Applicants commit that when Duke Energy Kentucky files its monthly reports with the Commission, it shall include with that filing a schedule of the current capital structure and a schedule of any capital contributions made to Duke Energy Kentucky in the applicable month. The monthly reports shall also include separate gas and electric income statements and a combined gas and electric balance sheet for each of the eight months in which it does not make quarterly filings.

24. The Joint Applicants commit that, to the extent applicable, practicable and reasonable, Duke Energy Kentucky will abide by regulatory conditions required by other jurisdictions in their approval of the merger between Duke Energy and Progress Energy, unless those regulatory conditions are adverse to the interests of Duke Energy Kentucky's ratepayers.

25. Joint Applicants commit that customers will experience no adverse change in utility service due to the consolidation of Duke Energy Business Services, LLC, and Progress Energy Services Company, LLC.

26. Joint Applicants commit to: a) adequately fund and maintain Duke Energy Kentucky's transmission and distribution system; b) comply with all Commission regulations and statutes; and c) supply Duke Energy Kentucky's service needs.

27. When implementing best practices, Joint Applicants commit to taking into full consideration the related impacts on the levels of customer service and customer satisfaction, including any negative impacts resulting from workforce reductions.

28. Joint Applicants commit to minimize, to the extent possible, any negative impacts on levels of customer service and customer satisfaction resulting from workforce reductions.

29. Duke Energy Kentucky commits to notify the Commission in writing thirty (30) days prior to any material changes in its participation in funding for research and development. Material changes include, but are not limited to, any change in funding equal to or greater than twenty-five (25) percent of Duke Energy Kentucky's previous year's budget for research and development. The written notification will include an explanation of and the reasons for the change in policy.

30. Joint Applicants commit to dedicating Duke Energy Kentucky's existing and future rate-based generation facilities to the first call requirements of its existing and future native load customers.

31. Joint Applicants commit that within sixty (60) days of the closing of any merger, disposition or acquisition involving Duke Energy or a subsidiary thereof, in the United States that is exempted under KRS 278.020(5) and KRS 278.020(6), Duke Energy Kentucky will file with the Commission a notice setting forth an analysis of any changes and implications for Duke Energy Kentucky's customers.

32. Joint Applicants commit that Duke Energy Ohio will hold one hundred (100) percent of the common stock of Duke Energy Kentucky and that Duke Energy Ohio will not transfer any of that stock without prior notice to the Commission, even if the transfer is exempted under KRS 278.020(5) and KRS 278.020(6).

33. Joint Applicants commit that when budgets, investments, dividend policies, projects and business plans are being considered by Duke Energy for the Kentucky business, at a minimum, the chief executive officer of Duke Energy Kentucky or his or her designee must participate on a real-time basis to offer a Kentucky perspective to the decision and be permitted to participate in any debates on the issues on a real-time basis.

34. Joint Applicants commit that Duke Energy Kentucky's president will reside within Kentucky or the Cincinnati metropolitan area.

35. Joint Applicants commit that managerial talent will not be diverted from Duke Energy Kentucky to Duke Energy or any of its affiliates in a manner which threatens the continued efficient operation of Duke Energy Kentucky.

36. Joint Applicants commit that Duke Energy Kentucky and Duke Energy will file copies of the FERC Form 1 and FERC Form 2 with the Commission. If the Federal Energy Regulatory Commission ("FERC") ever does not require the aforementioned reports to be filed, then Duke Energy Kentucky will meet with the Commission to discuss and reach agreement on alternative reporting to meet the Commission's reasonable data needs. Joint Applicants also commit that Duke Energy, Cinergy and Duke Energy Ohio will file copies of their annual reports with the Commission.

37. Duke Energy Kentucky is committed to providing 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. Duke Energy Kentucky will continue to offer a variety of service options that provide accessibility and convenience, as well as consistent customer service experience, regardless of the service channel.

38. Duke Energy Kentucky will continue to have qualified and skilled customer service representatives available twenty-four (24) hours a day to respond to power outage calls. Customers will also have access to Duke Energy Kentucky's online service and automated telephone service, twenty-four (24) hours a day, to perform routine interactions or to obtain general billing and customer information.

39. Duke Energy Kentucky will continue to staff qualified and skilled customer service representatives during core business hours to handle all types of customers' inquiries, and will continue its commitment to a Quality Assurance program.

40. Duke Energy Kentucky will continue to survey its customers regarding their satisfaction and will integrate this information into its processes, programs, and services that impact its customers.

41. Before Duke Energy Kentucky can issue long-term debt, it must receive approval of the Commission.

42. Duke Energy Kentucky will not guarantee the credit of any of its affiliates unless specifically approved by the Commission.

43. Joint Applicants commit that all debt of Duke Energy and Progress Energy will be non-recourse to Duke Energy Kentucky.

44. Joint Applicants commit that in the event the merger between Duke Energy and Progress Energy is not completed and Duke Energy makes a termination payment to Progress Energy or receives a termination payment from Progress Energy pursuant to the January 8, 2011 Merger Agreement identified in the Joint Applicants' Application, then neither the cost of the termination payment nor the receipt of a termination payment would be allocated to Duke Energy Kentucky's books except if required for SEC reporting. Additionally, if the merger is not completed, Duke Energy Kentucky's customers will not bear any costs of the failed transaction.

45. Duke Energy Kentucky commits to follow Kentucky law with respect to the pricing for inter-company transactions not otherwise covered by Commission-approved service agreements and will not presume to preclude the Commission from asserting any pricing methodology in a future proceeding at FERC.

46. The Joint Applicants commit to review with Duke Energy Kentucky whether policies more sympathetic to low-income customers would be more appropriate.

47. Duke Energy Kentucky commits to continue aggressively pursuing cost-effective DSM and energy efficiency programs and commits to deploy such programs, using industry best practices, in Kentucky.

48. Joint Applicants commit that for as long as Duke's post-merger operations include regulated utility service in Kentucky, Duke's post-merger Board of Directors will include at least one non-employee member who is a customer of either Duke Kentucky, Duke Ohio, or Duke Energy Indiana.

49. No costs to achieve the merger transaction will be recovered from Duke Kentucky ratepayers.

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