

Matthew G. Bevin  
Governor

Charles G. Snavely  
Secretary  
Energy and Environment Cabinet



Commonwealth of Kentucky  
**Public Service Commission**  
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James W. Gardner  
Chairman

Daniel E. Logsdon Jr.  
Vice Chairman

J. Roger Thomas  
Commissioner

February 3, 2016

**PARTIES OF RECORD**

Re: Case No. 2015-00413

Attached is a copy of a memorandum which is being filed in the record of the above-referenced case. If you have any comments you would like to make regarding the contents of the memorandum, please do so within five days of receipt of this letter. Any questions regarding this memorandum should be directed to Nancy Vinsel, Commission Staff Attorney, at (502) 782-2582.

Sincerely,

A handwritten signature in blue ink, appearing to read "Jeff Derbuen".

Jeff Derbuen  
Executive Director

NV/ph

Attachment

## INTRA-AGENCY MEMORANDUM

### KENTUCKY PUBLIC SERVICE COMMISSION

**TO:** Case File No. 2015-00413

**FROM:** Nancy J. Vinsel, Staff Attorney

**DATE:** February 3, 2016

**RE:** Informal Conference of February 2, 2016

Pursuant to a Staff Notice issued on January 29, 2016, an informal conference ("IC") was conducted at the Commission's offices in Frankfort, Kentucky on February 2, 2016. Attached is a copy of the attendance roster.

The purpose of the IC was to clarify certain issues in this case. Staff asked about the organizational structure of the natural gas operation and what impact, if any, there would be on Duke Energy Kentucky, Inc. ("Duke Kentucky") if the leader of the Midwest Delivery Operations reports directly to Franklin Yoho in a newly-defined position rather than the current structure of reporting directly to Doug Esamann, Executive Vice President, Midwest and Florida regions. Representatives of Duke Kentucky and Duke Energy Corporation ("Duke Energy") explained that Mr. Yoho's position would be on the same organization level as Mr. Esamann, both reporting directly to Lynn Good, Duke Energy Chairman, President, and CEO. The natural gas operational responsibility currently held by Mr. Esamann will be carved out and shifted to Mr. Yoho. Therefore, there should be no impact upon Duke Kentucky.

Staff requested that, once the transaction is consummated and the organization structure finalized, Duke Kentucky make an informational filing reflecting the post-transaction organizational structure similar to that filed in Duke Kentucky's response to Staff's First Request for Information, Item 1. Duke Kentucky and Duke Energy representatives agreed to make such a filing.

Staff noted that Moody's has downgraded Duke Energy's credit rating, in part due to the proposed acquisition of Piedmont Natural Gas Company, Inc. Staff inquired whether Duke Kentucky would agree to make a commitment similar to the one it made in Case No. 2011-00124<sup>1</sup> that, in future rate cases, Duke Kentucky will not seek a higher rate or return on equity than would have been sought if the acquisition had not occurred. Representatives of Duke Kentucky and Duke Energy Corp. agreed to that commitment.

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<sup>1</sup> 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 Oct. 28, 2011).

A discussion of the next steps ensued. Staff recommended that Duke Kentucky submit a filing which would set forth its agreement to make an informational filing of its organizational structure once the proposed transaction and organizational structure are finalized, and its commitment that the Piedmont acquisition will not cause Duke Kentucky to seek a higher rate or return on equity. Further, Staff recommended that Duke Kentucky also submit a filing requesting that a decision be made on the evidentiary record without the need for a formal hearing. Duke Kentucky representatives agreed to make the necessary filings.

There being no further discussion, the IC was then adjourned.

cc: Parties of Record

Attachments

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF DUKE ENERGY KENTUCKY,  
INC. FOR DECLARATORY ORDER

) CASE NO.  
) 2015-00413

February 2, 2016

Please sign in:

NAME

REPRESENTING

Nancy Vinsel

PSC - Legal

GARY GLOVER

PSC ENGINEERING

VAN NEEDHAM

DUKE ENERGY

Rocco D'Ascenzo

Duke Energy

David Samford

David Samford - Duke Energy

Virginia Tracy

PSC - Legal

Quang D. Uyng

PSC

RICHARD RAFF

PSC - LEGAL

Kodwo Ghartey - Tagoe

Duke Energy - Telephonic

Julie Janson

Duke Energy - Telephonic

Catherine Stemprien

Duke Energy - Telephonic

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COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

JOINT APPLICATION OF DUKE ENERGY	)	
CORPORATION, CINERGY CORP., DUKE ENERGY	)	
OHIO, INC., DUKE ENERGY KENTUCKY, INC.,	)	CASE NO.
DIAMOND ACQUISITION CORPORATION, AND	)	2011-00124
PROGRESS ENERGY, INC., FOR APPROVAL OF	)	
THE INDIRECT TRANSFER OF CONTROL OF	)	
DUKE ENERGY KENTUCKY, INC.	)	

O R D E R

On April 4, 2011, Duke Energy Corporation ("Duke"), Cinergy Corp. ("Cinergy"), Duke Energy Ohio, Inc. ("Duke Ohio"), Duke Energy Kentucky, Inc. ("Duke Kentucky"), Diamond Acquisition Corporation ("Diamond"), and Progress Energy, Inc. ("Progress") (collectively "Applicants") tendered for filing a joint application pursuant to KRS 278.020(5) and 278.020(6) for approval of the indirect transfer of ownership and control of Duke Kentucky in accordance with the terms of a January 8, 2011 Agreement and Plan of Merger. The application also requested that the Commission (1) approve five amended affiliate agreements, (2) find that the Applicants other than Duke Kentucky and other intermediates or affiliates between Duke and Duke Kentucky are not utilities subject to our jurisdiction, (3) find that KRS 278.218 and 807 KAR 5:011, Section 11, do not apply to the proposed transaction, and (4) provide notice to the Federal Energy Regulatory Commission ("FERC") and other applicable federal or state regulatory agencies that we have approved the proposed transaction.

Duke, an energy and utility holding company with its headquarters in Charlotte, North Carolina, is one of the largest utility companies in the United States. It owns or

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

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