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PUBLIC SERVICE
COMMISSION

VIA OVERNIGHT DELIVERY

February 13, 2016

Mr. Jeff Cline
Public Service Commission
Commonwealth of Kentucky
211 Sower Boulevard
Frankfort, Kentucky 40602-0615

Re: Case No. 2011-00124
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.

Dear Mr. Cline:

Enclosed please find Duke Energy Kentucky's financial statements for the end of December 2016, per order by the Commission in the above-referenced case.

Please file-stamp the extra copy of this letter and return to me in the enclosed return-addressed envelope.

If you have any questions regarding the financial statements, please contact Mai Xuan Zinchenko at 980-373-2167.

Sincerely,

A handwritten signature in blue ink, appearing to read "Rocco D'Ascenzo", with a long horizontal flourish extending to the right.

Rocco D'Ascenzo
Associate General Counsel

Enclosures

Duke Energy Kentucky, Inc.

Monthly Supplemental Financial Statements

Balance Sheet - Page 1

As of December 31, 2016

(Unaudited)

	Electric Jurisdictional	Gas Jurisdictional	Non- Jurisdictional	Total Company
Assets				
Utility Plant in Service	1,574,262,424	466,421,210	11,700,480	2,052,384,114
Construction Work in Progress	53,521,455	10,311,517	-	63,832,972
Less: Accumulated Depreciation	(835,886,839)	(157,907,879)	(7,213,320)	(1,001,008,038)
Net Utility Plant	<u>791,897,040</u>	<u>318,824,848</u>	<u>4,487,160</u>	<u>1,115,209,048</u>
Nonutility Property	-	-	2,206	2,206
Other Investments	-	-	1,500	1,500
Other Special Funds	-	-	1,715,645	1,715,645
Long Term Portion of Derivative Instrument Assets	-	-	954,187	954,187
Total Other Property & Investments	<u>-</u>	<u>-</u>	<u>2,673,538</u>	<u>2,673,538</u>
Cash	4,891,753	2,008,370	(366,287)	6,533,836
Working Funds	-	-	-	-
Temporary Cash Investments	-	-	-	-
Customer Accounts Receivable	733,027	196,093	-	929,120
Other Accounts Receivable	654,897	268,876	(49,038)	874,735
Less: Provision for Uncollectibles	(111,083)	(29,716)	-	(140,799)
Notes Receivable from Assoc. Co.	13,768,047	5,652,645	(1,030,930)	18,389,762
Accounts Receivable from Assoc. Co.	3,280,721	1,346,941	(245,655)	4,382,007
Fuel Stock	20,893,849	1,300,035	2,414,351	24,608,235
Gas Stored Underground Inventory	-	3,412,415	-	3,412,415
Plant Materials & Operating Supplies	20,212,854	467,039	-	20,679,893
Other Materials & Supplies	-	-	-	-
Stores Expense Undistributed	328,579	7,592	-	336,171
Prepayments	333,335	157,803	-	491,138
Emission Allowances	50,652	-	-	50,652
Derivative Instrument Assets	3,962,367	-	-	3,962,367
Interest & Dividends Receivable	-	-	-	-
Misc Current and Accrued Assets	14,017,712	-	-	14,017,712
Rents Receivable	2,500	-	-	2,500
Total Current & Accrued Assets	<u>83,019,210</u>	<u>14,788,093</u>	<u>722,441</u>	<u>98,529,744</u>
Unamortized Debt Expense	1,300,179	533,805	(97,355)	1,736,629
Other Regulatory Assets	65,650,402	5,368,300	-	71,018,702
Preliminary Survey & Investigation	107,342	44,070	(8,038)	143,374
Clearing Accounts	(12)	(4)	-	(16)
Temporary Facilities	-	-	-	-
Miscellaneous Deferred Debits	22,340,980	9,172,371	(1,672,858)	29,840,493
Unamortized Loss on Reacquired Debt	1,089,259	447,209	(81,562)	1,454,906
Accumulated Deferred Income Taxes	28,530,739	3,471,889	-	32,002,628
Unrecovered Purchased Gas Costs	-	1,627,916	-	1,627,916
Total Deferred Debits	<u>119,018,889</u>	<u>20,665,556</u>	<u>(1,859,813)</u>	<u>137,824,632</u>
TOTAL ASSETS AND OTHER DEBITS	<u><u>993,935,139</u></u>	<u><u>354,278,497</u></u>	<u><u>6,023,326</u></u>	<u><u>1,354,236,962</u></u>

Duke Energy Kentucky, Inc.

Monthly Supplemental Financial Statements
Balance Sheet - Page 2
As of December 31, 2016
(Unaudited)

	Electric Jurisdictional	Gas Jurisdictional	Non- Jurisdictional	Total Company
Proprietary Capital				
Common Stock Issued	6,573,407	2,698,795	(492,207)	8,779,995
Premium on Capital Stock	14,104,342	5,790,715	(1,056,111)	18,838,946
Other Paid-in Capital Stock	111,295,167	45,693,632	(8,333,610)	148,655,189
Retained Earnings	231,728,565	45,589,589	(16,576,785)	260,741,369
Accumulated Other Comprehensive Income	-	-	-	-
Total Proprietary Capital	363,701,481	99,772,731	(26,458,713)	437,015,499
Liabilities				
Bonds	252,095,529	103,500,994	(18,876,523)	336,720,000
Advances from Associated Companies	18,717,000	7,684,500	(1,401,500)	25,000,000
Less: Unamortized Discount on Long-Term Debt	(253,015)	(103,878)	18,945	(337,948)
Total Long-Term Debt	270,559,514	111,081,616	(20,259,078)	361,382,052
Obligations Under Capital Leases - Noncurrent	1,039,002	426,569	-	1,465,571
Asset Retirement Obligation	46,965,232	5,856,854	-	52,822,086
Long-Term Portion of Derivative Instrument Liabilities	3,929,538	1,181,126	-	5,110,664
Accum. Misc. Operating Provisions	11,469,729	3,447,527	-	14,917,256
Total Other Noncurrent Liabilities	63,403,501	10,912,076	-	74,315,577
Accounts Payable	23,711,465	9,735,040	(1,775,478)	31,671,027
Notes Payable to Assoc. Co.	14,716,054	6,041,861	(1,101,915)	19,656,000
Accounts Payable to Assoc. Co.	9,414,839	3,865,380	(704,969)	12,575,250
Customer Deposits	6,140,185	4,129,400	-	10,269,585
Taxes Accrued	(3,287,777)	14,330,067	60,678	11,102,968
Interest Accrued	3,164,941	1,299,407	(236,986)	4,227,362
Tax Collections Payable	1,178,262	586,274	5,290	1,769,826
Misc. Current & Accrued Liabilities	13,019,489	3,913,348	-	16,932,837
Obligations Under Capital Leases - Current	486,553	199,757	-	686,310
Derivative Instrument Liabilities	4,569,850	1,373,588	-	5,943,438
Less: Long-Term Portion of Derivative Instrument Liabilities	(3,929,538)	(1,181,126)	-	(5,110,664)
Total Current & Accrued Liabilities	69,184,323	44,292,996	(3,753,380)	109,723,939
Customer Advances for Construction	-	1,434,379	-	1,434,379
Accum. Deferred Investment Tax Credits	(2,792,237)	638,181	2,839,403	685,347
Other Deferred Credits	15,206,933	4,839,116	-	20,046,049
Other Regulatory Liabilities	4,006,765	1,979,313	-	5,986,078
Accumulated Deferred Income Taxes	210,664,859	79,328,089	53,655,094	343,648,042
Total Deferred Credits	227,086,320	88,219,078	56,494,497	371,799,895
TOTAL PROPRIETARY CAPITAL, LIABILITIES, AND OTHER DEFERRED CREDITS	993,935,139	354,278,497	6,023,326	1,354,236,962

Duke Energy Kentucky, Inc.

Monthly Supplemental Financial Statements
Income Statement
For the 12 Months Ended December 31, 2016
(Unaudited)

	Electric	Gas	Non- Jurisdictional	Total Company
<u>Revenues</u>				
Residential Sales	130,486,547	62,214,654	-	192,701,201
Commercial Sales	115,657,305	20,343,213	-	136,000,518
Industrial Sales	53,901,107	1,346,659	-	55,247,766
Sales to Public Authorities	22,007,137	2,134,737	-	24,141,874
Public Street & Highway Lighting	1,660,564	932	-	1,661,496
Inter-Departmental Sales	55,282	9,411	-	64,693
Misc. Service Revenues	(1,242,171)	32,044	520,393	(689,734)
Revenues from Transportation	-	6,406,633	-	6,406,633
Sales for Resale	19,735,488	-	-	19,735,488
Rents from Property	974,165	-	-	974,382
Other Revenues	4,450,270	1,193	-	4,451,463
Total Revenues	347,685,694	92,489,693	520,393	440,695,780
<u>Operating Expenses</u>				
Operation Expense	216,123,472	53,588,493	362,728	270,074,693
Maintenance Expense	31,608,037	1,852,603	19,350	33,479,990
Depreciation Expense	31,279,634	13,725,706	-	45,005,340
Amortization and Depletion	1,784,095	831,341	-	2,615,436
Taxes Other than Income Taxes	9,677,833	4,815,447	43,450	14,536,730
Income Taxes - Federal & Other	(12,618,780)	8,002,932	10,827	(4,605,021)
Provision for Deferred Income Taxes - Net	25,196,537	(4,465,055)	805,957	21,537,439
Investment Tax Credit Adjustment	-	109	(109)	-
Total Operating Expenses	303,050,828	78,351,576	1,242,203	382,644,607
NET OPERATING INCOME	44,634,866	14,138,117	(721,810)	58,051,173
<u>Other Income & Deductions</u>				
Revenues from Merchandising, Jobbing and Contract Work	-	-	660,081	660,081
Less: Expense of Merchandising, Jobbing and Contract Work	-	-	(239,363)	(239,363)
Revenues from Nonutility Operations	-	-	(34,547)	(34,547)
Interest & Dividend Income	-	-	990,145	990,145
AFUDC	1,038,401	293,820	-	1,332,221
Gain on Disposition of Property	-	-	43,381	43,381
Loss on Disposition of Property	-	-	(15,685)	(15,685)
Misc. Income Deductions	-	-	(2,036,242)	(2,036,242)
Taxes Other than Income Taxes	-	-	(100,069)	(100,069)
Income Taxes - Federal & Other	-	-	(3,621,929)	(3,621,929)
Provision for Deferred Income Taxes - Net	-	-	3,507,187	3,507,187
Total Other Income & Deductions	1,038,401	293,820	(847,041)	485,180
<u>Interest Charges</u>				
Interest on Long Term Debt	(10,301,829)	(4,229,545)	771,385	(13,759,989)
Amortization of Debt Disc. And Expense	(560,246)	(230,016)	41,950	(748,312)
Amortization of Loss on Reacquired Debt	(199,504)	(81,909)	14,939	(266,474)
Interest on Debt to Assoc. Co.	(171,527)	(70,423)	12,844	(229,106)
Other Interest Expense	(1,112,514)	(456,757)	83,303	(1,485,968)
Less: Allowance for Borrowed Fund Used During Construction - Credit	437,011	100,423	-	537,434
Net interest Charges	(11,908,609)	(4,968,227)	924,421	(15,952,415)
Extraordinary Items after Taxes	-	-	-	-
NET INCOME	33,764,658	9,463,710	(644,430)	42,583,938

Duke Energy Kentucky, Inc.

Monthly Supplemental Financial Statements
Capital Structure
December 31, 2016
(Unaudited)

	Actual Nov-16	Activity	Actual Dec-16
Liabilities and Shareholders' Equity			
Non-Current Liabilities			
* Long-term debt	334,896,994	(2,599)	334,894,395
Advances from Associated Companies	25,000,000	-	25,000,000
Obligations under Capital Lease-Noncurrent	1,525,177	(59,606)	1,465,571
Total Long-term debt	361,422,171	(62,205)	361,359,966
Common Stock Equity			
Common Stock	8,779,995	-	8,779,995
Premium On Capital Stock Common	18,838,946	-	18,838,946
Donations Received From Stockholders	143,211,362	-	143,211,362
Donations Received From Stockholders Tax	5,600,021	-	5,600,021
Other Miscellaneous PIC	(156,194)	-	(156,194)
Miscellaneous PIC	-	-	-
Unappropriated Retained Earnings Balance	218,157,431	-	218,157,431
Unappropriated Retained Earnings - Current Year Net Income	40,407,750	2,176,188	42,583,938
Total Common Stock Equity	434,839,311	2,176,188	437,015,499
TOTAL CAPITALIZATION	796,261,482	2,113,983	798,375,465

NOTE:

* "Long-Term Debt" under Non-Current Liabilities does not include current portion of Long-Term Debt, Unamortized Discount, nor Unamortized Debt Expense.