



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

Rocco O. D'Ascenzo
Senior Counsel

VIA OVERNIGHT DELIVERY

April 8, 2010

Mr. Jeff Derouen
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
P.O. Box 615
Frankfort, Kentucky 40602-0615

RECEIVED

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**PUBLIC SERVICE
COMMISSION**

Re: In the Matter of the Joint Application of Duke Energy Corporation, Duke Energy Holding Corp., Deer Acquisition Corp., Cougar Acquisition Corp., Cinergy Corp., The Cincinnati Gas & Electric Company and The Union Light, Heat and Power Company for Approval of a Transfer and Acquisition of Control, Case No. 2005-00228.

Dear Mr. Derouen:

In the Settlement Agreement in the above-referenced case, Duke Energy Kentucky, Inc. (Duke Energy Kentucky) made several merger commitments. Duke Energy Kentucky regularly monitors these commitments to ensure compliance. Duke Energy Kentucky reports the following information regarding these commitments. Please file stamp the two copies of this letter enclosed herein and return in the enclosed return-addressed envelope.

Commitment #6

[DE-Kentucky] commits to make an annual filing with the Commission that sets forth [DE-Kentucky's] CAIDI, SAIDI and SAIFI data for the previous year to enable the Commission to monitor [DE-Kentucky's] commitment that reliability and service quality will not materially degrade as a result of the merger. [DE-Kentucky] commits to report

this data with and without the impact of major storms, or other major impacts, and to meet with, the Commission upon request to review the data in such reports.

Duke Energy Kentucky Response:

Pursuant to Case No. 2006-00494 Duke Energy Kentucky now includes this information as part of its Annual Vegetation Management & Reliability Report filed contemporaneously with its March 31 Annual Report. Duke Energy Kentucky provided the information regarding 2009 reliability performance on or about March 26, 2010.

Commitment #7

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

Duke Energy Kentucky Response:

See above explanation regarding the number of sustained outages. Duke Energy's CEO met with members of the Kentucky Public Service Commission on October 23, 2009. In attendance at the meeting from Duke Energy were Julia S. Janson, President of Duke Energy Kentucky, James E. Rogers, Chairman, President and CEO of Duke Energy Corp, John J. Finnigan, Vice President Government and Regulatory Affairs and Michael A. Gribler, General Manager, State Regulatory Affairs.

Commitment # 12

Applicants commit to implement and maintain cost allocation procedures that will accomplish the objective of preventing cross-subsidization, and be prepared to fully disclose all allocated costs, the portion allocated to ULH&P, complete details of the allocation methods, and justification for the amount and the method. Applicants commit to give the Commission 30 days' advance notice of any changes in cost allocation methods set forth in the Service Company Utility Service Agreement, the Operating Company / NonUtility Companies Services Agreements and the Operating Companies Service Agreement approved as part of the Duke / Cinergy merger proceeding. Applicants commit to periodic comprehensive third-party independent audits of the affiliate transactions under the affiliate agreements approved in the Duke / Cinergy merger proceeding. Such audits will be conducted no less often than every two years, and reports will be filed with the Commission and the Attorney General. ULH&P shall file the audit report, if possible, when ULH&P files its annual report. Applicants may request a change to the frequency of the audit reports in future years, subject to agreement by the Commission and the Attorney General.

Duke Energy Kentucky Response:

The first full year of financial data following the merger is calendar year 2007. The Liberty Consulting Group report of the Duke Energy Kentucky audit of merger-related agreements report was issued on May 19, 2009. The public version was filed with the Commission and the Attorney General on May 26, 2009. The confidential version of the audit report was filed under seal with the Commission also on May 26, 2009.

We have implemented the service company overhead loader as outlined in the DE Carolinas report and reemphasized in the Indiana/Kentucky reports. All the existing allocations basically stayed the same except we load service company labor with an overhead and reduce service company pools before allocated.

The Company anticipates beginning the next affiliate audit in 2010. Like the previous audit, the Company intends to coincide the timing of the Kentucky audit with

the audit of its sister utility Duke Energy Indiana. Vantage Consulting, Inc. was the auditor selected through a request for proposal process at the Indiana Utility Regulatory Commission. Coordinating the audits will allow the companies to better manage the expenses of this audit as they will be examining many identical processes and issues between the companies.

Commitment #18

Cinergy and Duke Energy commit to take an active and ongoing role in managing and operating [DE-Kentucky] in the interests of customers, employees, and the Commonwealth of Kentucky, and to take the lead in enhancing [DE-Kentucky's] relationship with the Commission, with state and local governments, and with other community interests, including, but not limited to, meetings between Duke Energy's chief executive officer and the Commission at least once a year or more frequently if deemed necessary by the Commission.

Duke Energy Kentucky Response:

Duke Energy's Chief Executive Officer met with the Commission on October 23, 2009.

Commitment #19

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

Duke Energy Kentucky Response:

Power Delivery – Implementation of Safety and Work Methods Best Practice

Duke Energy's Power Delivery organization consolidated safety and work practices between Indiana, Ohio, Kentucky, North and South Carolina in 2009. Utilizing a best practice model, safety rules and work practices have been and continue to be combined between the five states. For instance, all line technicians now follow the same safety

rules when using high voltage protective rubber gloves. This in turn has resulted in an improvement of recordable injuries experienced in Power Delivery.

The safety culture team made recommendations on three initiatives to be implemented in 2010 coming out of their safety benchmarking visits. These initiatives were shared and agreed on by management:

1. Create and implement a Job Briefing Checklist form and process that will be used by all Power Delivery Midwest and Carolinas employees.
2. Develop a forum that facilitates the gathering of safety feedback as well as best practices from the regional safety teams through a formalized safety summit.
3. Develop a communication booklet or some other type of formalized safety communication that will be shared with our teammates that displays our corporate safety goals and the progress made toward accomplishing those goals.

Commitment # 20

Applicants commit to provide notification to the Commission as soon as practicable of registration or issuance of new public long-term debt or equity in excess of \$ 500 million issued by Duke Energy or Cinergy.

Duke Energy Kentucky Response:

No new issuances or registrations have occurred since the Company's last report.

Commitment # 28

ULH&P commits to notify the Commission in writing 30 days prior to any material changes in its participation in funding for research and development. Material changes include, but are not limited to, any change in funding equal to or greater than 25% ULH&P's previous year's budget for research and development. The written notification will include an explanation and the reasons for the change in policy.

Duke Energy Kentucky Response:

In August 2008, Duke Energy committed to five major demonstration projects over a period of three to five years related to Carbon Sequestration (three demonstrations), Energy Efficiency, and the Smart Grid. This represented an increase of \$91,217 for the KY assets as these projects were not included in the 2008 estimates. These projects were endorsed by the EPRI Board as necessary to accelerate the demonstration of technologies needed to reduce greenhouse gases and meet the future generation needs of America. These projects have been embraced and funded by the majority of largest EPRI members. Actual charges are now available for the year to compare the 2009 R&D expenses to 2008 as detailed below.

In 2008, Duke Energy Kentucky funded the sum of \$283,042.94 for EPRI membership and supplemental projects.

In 2009, Duke Energy Kentucky funded the sum of \$278,123.32 representing a decrease of 1.7%.

Essentially Duke Energy was engaged in the same membership programs between the two years and any minor variation is in the selection of supplemental projects that may vary from year to year.

The Company estimates the R&D expenses for 2010 will be \$275,241, essentially flat with 2009 expenses.

There were no material changes in the funding for Gas Operations R&D projects.

Commitment #29

Duke Energy Kentucky's local customer service office will not be closed as a result of the proposed merger and that, if and when local customer service offices may be closed to achieve best practices, Duke Energy Kentucky will take into account the impact of the closures on customer service.

Duke Energy Kentucky closed its customer service office at 1697A Monmouth Street in Newport, Kentucky on September 10, 2009 having notified the Commission by letter on August 26, 2009. The Company continues to maintain several pay agent locations available for remitting utility bill payments in Northern Kentucky at various grocery and convenience stores in the area. Customers are further provided online and telephone payment options. Consistent with best practices, Duke Energy Kentucky opened a business office at 525 W. Fifth Street Suite 228 in Covington, Kentucky on September 14, 2009 where tariffs and other filings are available for Northern Kentucky customers.

Duke Energy Kentucky will continue to provide ongoing reporting as required under the merger commitments. Thank you for your consideration in this matter.

Very truly yours,

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

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