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VIA ELECTRONIC FILING AND 2ND DAY DELIVERY

March 15, 2017

Dr. Talina Rose Mathews
Executive Director
Kentucky Public Service Commission
211 Sower Blvd
Frankfurt, KY 40601

**Re: Case No. 2016-00159
In the Matter of the Application of Duke Energy Kentucky, Inc. for Approval to
Establish a Regulatory Asset**

Dear Dr. Mathews:

Consistent with the Commission's Order in Case No. 2016-00159, Duke Energy Kentucky is providing updated journal entries to perform the contemplated pressure testing along the Company's natural gas pipeline. The updated journal entries are based upon costs incurred and invoices received through December 31, 2016. As explained in the Company's letter dated September 30, 2016 and filed in the post case correspondence, the Company determined it was necessary to conduct the pressure testing in two phases to allow an opportunity to make any necessary improvements if testing indicates additional action was required and to allow sufficient time to have the pipe in service during winter heating season. The Company completed the testing of its AM07 line, the first phase of pressure testing, in the early fall of 2016. The total cost for the 2016 portion of this project was not able to be determined until December due to delays in invoicing received from contractors.

The actual costs of this phase of the hydro test were higher than initially anticipated due primarily to the greater than anticipated usage of compressed natural gas (CNG) to maintain service to a large commercial customer that was connected directly to the AM07 line. To accomplish this testing, additional measures were necessary for the Company to perform the test and continue service to this customer that was not anticipated at the time of the original project estimates. The additional measures included physical security and privacy barriers around all CNG equipment installed on the customer's property, around the clock security guard patrols while CNG was in use, and extensive property restoration. There was also a significant amount of grading and access road improvement required to place equipment at a testing location that was not originally anticipated and also grading and restoration required for water storage tanks due to unexpected rain flooding problems at the staging area.

Dr. Talina Rose Mathews

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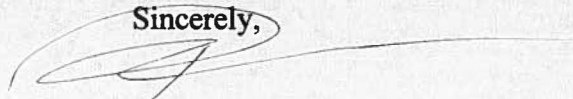
The Company is now estimating that the total estimated, fully loaded project costs for both phases to be approximately \$3.05 million (2016 phase: \$2.2 million + 2017 phase: \$850,000, respectively).

The remaining pressure testing will be completed in the Spring of 2017, following the conclusion of the 2016-2017 winter heating season. The Company will continue to provide additional updates upon completion.

One (1) paper copy has been mailed to the Commission via second day delivery. I certify that the electronic document is a true and accurate copy of the original document.

Please date-stamp the two copies of the letter and return to me in the enclosed return envelope.

Sincerely,



Rocco D'Ascenzo

Enclosures

cc: Rebecca Goodman (w/enclosures)