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January 23, 2012

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PUBLIC SERVICE
COMMISSION

Via Hand-Delivery

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

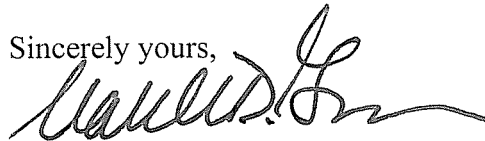
Re: In the Matter of: The Joint Application of Duke Energy Corporation, Cinergy Corp., Duke Energy Ohio, Inc., Duke Energy Kentucky, Inc., Diamond Acquisition Corporation, and Progress Energy, Inc., for Approval of the Indirect Transfer of Control of Duke Energy Kentucky, Inc. - Case No. 2011-00124

Dear Mr. Derouen:

In accordance with the Commission's August 2, 2011 Order granting approval to the indirect transfer of control of Duke Energy Kentucky, Inc., enclosed please find an original and ten (10) copies of the Joint Applicants' Third Status Report. Please file-stamp the other copies and return them to our office.

Please do not hesitate to contact me if you have any questions.

Sincerely yours,



Mark David Goss

Enclosures

cc: Jennifer Hans
Dennis G. Howard, II
Larry Cook

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COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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PUBLIC SERVICE
COMMISSION

IN THE MATTER OF:

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

JOINT APPLICANTS'
THIRD STATUS REPORT

Come now 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, the “Joint Applicants”), and pursuant to Paragraph 4 of the Commission’s August 2, 2011, Order in the above-captioned case tender this report regarding the status of the merger transaction.

The Joint Applicants are committed to proceeding with the merger. To date, the Joint Applicants have completed the following in connection with the merger closing process:

- Shareholder approvals were given on August 23, 2011.
- The requisite waiting period under the Hart-Scott-Rodino Act has expired.
- The Federal Communications Commission granted approval of the assignment of certain licenses from Progress to Duke on July 27, 2011.

- The Kentucky Public Service Commission granted its approval of the indirect transfer of control of Duke Kentucky on October 28, 2011.

The Nuclear Regulatory Commission granted approval of the indirect transfer of Progress's licenses on December 2, 2011. The Federal Energy Regulatory Commission ("FERC") granted conditional approval of the merger on September 30, 2011, provided that the Companies propose an adequate mitigation plan to address market power concerns in the Carolinas associated with the merger. FERC directed Duke and Progress (collectively, the "Companies") to file a market power mitigation plan to address its market power test concerns. In mid-October, the Companies filed a market power mitigation plan proposing a concept called "virtual divestiture." This concept consisted of an offer to sell power during peak times of the year at an incremental cost, plus ten percent. On October 31, 2011, the Companies also filed for a rehearing of the merger application, requesting that FERC revise its analysis to be consistent with FERC's previous application of its rules and orders. In addition, the Companies had asked FERC to address the mitigation plan by no later than December 15, 2011. Also in connection with the merger, the Companies had applied for approval of a joint dispatch agreement ("JDA") between Duke Energy Carolinas and Progress Energy Carolinas and a Joint Open Access Transmission Tariff ("JOATT").

The Companies have also applied for approval of the merger by the North Carolina Utilities Commission ("NCUC") and approval of the JDA by the South Carolina Public Service Commission ("SCPSC"). Hearings on the North Carolina application were held on September 20-22, 2011 and the hearing on the South Carolina application was held on December 12, 2011.

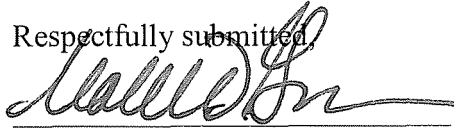
On December 14, 2011, FERC issued an Order rejecting the market mitigation plan submitted by the Companies. FERC's Order did not reject the merger - the transaction remains

conditionally authorized pending satisfaction of FERC's market power concerns. FERC did not take action on the proposed JDA or the JOATT due to its rejection of the mitigation plan, and directed the Companies to resubmit the JDA and JOATT. The Companies are in the process of attempting to develop an alternative proposal that addresses the concerns raised by FERC. The Companies will have to provide advanced notice to the NCUC prior to filing the mitigation plan at FERC.

FERC's action changes the Companies' timeline for closing the merger. Due to FERC's action, the Companies will not meet the previously targeted closing date of January 1, 2012. On January 13, 2012, Duke Energy and Progress Energy filed with FERC a request for rehearing on the FERC's December 14, 2011 compliance order. The request for rehearing confirms that the Companies continue to work on an alternative mitigation proposal that addresses the concerns raised by FERC in its Compliance Order. As part of the Stipulation and Settlement Agreement approved by the Commission in the above-captioned proceeding (Settlement), the Companies agreed, among other things, to support low income weatherization efforts in Duke Energy Kentucky's service territory through five (5) annual contributions of \$115,000 to be made on or before March 31 of each year. Although the merger will not close by March 31, 2011, as a good faith gesture in anticipation of completing the merger in 2012, Duke Energy Kentucky will make the first low income weatherization contribution on or before March 31, 2012 as set forth in the Settlement. Although performance was not tied to a specific date, Duke Energy Kentucky will also proceed with the \$50,000 economic development contribution for 2012.

The Companies will communicate an anticipated closing date following the filing of the mitigation plan, with closing remaining dependent upon the regulatory approval process.

Respectfully submitted,



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Diamond Acquisition Corporation
Progress Energy, Inc.*

- and -

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Duke Energy Ohio, Inc.
Duke Energy Kentucky, Inc.
Diamond Acquisition Corporation*

CERTIFICATE OF SERVICE

I hereby certify that the foregoing was mailed, first class postage prepaid, this 23rd day of January, 2012 to the following parties of record:

Hon. Jennifer B. Hans
Hon. Dennis G. Howard, II
Hon. Lawrence Cook
Utility and Rate Intervention Division
P. O. Box 2000
Frankfort, Kentucky 40602-2000



Counsel for the Joint Applicants