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PUBLIC SERVICE
COMMISSION

VIA OVERNIGHT DELIVERY

March 27, 2013

Mr. Jeff 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 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 #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. Duke Energy 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:

Duke Energy Kentucky includes this outage information as part of its Annual Vegetation Management & Reliability Report and is filed contemporaneously with its March 31 Annual Report. Duke Energy Kentucky filed its 2011 Annual Vegetation Management and Reliability Report on March 24, 2012 and intends to file the information regarding 2012 reliability performance on or before March 31, 2013.

Duke Energy's Chief Executive Officer, James E. Rogers, met with members of the Kentucky Public Service Commission on May 8, 2012. Also in attendance at the meeting from Duke Energy were Julia S. Janson, President of Duke Energy Kentucky and Ohio Jim Henning, Vice President of Government Affairs, Jim Mehring, Vice President of Gas Operations, Rich Harrell, Vice President of Field Operations-Midwest, Van Needham, Government & Regulatory Affairs Director-Kentucky Ohio/Kentucky and Rocco D'Ascenzo, Associate General Counsel.

Commitment #8

Joint Applicants commit that Duke Energy Kentucky shall continue to maintain a substantial level of involvement in community activities, through annual charitable and other contributions.

Duke Energy Kentucky Response:

In March 2012, Duke Energy Kentucky paid \$35,000 to Northern Kentucky Tri-County Economic Development, \$15,000 to Northern Kentucky Area Development District and \$115,000 to People Working Cooperatively. Those same payments have already been processed for 2013.

Commitment #9

Joint Applicants commit to maintaining Duke Energy Kentucky's proactive stance on developing economic

opportunities in Kentucky and supporting economic development activities throughout Duke Energy Kentucky's service territory.

Duke Energy Kentucky Response:

In March 2012, Duke Energy Kentucky paid \$35,000 to Northern Kentucky Tri-County Economic Development, \$15,000 to Northern Kentucky Area Development District and \$115,000 to People Working Cooperatively. Those same payments have already been processed for 2013.

Commitment #11

Joint 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 Duke Energy Kentucky, complete details of the allocation methods, and justification for the amount and the method. Joint 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/Non-Utility Companies Service Agreements and the Operating Companies Service Agreement approved as part of the merger transaction.

Duke Energy Kentucky Response:

The 2011 Cost Allocation Manual was filed with the Commission on March 29, 2012 and the 2012 Cost Allocation Manual will be filed with the Commission on or before March 31, 2013.

Commitment # 12

Joint Applicants commit to periodic comprehensive third-party independent audits of the affiliate transactions under the affiliate agreements approved as part of the merger transaction. Such audits will be conducted no less often than every two years, and the reports will be filed with the Commission and the Attorney 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.

Duke Energy Kentucky Response:

The 2011 Compliance Audit is complete and was filed with the Commission on March 13, 2013.

Commitment #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 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, James E. Rogers, met with the Commission on May 8, 2012.

Commitment #19

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

Duke Energy Kentucky Response:

Power Delivery – Implementation of Safety and Work Methods Best Practice

Duke Energy's Power Delivery organization completed a three year project in 2010 to consolidate safety and work practices between Indiana, Ohio, Kentucky, North and South

Carolina. Utilizing a best practice model, safety rules and work practices have been combined between the five states. For instance, all line technicians now follow the same safety rules when performing daily activities. This, in turn, has contributed to a reduction and improvement of the OSHA recordable rate for Ohio and Kentucky.

Commitment # 20

Joint Applicants commit to notify 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 Progress Energy.

Duke Energy Kentucky Response:

On August 13, 2012, Duke Energy Corporation priced a total of \$1.2 billion of bonds, comprised of \$700 million of 5-year and \$500 million of 10-year senior unsecured notes. The 5-year notes priced at a fixed-rate 1.625% and the 10-year notes priced at a fixed-rate of 3.05%. The proceeds from the issuances will be used to repay at maturity Duke Ohio's \$500 million debentures due September 15, 2012 as well as for general corporate purposes, including the repayment of commercial paper. This financing is consistent with the financing plan presented to the Board in July 2012. Duke Energy Kentucky notified the Commission of this issuance on October 17, 2012 by filing a letter in Case No. 2011-124.

Commitment #23

Joint Applicants commit that when Duke Energy Kentucky files its monthly reports with the Commission, it shall include with that filing a schedule of the current capital structure and a schedule of any capital contributions made to Duke Energy Kentucky in the applicable month.

Duke Energy Kentucky Response:

Duke Energy Kentucky filed its monthly financial statements as follows:

July, August, September – filed on November 14, 2012; October – filed on December 17, 2012; and November – filed on January 17, 2013.

Commitment # 28

Duke Energy Kentucky commits to notify the Commission in writing thirty (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 twenty-five (25) percent of Duke Energy Kentucky'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 2012, Duke Energy charged to the Kentucky assets the sum of \$519,272 representing a modest decrease. The estimated R&D expenses for Duke Energy Kentucky 2013 will be \$302,255.

The decrease between 2011 and 2012 is due to a change in the method which EPRI allowed Duke Energy to fund supplemental projects. Previously, 25% of base dues were set aside for Duke Energy's discretionary use, but in order to use those funds, Duke Energy had provide matching funds. In 2012, EPRI eliminated the requirement to provide the matching contribution.

The estimated decrease from 2012 to 2013 will occur as Duke Energy has decided to use funds from a canceled generation project in previous years to offset 2013 EPRI membership dues and after the merger between Duke Energy and Progress Energy, the EPRI funds are allocated across a larger base.

Commitment #46

The Joint Applicants commit to review with Duke Energy Kentucky whether policies more sympathetic to low-income customers would be more appropriate.

Duke Energy Kentucky Response:

The Company continually reviews it's polices with respect to low income 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,

A handwritten signature in black ink, appearing to read 'R. Ascenzo', with a long horizontal line extending to the right.

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

cc: Hon. Dennis G. Howard, II