



139 East Fourth Street  
P.O. Box 960  
Cincinnati, Ohio 45201-0960  
Tel: 513-287-4320  
Fax: 513-287-4385  
Rocco.d'ascenzo@duke-energy.com

Rocco D'Ascenzo  
Associate General Counsel

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FEB 13 2014

PUBLIC SERVICE  
COMMISSION

**VIA OVERNIGHT DELIVERY**

February 12, 2014

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 2012 Annual Vegetation Management and Reliability Report on March 27, 2013 and intends to file the information regarding 2013 reliability performance on or before March 31, 2014.

Duke Energy's President, Chief Executive Officer & Vice Chair of the Board, Lynn J. Good, met with members of the Kentucky Public Service Commission on November 22, 2013. Also in attendance at the meeting from Duke Energy were Jim Henning, State President of Duke Energy Kentucky and Ohio, Melody Birmingham-Byrd, Senior Vice President of Midwest Delivery Operations, Jim Mehring, Vice President of Gas Operations, Michael Leeks, Vice President of Distribution Maintenance & Construction - Midwest, Lee Barrett, Vice President of Government Affairs - Ohio/Kentucky, Van Needham, State Government Affairs Director - 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 February 2013, 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 2014.

**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 February 2013, 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 2014.

**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 2012 Cost Allocation Manual was filed with the Commission on March 29, 2013 and the 2013 Cost Allocation Manual will be filed with the Commission on or before March 31, 2014.

**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. The next audit is planned for 2014.

**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 President, Chief Executive Officer & Vice Chair, Lynn J. Good, met with members of the Commission on November 22, 2013.

**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. In addition to, and as a result of the Duke Energy and Progress Energy merger, and to further our commitment to a zero injury and zero work-related illnesses culture, Duke Energy Kentucky Transmission and Distribution is taking the lessons learned from the Duke Energy/Cinergy merger and once again consolidating our Work Standards Manual and Safe Work Practices into a new best practices manuals for the now six states of Duke Energy. The new manuals will incorporate the best practices of the two companies while continuing to build on the reductions to injury and accidents in Ohio and Kentucky resulting in a safer work place with fewer accidents/injury's and improving OSHA recordable rates.

### **Gas Operations - Implementation of Safety and Work Methods Best Practice**

Duke Energy Kentucky's Gas Operations continues its membership and participation in the Kentucky Gas Association and the American Gas Association. Through these organizations, Duke Energy Kentucky continues to have its subject matter experts attend topic discussion groups, workshops and roundtables to determine and gather best practices that can apply to and benefit its operations. Many of these subject matter experts also serve on operating committees within these organizations. In 2013, Duke Energy Kentucky continued to build upon the best practice efforts that modified

our damage prevention processes all of which continues to result in reduced damages.

Duke Energy Kentucky (among others) is also working to strengthen the KY 811 Bill.

**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:**

There were no issuances of new public long-term debt in excess of \$500 million during 2013 by Duke Energy Corporation or Progress Energy, Inc.

**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:

January - filed on March 14, 2013; February - filed on April 15, 2013; April - filed on June 13, 2013; May - filed on July 17, 2013; July - filed on September 12, 2013; August - filed on October 15, 2013; October - filed on December 10, 2013; and November - filed on January 13, 2014.

**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 2013, Duke Energy Kentucky charged to the Kentucky assets the sum of \$301,645.46. The estimated R&D expenses for Duke Energy Kentucky in 2014 will be \$394,131.

The reason for the increase from 2013 to 2014 will occur because Duke Energy depleted the cancelled generation project fund accounts available. Duke Energy Kentucky notified the Commission in its 2013 update that the decrease from 2012 to 2013 were due to use of such funds. This was a one-time opportunity. This was a one-time opportunity. At the same time, Duke Energy has made some additional business decisions to enroll in more power delivery related R&D programs within EPRI to manage the increased size of the transmission and distribution systems. These programs include transformer life management and grid operations.

**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 its policies 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, consisting of a large, stylized initial 'R' followed by a horizontal line that extends to the right and then curves slightly downwards.

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

cc: Hon. Dennis G. Howard, II