



Mailing Address:  
139 East Fourth Street  
1301 Main  
Cincinnati, Ohio 45202  
o: 513-287-4320  
f: 513-287-4385

Rocco.D'Ascenzo@duke-energy.com  
Rocco O. D'Ascenzo  
Associate General Counsel

**VIA OVERNIGHT DELIVERY**

March 30, 2017

Dr. Talina S. Mathews  
Executive Director  
Kentucky Public Service Commission  
211 Sower Boulevard  
Frankfort, Kentucky 40602-0615

**RECEIVED**

MAR 31 2017

PUBLIC SERVICE  
COMMISSION

**Re: Case No. 2011-00124**

**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.**

Dear Dr. Mathews:

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:

**Commitment #6**

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 by the first business day in May as required by the Commission's May 30, 2013 Order in Case No. 2011-00450.<sup>1</sup> Duke Energy Kentucky filed its 2015 Annual Vegetation Management and Reliability Report on April 30, 2016 and intends to file the information regarding 2016 reliability performance on or before April 30, 2017.

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 December 2, 2016. Also in attendance at the meeting from Duke Energy were Doug Esamann, President of Midwest and Florida; Frank Yoho, Executive Vice President & President Gas Operations; Jim Henning, State President of Duke Energy Kentucky and Ohio, Chuck Session, Vice President, Government and Community Affairs, Gary Hebbeler, Vice President Gas Operations; 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 2016, 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.

---

<sup>1</sup> *In the matter of An Investigation of the Reliability Measures of Kentucky's Jurisdictional Electric Distribution Utilities, Case No 2011-00450. (Order)(May 30, 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 February 2016, 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. In addition, Chuck Session, Vice President Government and Community Affairs, is a board member for the Kentucky Chamber of Commerce and Tri-Ed Economic Development Corporation and is a member of the Infrastructure Committee.

**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 2015 Cost Allocation Manual update was filed with the Commission on March 29, 2016 and the 2016 Cost Allocation Manual update will be filed with the Commission on or before March 31, 2017.

**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 Company's most recent audit was completed and the audit report was filed with the Commission on June 3, 2015. The Company is currently in the process completing an audit for the year 2015 and expects to file the audit report in the coming months upon completion.

**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 December 2, 2016.

## **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 Corporation's operational support organization completed a review and implementation of nine work methods last year. These work methods were validated, written more clearly to enhance understanding and had redundancies removed prior to the review with employees. The nine work methods are referred to as Cardinal Electric Safety Rules (CESR) and the intent is to eradicate all contact and flash events on the Duke Energy system. For 2017, three new CESR work methods are being written that focus on secondary voltages. The new work methods rollout will include training and a knowledge test. Additionally, new secondary insulated tools, barriers, and covering will be made available to employees in 2017. To increase visibility of work zones, traffic cones used for Temporary Traffic Control by Duke Energy employees starting July 31, 2016 are 36 inch, 12 pounds. Our Duke Energy contractors will transition to the larger cone by mid-year 2017.

#### **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 2016, 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:**

In August 2016, Duke Energy Corporation issued \$3.75 billion debt in three tranches - \$1.5B, \$1.5B, and \$750M.

In October 2016, Duke Energy physically settled the equity forwards mentioned in last year's filing by delivering 10.6 million shares of common stock in exchange for net cash proceeds of approximately \$723M.

**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, 2016; Updated January – filed on March 28, 2016; February - filed on April 14, 2016; March – filed on May 12, 2016; April - filed on June 2, 2016; May - filed on July 11, 2016; June – filed on August 12, 2016; July - filed on September 7, 2016; August - filed

on October 11, 2016; September – filed on November 10, 2016; October - filed on December 12, 2016; November - filed on January 10, 2017; and December – February 13, 2017.

**Commitment # 29**

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:**

There were no material changes in funding during 2016 and the Company doesn't anticipate any material changes in the calendar year 2017.

**Commitment #31**

Joint Applicants commit that within sixty (60) days of the closing of any merger, disposition or acquisition involving Duke Energy or a subsidiary thereof, in the United States that is exempted under KRS 278.020(5) and KRS 278.020(6), Duke Energy Kentucky will file with the Commission a notice setting forth an analysis of any changes and implications for Duke Energy Kentucky's customers.

**Duke Energy Kentucky Response:**

On October 3, 2016, Duke Energy Corporation completed its acquisition of Piedmont Natural Gas (Piedmont). Duke Energy Kentucky currently has a matter pending before the Commission, Case No. 2016-00312 which, if approved, will permit the addition of Piedmont to existing service agreements to allow consistency and equality between and among transactions with all of its utility affiliates. It is not anticipated to have any negative implications for Duke Energy Kentucky or its customers.

**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.

Please file stamp the two copies of this letter enclosed herein and return in the enclosed return-addressed envelope.

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 blue ink, consisting of a large, stylized 'R' followed by a long horizontal line extending to the right.

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

cc: Rebecca Goodman