DUKE ENERGY CORPORATION

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VIA OVERNIGHT DELIVERY

December 28, 2010

RECEIVED

DEC 29 2010

PUBLIC SERVICE
COMMISSION

Mr. Jeff Derouen
Executive Director
Kentucky Public Service Commission
211 Sower Blvd.
Frankfort, KY 40601

Re: *In the Matter of an Application of Duke Energy Kentucky, Inc. for an Order Approving the Establishment of a Regulatory Asset Related to Voluntary Opportunity and Other Post-Retirement Expenses*

Dear Mr. Derouen:

Enclosed please find an original and twelve copies of *Duke Energy Kentucky Inc.'s Application for Approval* for filing in the above referenced matter.

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

Sincerely,

Kristen Cocanougher

Kristen Cocanougher

cc: Dennis Howard II

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DEC 29 2010
PUBLIC SERVICE COMMISSION

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of an Application of	)	
Duke Energy Kentucky, Inc. For an Order Approving	)	Case No. 2010-
The Establishment of a Regulatory Asset	)	
Related to Voluntary Opportunity and Other	)	
Post-Retirement Expenses	)	

VERIFIED APPLICATION OF DUKE ENERGY KENTUCKY, INC.

To the Honorable Kentucky Public Service Commission:

Duke Energy Kentucky, Inc. (Duke Energy Kentucky or the Company) respectfully petitions the Kentucky Public Service Commission (Commission) for an accounting order authorizing Duke Energy Kentucky to defer for future recovery the actual amounts, and accruals incurred for its voluntary severance plan totaling approximately $4.37 million.

In February 2010, Duke Energy Corporation (Duke Energy) offered a voluntary opportunity severance plan (VOP) to approximately 8,750 eligible employees throughout Duke Energy. The eligible employees included employees of Duke Energy Kentucky, as well as employees who perform work for Duke Energy Kentucky through its affiliated service company, Duke Energy Business Services LLC (DEBS). The VOP generally provided lump sum payments, certain continued health benefits and outplacement assistance (VOP Benefits) to eligible employees who elected, during the Voluntary Window, to exit under the VOP. As this was a voluntary plan, all severance benefits offered under this plan were considered special termination benefits under Generally Accepted Accounting Principles (GAAP). The Voluntary Window for employees to request to voluntarily end their employment under this plan opened on February 3, 2010 and closed on February 24, 2010.

Along with the VOP, Duke Energy announced plans to consolidate certain of its Midwest (Ohio, Indiana, and Kentucky) corporate office functions to generate cost savings for the overall corporate enterprise, resulting in the transition, over the next two years, of 350 positions from its offices in the Midwest to its corporate headquarters in Charlotte, North Carolina. Employees who did not relocate had the option to elect to participate in the VOP discussed above, find a regional position within Duke Energy, or remain with Duke Energy through a transition period, after which time a severance benefit would be paid under Duke Energy's ongoing severance plan. For employees affected by the consolidation of Duke Energy's corporate functions, the window closed March 31, 2010.

As of December 31, 2010, Duke Energy Kentucky expects to have recorded actual charges totaling approximately $4.37 million associated with the VOP. The total charges have been allocated between the Company's electric and gas operations, approximately $3.3 million and $1.0 million respectively. In support of this Application, Duke Energy Kentucky states as follows:

1. Duke Energy Kentucky is a Kentucky corporation and a public utility as defined in Section 278.010 of the Kentucky Revised Statutes (KRS) and is subject to the Commission's jurisdiction. Duke Energy Kentucky is engaged in the business of furnishing gas and electric services to various municipalities and unincorporated areas in Boone, Campbell, Gallatin, Grant, Kenton and Pendleton Counties in the Commonwealth of Kentucky.

2. Duke Energy Kentucky's business address is 139 East Fourth Street, Cincinnati, Ohio 45202. The Company's local office in Kentucky is Duke Energy Envision Center, 4580 Olympic Boulevard, Erlanger, Kentucky 41018.

3. Duke Energy Kentucky's articles of incorporation are on file with the Commission in Case No. 2009-00202 and are incorporated by reference herein pursuant to 807 KAR 5:001, Section 8(3).

4. Pursuant to KRS 278.220, the Commission is authorized to prescribe accounting to be kept by utilities subject to its jurisdiction. By Order dated January 31, 2002, in Case No. 2001-00092, the Commission required Duke Energy Kentucky to obtain Commission approval to establish any new regulatory assets.

5. Communications regarding this Application should be addressed to:

Rocco O. D'Ascenzo
Senior Counsel
Amy B. Spiller
Associate General Counsel
Duke Energy Business Services LLC,
139 East Fourth Street, 1303-Main
Cincinnati, OH 45201-0960

6. That by this Application Duke Energy Kentucky seeks authorization to defer for future recovery the actual amounts and accruals for the VOP costs up to $4.37 million, net of joint-owner reimbursements. The recovery of the deferred amounts will be addressed in Duke Energy Kentucky's future base rate case proceedings.

7. Duke Energy Kentucky's East Bend Generating Station is jointly-owned with the Dayton Power & Light Company (DP&L). A portion of the costs related to the VOP that are attributable to DP&L's ownership share (approximately $149,000) will be charged to DP&L and have not been allocated to Duke Energy Kentucky.

8. The purpose of the 2010 VOP was to achieve cost savings through the provision of a voluntary opportunity for early retirement and separation to eligible employees of Duke Energy and its respective affiliates, including Duke Energy Kentucky. The VOP provided lump

sum payments, certain continued health benefits and outplacement assistance to eligible employees who elected to leave the Company under the VOP. Eligible employees included active non-union full-time employees of Duke Energy with five years or more of employment. Employees on long-term disability or on a non-medical personal leave of absence were not eligible for participation. Duke Energy Kentucky's 2010 VOP costs have been significant as illustrated through the following table, which sets forth Duke Energy Kentucky's expected VOP expenses through December 2010.

9.

As of Dec. 2010	Severance (Incl. FICA)	COBRA*	Outplacement	Other**	TOTAL
Electric operations	$2,447,060	$84,433	$34,450	$808,663	$3,374,606
Gas operations	$781,677	$21,383	$8,859	$185,043	$996,962
				TOTAL:	$4,371,568

*Medical and Dental coverage for 6 months following separation
** Primarily pension expense related to the Grow into the Rule of 85 and relocation expenses for Midwest employees.

10. In Case No. 2008-00440,[1] the Commission made the following policy statement regarding expenses that it customarily allows as regulatory assets:

> (1) An extraordinary, nonrecurring expense which could not have reasonably been anticipated in the utility's planning; (2) an expense resulting from a statutory or administrative directive; (3) an expense in relation to an approved industry initiative; or (4) an extraordinary or nonrecurring expense that over time will result in a saving that fully offsets the cost.

[1] Case No. 2008-00440, Request of Kentucky-American Water Company for Approval to Defer Certain Expenses as Regulatory Assets (Ky. PSC Dec. 23, 2008).

11. The VOP expenses are nonrecurring expenses that, over time, will be more than offsets by savings. As a result, Duke Energy Kentucky requests a deferral for future recovery of the actual amounts, and accruals for the VOP costs set forth above.

12. The VOP costs are reasonable and necessary business costs incurred by Duke Energy Kentucky in compliance with SFAS No. 87 and SFAS No. 106 that may result in significant and unavoidable positive or negative impact on Duke Energy Kentucky's earnings. As a result, Duke Energy Kentucky requests authority to revise its accounting procedures to provide for the deferral of the VOP costs. Only those amounts attributable to operation and maintenance expense will be deferred and recognized as a regulatory asset pursuant to the provisions of SFAS No. 71. The deferred costs included in the regulatory assets should be collected from customers through amortization of the regulatory asset in Duke Energy Kentucky's subsequent base rate proceedings, in whatever manner deemed appropriate by the Commission. In general, the proposal ensures that customers enjoy the full amount of the benefits derived from the VOP while also permitting the Company to recover the costs incurred to achieve those savings over reasonable period of time as determined by the Commission.

13. The accounting treatment requested herein and the expected of cost recovery related to the VOP, will only have a small impact on customers when the Commission subsequently approves amortization and rate recovery of the regulatory asset. For example, if in the next rate case, the Commission approves a three-year amortization of this regulatory asset to be included in revenue requirements, the overall impact on retail customers is expected to be less than one percent (1%).

14. If the Commission approves Duke Energy Kentucky's requested regulatory asset treatment of its VOP related expenses, Duke Energy Kentucky will make the following journal entries:

Debit	182.3 ______	Other Regulatory Assets
Credit	92X and 93X	Administrative & General Expense
	408 ______	Payroll Taxes

15. On April 23, 2009, Columbia Gas of Kentucky, Inc. (Columbia) filed an Application seeking an Order authorizing Columbia to establish regulatory assets related to pension and other post-retirement benefit expenses in Case No. 2009-00168.[2] The Commission denied this Application in an Order dated December 23, 2009. The facts in the case *sub judice* are different in that Columbia asserted its "Pension and OPEB costs are volatile due to the return on assets and discount rates – factors that are beyond the control of Columbia."[3] The Commission denied Columbia's request, finding that the costs for which Columbia sought deferral were neither extraordinary nor nonrecurring.[4] Duke Energy Kentucky's VOP expenses are different than those at issue in the Columbia proceeding. As explained above, the VOP costs incurred are a one-time, non-recurring expense designed to reduce overall operating costs through offering eligible employees an opportunity to voluntarily leave the Company or take an early retirement. Similarly, the cost incurred through consolidation of the Midwest corporate functions, including, but not limited to, accounting and human resources represents a cost savings initiative that will benefit all companies in the Duke Energy corporate family, including Duke Energy Kentucky.

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[2] *See* In the Matter of the Application of Columbia Gas of Kentucky, Inc., for an Order Approving Accounting Practices to Establish a Regulatory Asset Related to Pension and Other Post-Retirement Benefit Expenses, Case No. 2009-00168, (Order) (December 23, 2009).
[3] *In Re:* Columbia Gas of Kentucky, Inc., Case No. 2009-00168, (Application at 4) (April 23, 2009).

WHEREFORE, Duke Energy Kentucky prays that the Commission issue an order granting authority to defer for future recovery the actual amounts, and accruals incurred for its voluntary severance plan, and to apply the proposed accounting treatment to make appropriate adjustments on its books of accounts.

Respectfully submitted,

Duke Energy Kentucky, Inc.

Rocco O. D'Ascenzo (92792)
Senior Counsel
Amy B. Spiller (85309)
Associate General Counsel
Duke Energy Business Services LLC,
139 E. Fourth Street, 1303-Main
Cincinnati, Ohio 45201-0960
Phone: (513) 287-4320
Fax: (513) 287-4385

[4] *In Re*: Columbia Gas of Kentucky, Inc., Case No. 2009-00168, (Order at 8) (December 23, 2009).

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing filing was served on the following via overnight mail, postage prepaid, this 28 day of December, 2010:

Dennis G. Howard II
Assistant Attorney General
The Kentucky Office of the Attorney General
1024 Capital Center Drive
Frankfort, Kentucky 40602-2000

Rocco O. D'Ascenzo

368790

STATE OF OHIO)
) SS:
COUNTY OF HAMILTON)

The undersigned, William Don. Wathen Jr., being duly sworn, deposes and says that he is the Vice President-Rates Ohio and Kentucky, that he has personal knowledge of the matters set forth in the foregoing, and that the information contained therein is true and correct to the best of his knowledge, information and belief.

William Don. Wathen Jr., Affiant

Subscribed and sworn to before me by William Don. Wathen, Jr., on this 28th day of December, 2010.

NOTARY PUBLIC

My Commission Expires:

NOTARIAL SEAL STATE OF OHIO

ROCCO O. D'ASCENZO
ATTORNEY AT LAW
Notary Public, State of Ohio
My Commission Has No Expiration
Section 147.03 R.C