

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF DUKE ENERGY)	
KENTUCKY, INC. FOR AN ORDER)	
AUTHORIZING THE ISSUANCE OF)	
UNSECURED DEBT AND LONG-TERM)	
NOTES, EXECUTION AND DELIVERY)	CASE NO. 2006-00563
OF LONG-TERM LOAN AGREEMENTS,)	
AND USE OF INTEREST RATE)	
MANAGEMENT INSTRUMENTS)	

O R D E R

On December 22, 2006, Duke Energy Kentucky, Inc. ("Duke Kentucky") filed an application for authority to issue and sell up to \$100 million principal amount of long-term debt. Duke Kentucky supplied additional information on February 21, 2007, after the Commission notified Duke Kentucky that the application was deficient. On April 3, 2006, Duke Kentucky supplied further information in response to Staff's questions.

Duke Kentucky requests approval to issue and sell up to \$100 million of any combination of secured or unsecured debt instruments over a period ending December 31, 2008. Duke Kentucky also requests approval to use interest rate management techniques and to enter into interest rate management agreements. Duke Kentucky states that any net fees and commissions in connection with these interest rate management agreements will not exceed 10 percent of the amount of the underlying obligation. Duke will use the proceeds to issue \$20 million in long-term debt to replace an existing issuance of long-term debt that will mature in 2008, will use \$50 million to

repay short-term debt in 2007 and 2008, with the remaining amount used to finance planned capital expenditures.

Duke Kentucky indicated that it would most likely issue unsecured debt, even though it might pay up to an additional 10 basis points in interest.¹ Duke Kentucky believes, however, that it will be able to offset this additional interest cost with savings it would achieve by not issuing secured debt. As a result of a merger agreement in Duke Energy Corp.'s acquisition of The Union Light, Heat and Power Company,² Duke Kentucky stopped its voluntary reporting to the Securities and Exchange Commission, thereby avoiding any requirements to employ push down accounting as a result of the acquisition, and eliminating its SEC and Sarbanes-Oxley filing requirements. If Duke Kentucky were to issue secured debt, it would have to begin these filings again, incurring approximately \$100,000 in filing costs per year.³

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that the proposed issuance of securities and the assumption of obligations in connection therewith as set out in Duke Kentucky's application should be approved. The Commission also finds that the proposed financing is for lawful objects within the corporate purposes of Duke Kentucky's utility operations, is

¹ Supplemental Data Request Response to Second Data Request of Commission Staff, filed April 3, 2007, Item 1(b).

² Case No. 2005-00228, Joint Application of Duke Energy Corporation, Duke Energy Holding Corp., Deer Acquisition Corp., Cougar Acquisition Corp., Cinergy Corp., The Cincinnati Gas & Electric Company and The Union Light Heat and Power Company for Approval of a Transfer and Acquisition of Control, Order dated May 3, 2006.

³ Supplemental Data Request Response to Second Data Request of Commission Staff, filed April 3, 2007, Item 1(b).

necessary and appropriate for and consistent with the proper performance of its service to the public, will not impair its ability to perform that service, is reasonably necessary and appropriate for such purposes, and should therefore be approved.

IT IS THEREFORE ORDERED that:

1. Duke Kentucky is authorized to obtain long-term debt in an aggregate amount not to exceed \$100 million as set forth in its application for the period ending December 31, 2008 and to enter into such interest rate hedging instruments as will reduce its overall interest cost.

2. The proceeds from the transactions authorized herein shall be used only for the lawful purposes set out in the application.

3. Duke Kentucky shall agree to only such terms and prices that are consistent with this Order.

4. Duke Kentucky shall, within 30 days from the date of issuance, file with this Commission a statement setting forth the date or dates of issuance of the securities authorized herein, the price paid, the interest rate, and all fees and expenses, including underwriting discounts or commissions or other compensation, involved in the issuance and distribution.

Nothing contained herein shall be construed as a finding of value for any purpose or as a warranty on the part of the Commonwealth of Kentucky or any agency thereof as to the securities authorized herein.

Done at Frankfort, Kentucky, this 17th day of April, 2007.

By the Commission

ATTEST:

A handwritten signature in black ink, consisting of several overlapping loops and a long horizontal stroke at the end, positioned above a solid horizontal line.

Executive Director

Case No. 2006-00563