

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN EXAMINATION OF THE APPLICATION OF THE)	
FUEL ADJUSTMENT CLAUSE OF DUKE ENERGY)	CASE NO.
KENTUCKY, INC. FROM JANUARY 1, 2006 THROUGH)	2008-00522
OCTOBER 31, 2008)	

O R D E R

Pursuant to 807 KAR 5:056, the Commission established this case on January 23, 2009 to review and evaluate the operation of the Fuel Adjustment Clause ("FAC") of Duke Energy Kentucky, Inc. ("Duke Kentucky") for the 22-month period ended October 31, 2008, and to determine the amount of fuel cost that should be transferred (rolled-in) to its base rates to re-establish its FAC charge.

In establishing this review, the Commission ordered Duke Kentucky to submit certain information concerning its fuel procurement, fuel usage, and the operation of its FAC. Duke Kentucky submitted this information on February 11, 2009. Duke Kentucky responded to a supplemental data request on March 5, 2009. A public hearing was held on March 17, 2009. On March 30, 2009, Duke Kentucky filed post-hearing data responses to questions asked at the hearing. There are no intervenors in this case.

Duke Kentucky proposed that the month of April 2008 be used by the Commission as the base period (test month) for the purpose of arriving at the base fuel cost and the kWh sales components of its FAC. It further proposed that its base fuel cost be changed to 39.186 mills per kWh, the fuel cost for the proposed base period. Duke Kentucky's current base fuel cost is 21.619 mills per kWh.

In establishing the appropriate level of base fuel cost to be included in Duke Kentucky's rates, the Commission must determine whether the proposed base period cost per kWh is representative of the level of fuel cost currently being experienced by Duke Kentucky. The Commission's review of generation mix, generation unit outages, and generation unit availability discloses that the month of April 2008 is not a reasonably representative generation month for Duke Kentucky. In April 2008, Duke Kentucky's East Bend unit experienced a planned outage. As a result, Duke Kentucky incurred significantly higher fuel costs in the form of purchased power. Duke Kentucky's East Bend unit is its largest unit. The Commission does not believe it reasonable to use a month during which Duke Kentucky's largest unit was offline for maintenance as representative of fuel costs going forward. In addition, the April 2008 fuel cost of 39.186 mills per kWh is higher than Duke Kentucky's 2009 and 2010 fuel cost projections of 38.406 mills per kWh and 37.691 mills per kWh, respectively.¹ For these reasons, the Commission does not accept April 2008 as being reasonably representative.

In a supplemental data request, Duke Kentucky was asked to select another month that it considered representative of fuel costs for the two-year period ending October 31, 2010. In response to that request, Duke Kentucky chose July 2008. The base fuel cost for July 2008 was 33.760 mills per kWh.

The analysis of Duke Kentucky's monthly fuel clause filings showed that the actual fuel cost incurred for the 22-month review period ranged from a low of 18.71 mills per kWh in March 2007 to a high of 37.43 mills per kWh in May 2007, with an average cost for the period of 23.90 mills per kWh. Based upon this review, the Commission finds that Duke

¹ Duke Kentucky's response to Item No. 1 of the January 23, 2009 data request.

Kentucky has complied with 807 KAR 5:056 and that the proposed base period fuel cost of 33.760 mills per kWh, based on July 2008, should be approved.²

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that:

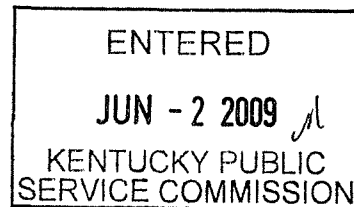
1. Duke Kentucky has complied with the provisions of 807 KAR 5:056.
2. Duke Kentucky's proposed base fuel cost of 39.186 mills per kWh from April 2008 is not representative of fuel costs for Duke Kentucky.
3. Duke Kentucky's July 2008 base period fuel cost of 33.760 mills per kWh should be approved.
4. The establishment of a base fuel cost of 33.760 mills per kWh requires a transfer (roll-in) of 12.141 mills per kWh from the FAC rate to Duke Kentucky's current base rates and can best be accomplished by a uniform increase in all energy rates.
5. The rates in the Appendix to this Order are designed to reflect the transfer (roll-in) to base rates of the differential between the old base fuel cost of 21.619 mills and the new base fuel cost of 33.760 mills per kWh.
6. The rates in the Appendix to this Order are fair, just and reasonable and should be approved effective with Duke Kentucky's first billing cycle for July 2009.
7. Beginning with the expense month for July 2009, Duke Kentucky should use an FAC rate based upon a base fuel cost of 33.760 mills per kWh.

² At the hearing, Don Wathen testified that Duke Kentucky was willing to lower the amount to be rolled-in to the base fuel costs. See Transcript at 17.

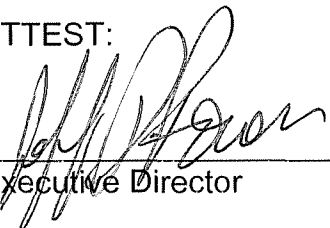
IT IS THEREFORE ORDERED that:

1. The charges and credits applied by Duke Kentucky through the FAC for the period from January 1, 2007 to October 31, 2008 are approved.
2. Duke Kentucky's proposed base fuel cost of 39.186 mills per kWh is denied.
3. Duke Kentucky's July 2008 base fuel cost of 33.760 mills per kWh is approved.
4. The rates in the Appendix to this Order are approved effective with Duke Kentucky's first billing cycle for July 2009.
5. Beginning with the expense month for July 2009, Duke Kentucky shall use an FAC rate based upon a base fuel cost of 33.760 mills per kWh.
6. Within 20 days of the date of this Order, Duke Kentucky shall file with the Commission its revised tariff sheets setting out the rates approved herein.

By the Commission



ATTEST:



Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2008-000522 DATED **JUN - 2 2009**

The following rates and charges are prescribed for the customers in the area served by Duke Energy Kentucky, Inc. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the effective date of this Order.

SCHEDULE RS
RESIDENTIAL SERVICE

Energy Charge:
All kWh per month per kWh \$.085379

SCHEDULE DS
SERVICE AT SECONDARY DISTRIBUTION VOLTAGE

Energy Charge:
First 6,000 kWh per kWh \$.091568
Next 300 kWh per kWh \$.060042
Additional kWh per kWh \$.050966

SCHEDULE DT
TIME-OF-DAY RATE FOR SERVICE AT DISTRIBUTION VOLTAGE

Energy Charge:
Summer on-peak per kWh \$.054118
Winter on-peak per kWh \$.052118
Off-peak per kWh \$.046118

SCHEDULE DT
TIME-OF-DAY RATE FOR SERVICE AT DISTRIBUTION VOLTAGE
LOW LOAD FACTOR

Energy Charge:
Summer on-peak per kWh \$.056780
Winter on-peak per kWh \$.054780
Off-peak per kWh \$.048780

SCHEDULE EH
ELECTRIC SPACE HEATING

Energy Charge:
All kWh per month per kWh \$.071447

SCHEDULE SP
SEASONAL SPORTS SERVICE

Energy Charge:
All kWh per month per kWh \$.110521

SCHEDULE GS-FL
UNMETERED GENERAL SERVICE FOR SMALL FIXED LOADS

Energy Charge:
Load range of 540 to 720 hours per month, per kWh \$.090646
Loads less than 540 hours per month, per kWh \$.102870

SCHEDULE DP
SERVICE AT PRIMARY DISTRIBUTION VOLTAGE

Energy Charge:
First 300 kWh per kWh \$.060991
Additional kWh per kWh \$.053121

SCHEDULE TT
TIME-OF-DAY RATE FOR SERVICE AT TRANSMISSION VOLTAGE

Energy Charge:
All kWh per month per kWh \$.052571

SCHEDULE SL
STREET LIGHTING SERVICE

Energy Charge:
All kWh per month per kWh \$.033760

SCHEDULE TL
TRAFFIC LIGHTING SERVICE

Energy Charge:
Energy only, per kWh \$.047989
Energy w/maintenance, per kWh \$.069068

SCHEDULE UOLS
UNMETERED OUTDOOR LIGHTING SERVICE

Energy Charge:
All kWh per month per kWh \$.047404

SCHEDULE OL
OUTDOOR LIGHTING SERVICE

Energy Charge:
All kWh per month per kWh \$.033760

SCHEDULE NSU
STREET LIGHTING SERVICE - NON-STANDARD UNITS

Energy Charge:
All kWh per month per kWh \$.033760

SCHEDULE NSP
PRIVATE OUTDOOR LIGHTING SERVICE - NON-STANDARD UNITS

Energy Charge:
All kWh per month per kWh \$.033760

SCHEDULE SC
STREET LIGHTING SERVICE – CUSTOMER OWNED

Energy Charge:
All kWh per month per kWh \$.047404

SCHEDULE SE
STREET LIGHTING SERVICE – OVERHEAD EQUIVALENT

Energy Charge:
All kWh per month per kWh \$.033760

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