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DATE: August 11, 2006

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TO: Kentucky Public Service Commission
Docketing

PUBLIC SERVICE
COMMISSION

COMPANY:

FAX: 502-564-3460

PHONE:

FROM: John Finnigan

FAX: 513-287-3810

PHONE: 513-287-3601

NO. OF PAGES: 4

COMMENTS: Hard copy to follow via overnight mail.

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www.duke-energy.com



139 East Fourth Street, R. 25 A11
P.O. Box 960
Cincinnati, Ohio 45201-0960
Tel: 513-287-3601
Fax: 513-287-3810
John.Finnigan@duke-energy.com

John J. Finnigan, Jr.
Associate General Counsel

VIA FAX FILING AND OVERNIGHT MAIL

August 11, 2006

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Ms. Elizabeth O'Donnell
Executive Director,
Kentucky Public Service Commission
211 Sower Boulevard
P.O. Box 615
Frankfort, Kentucky 40602-0615

PUBLIC SERVICE
COMMISSION

Re: In the Matter of the Application of the Union Light, Heat and Power Company for an Order Authorizing the Issuance of First Mortgage Bonds, Unsecured Debt, and Long-Term Notes, Issuance of Inter-Company Promissory Notes, Execution and Delivery of Long-Term Loan Agreements, and Use of Interest Rate Management Agreements, Case No. 2005-00027

Dear Ms. O'Donnell:

Pursuant to Ordering Paragraphs 5, 6 and 9 of the Commission's April 13, 2005 Order in this case, Duke Energy Kentucky ("DE-Kentucky") reports that on August 2, 2006 it executed a closing for the issuance by the County of Boone, Kentucky (the "Issuer") of \$76,720,000 of Pollution Control Revenue Refunding Bonds (Duke Energy Kentucky, Inc. Project), Series 2006. The Bonds (defined below) were issued in two series: (i) \$50,000,000 Series 2006A Bonds (the "2006A Bonds") issued under a Trust Indenture dated as of August 1, 2006 (the "2006A Indenture") between the Issuer and Deutsche Bank National Trust Company (the "Trustee"); and (ii) \$26,720,000 Series 2006B Bonds (the "2006B Bonds") issued under a Trust Indenture dated as of August 1, 2006 (the "2006B Indenture") between the Issuer and the Trustee. The 2006A Bonds and the 2006B Bonds are referred to collectively herein as the "Bonds."

DE-Kentucky's obligations to make payments equal to debt service on the 2006A Bonds are evidenced by a Loan Agreement dated as of August 1, 2006 (the "2006A Loan Agreement") between the Issuer and DE-Kentucky. DE-Kentucky's obligations to make payments equal to debt service on the 2006B Bonds are evidenced by a Loan Agreement dated as of August 1, 2006 (the "2006B Loan Agreement") between the Issuer and DE-Kentucky.

The Bonds were sold to Morgan Stanley & Co. Incorporated (the "Underwriter") at a purchase price of \$76,720,000 and the Bonds of each series will bear interest at a variable rate. Interest on the Bonds will accrue from the date of issuance and delivery. For the initial interest period (ending September 7, 2006), the interest rate will be 3.60%. After the initial interest period, and prior to any subsequent selection of a new interest rate determination method, the Bonds will be Auction Rate Bonds. The interest rate for each auction period after the initial interest period will be the rate that the auction agent advises has resulted from the implementation of the auction procedures set forth in the applicable Indenture (subject to a maximum rate of 13%), in which persons determine to hold or offer to sell or, based on interest rates bid by them, offer to purchase or sell Bonds. Interest on Auction Rate Bonds will be computed on the basis of a 360-day year for the number of days actually elapsed.

DE-Kentucky entered into an interest rate swap (the "Swap") related to the 2006B Bonds on August 2, 2006 with Morgan Stanley Capital Services Inc. under which DE-Kentucky will pay a fixed rate of 3.86%, and will receive 68% of the one-month London Interbank Offered Rate ("LIBOR"), which will closely approximate the interest rate on the Bonds. This percent-of-LIBOR swap most closely matches the BMA index (an index of short-term tax-exempt rates published by The Bond Market Association) that tracks the current floating rates paid on the auction rate notes and is recognized as a valid index for hedging purposes.

DE-Kentucky determined that leaving the entire amount of the new issue as a floating rate debt would result in a greater level of floating rate exposure than management considered advisable. To achieve an acceptable level of floating rate exposure, DE-Kentucky considered issuing fixed rate debt, but this would have resulted in a higher rate than the fixed rate achieved through the Swap. DE-Kentucky also determined that the achieved interest rates were competitive at the time of issuance based upon initial interest rates for this issue compared to the BMA index, which is the industry standard floating rate benchmark index, and compared to alternative financing transactions (including taxable debt) that DE-Kentucky considered.

The compensation paid to the Underwriter in connection with the issuance of the Bonds is \$268,520 and the other costs of issuance of the Bonds are estimated at \$250,000 (including a bond insurance premium of \$56,079 and out-of-pocket costs for legal, printing and similar costs).

Based on these factors, DE-Kentucky determined that the terms and conditions for the issuance of the Bonds, including the interest rates, resulted in the most reasonable terms and conditions available, and decided to enter into these transactions.

The proceeds of the Bonds will be applied to refund and redeem (on September 1, 2006) the: (i) \$16,000,000 County of Boone, Kentucky Floating Rate Demand Pollution Control Revenue Refunding Bonds Series 1985 A (The Cincinnati Gas & Electric

Company Project); (ii) \$48,000,000 County of Boone, Kentucky 6.5% Collateralized Pollution Control Revenue Refunding Bonds 1992 Series A (The Dayton Power and Light Company Project) (outstanding in the aggregate principal amount of \$12,720,000); and (iii) \$48,000,000 County of Boone, Kentucky 5-1/2% Collateralized Pollution Control Revenue Refunding Bonds 1994 Series A (The Cincinnati Gas & Electric Company Project). Given that the Bond proceeds are being used in this manner, DE-Kentucky is in compliance with the Commission's April 13, 2005 Order in this case.

I have enclosed copies of the 2006A Loan Agreement, the 2006B Loan Agreement and the Swap Confirmation dated August 2, 2006 between DE-Kentucky and Morgan Stanley Capital Services Inc.

Please date-stamp the extra copies of this letter and return to me in the envelope provided. Thank you for your consideration in this matter.

Sincerely,



John J. Finnigan, Jr.
Associate General Counsel

Enclosures

cc: Hon. Elizabeth E. Blackford (with enclosures)



Louisville Gas and Electric Company
P.O. Box 32000
Louisville, Kentucky 40232

Customer Service: Mon-Fri 8 a.m.-7 p.m. (502) 589-1444
Electric Trouble: 589-3500 Gas Trouble: 589-3511
Walkin Offices: Mon-Thurs 8 a.m.-5 p.m. Friday 8 a.m. -6 p.m.
* Sat 8 a.m.-12 p.m.
4121 Shelbyville Road 4917 Dixie Highway
*701 South Ninth Street *4424 Outer loop

A SUBSIDIARY OF
LG&E ENERGY

Please refer to Account
Number when calling or
writing

Your Account Number is:
7000636590001

7000636590001 4
JOHN MCKEEHAN
4105 SOUTHERN PKWY
LOUISVILLE KY 40214-1647

KWH - Kilowatt hours of electricity
CCF - 100 cubic feet of gas
For Complete Definition of Codes,
See Reverse Side.

Next Reading Date:
06/23/98

SERVICE LOCATION: 317 M ST

TYPE OF SERVICE	BILLING		READING		METERING	KWH/CCF	CHARGES
	FROM	TO	PREVIOUS	PRESENT			

TOTAL UTILITY CHARGE	\$.00
BALANCE FROM PREVIOUS BILL	\$	5,179.61

AMOUNT PAID

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ACCOUNT NUMBER	PREVIOUS BALANCE INCLUDED IN TOTAL	AMOUNT TO BE PAID AFTER DUE DATE	PAYMENT DUE DATE	AMOUNT TO BE PAID BY DUE DATE
7000636590001 4	\$ 5,179.61	\$ 5,179.61	06/11/98	\$ 5,179.61

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ACCOUNT NUMBER	PREVIOUS BALANCE INCLUDED IN TOTAL	AMOUNT TO BE PAID AFTER DUE DATE	PAYMENT DUE DATE	AMOUNT TO BE PAID BY DUE DATE
7000636590001 4	\$ 5,179.61	\$ 5,179.61	06/11/98	\$ 5,179.61

OFFICE USE ONLY:
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WINTER HELP DONATION \$ _____

AMOUNT PAID

73

Louisville Gas and Electric Company
P.O. Box 32000
Louisville, Kentucky 40232

JOHN MCKEEHAN
4105 SOUTHERN PKWY
LOUISVILLE KY 40214-1647

SERVICE LOCATION: 317 M ST

7000636590001400000517961000005179610000000