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January 31, 2007

Honorable John J. Finnigan, Jr.  
Senior Counsel  
The Union Light, Heat and Power Company  
139 East Fourth Street  
Cincinnati, OH 45202

CERTIFICATE OF SERVICE

RE: Case No. 2006-00562  
Duke Energy Kentucky, Inc.

I, Beth O'Donnell, Executive Director of the Public Service Commission, hereby certify that the enclosed attested copy of the Commission's Order in the above case was served upon the addressee by U.S. Mail on January 31, 2007.

A handwritten signature in black ink, appearing to read "Beth O'Donnell", written over a horizontal line.

Executive Director

BOD/jc  
Enclosure

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF DUKE ENERGY	)	
KENTUCKY, INC. FOR AN ORDER TO ENTER	)	CASE NO.
INTO UP TO \$25,000,000 PRINCIPAL AMOUNT OF	)	2006-00562
CAPITAL LEASE OBLIGATIONS	)	

O R D E R

On December 22, 2006, Duke Energy Kentucky, Inc. ("Duke Kentucky") filed its application for authority to enter into Capital Lease obligations ("Capital Leases") up to a \$25,000,000 principal amount over a period ending December 31, 2008. Duke Kentucky proposes to utilize the Capital Leases as another form of financing new property, including construction, or refinancing existing property.

The Capital Leases will have structures and terms similar to other forms of debt financing but with the potential to lower the overall cost associated with financing property acquisitions. Duke Kentucky may enter into one or more participation agreements with its affiliates and a lessor in connection with these Capital Leases for the purpose of providing administrative efficiencies and for the convenience of the parties involved. At the end of a lease, Duke Kentucky will have the following options: (1) renew the lease, (2) purchase the property, or (3) terminate the lease. Duke Kentucky will retain its obligation to pursue the best terms available for the structure selected.

The Commission had previously approved up to \$25,000,000 in Capital Leases through December 31, 2006 in Case No. 2004-00434.<sup>1</sup> In this proceeding, Duke Kentucky has noted that approximately \$21,000,000 of the Capital Lease authority from Case No. 2004-00434 remained. Duke Kentucky stated that the approximately \$4,000,000 in existing Capital Leases would be counted toward the new \$25,000,000 authorization sought in this proceeding.

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that Duke Kentucky's entering into up to \$25,000,000 in Capital Lease obligations is for lawful objects within its corporate purposes, is necessary and appropriate for and consistent with the proper performance of its service to the public, is reasonably necessary and appropriate for such purposes, and should therefore be approved. We also find that Duke Kentucky should be required to document the Capital Leases it enters into; therefore, we will impose the documentation requirements set forth in Ordering Paragraph 3 below.

IT IS THEREFORE ORDERED that:

1. Duke Kentucky is authorized to enter into up to \$25,000,000 of Capital Leases in one or more transactions through December 31, 2008.
2. Duke Kentucky shall agree only to such terms and prices that are consistent with the parameters set out in its application.
3. Duke Kentucky shall, within 10 days after entering into a Capital Lease, file with the Commission a statement setting forth the starting date and period of the

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<sup>1</sup> Case No. 2004-00434, Application of The Union Light, Heat and Power Company for an Order to Enter into Up to \$25,000,000 Principal Amount of Capital Lease Obligations, final Order dated December 17, 2004.

lease, a description of the property, the name and address of the lessor, the dollar amount of the lease, any stated or implied interest rate, all fees and expenses included in the lease and a copy of any participation agreements. In addition, Duke Kentucky shall perform an analysis comparing the cost of financing through Capital Leases to that of other forms of debt financing for any Capital Lease in excess of \$1,000,000. The analysis and supporting data should be retained as documentation for establishing ratepayer benefits from Capital Leases during future rate proceedings.

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

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 31st day of January, 2007.

By the Commission

ATTEST.



Executive Director