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John J. Finnigan, Jr.  
Associate General Counsel

**VIA OVERNIGHT MAIL**

March 9, 2007

Ms. Elizabeth O'Donnell  
Executive Director  
Kentucky Public Service Commission  
211 Sower Boulevard  
Frankfort, KY 40602

Re: Application of Duke Energy Kentucky, Inc. for an Order Authorizing the Issuance of Unsecured Dept and Long-Term Notes, Execution and Delivery of Long-Term Loan Agreement, and Use of Interest Rate Management Instruments  
Case No. 2006-00563

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Dear Ms. O'Donnell:

Enclosed are an original and eight copies of Duke Energy Kentucky, Inc.'s responses to the Staff's first data request in the above-referenced case.

Please date-stamp and return the two extra copies of the filing in the enclosed envelope.

Thank you.

Sincerely,

John J. Finnigan, Jr.  
Associate General Counsel

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KyPSC Staff First Set Data Requests

Duke Energy Kentucky Case No. 2006-00563

Date Received: March 2, 2007

Response Due Date: March 12, 2007

KyPSC-DR-01-001

**REQUEST:**

1. Duke has requested approval to obtain either secured or unsecured debt in this application.
  - a. Explain the criteria Duke will use to decide whether to use secured or unsecured debt.
  - b. Provide an estimate of the cost difference between secured and unsecured debt for Duke

**RESPONSE:**

- a. When issuing new debt, management balances the need for liquidity and financial flexibility against the cost of various financing options available to it. Secured debt can usually be issued at rates that are less than comparable unsecured debt, but secured debt affords the company much less operating and financing flexibility. In today's capital markets, the price benefits of secured debt do not justify or adequately offset the restrictions placed on the company's assets. Duke Energy Kentucky does not currently have a first mortgage in place, so it is unlikely that secured debt will be issued in the near-term.
- b. Based on recent pricing indications, the spread between secured and unsecured debt is approximately ten basis points.

**WITNESS RESPONSIBLE: Stephen G. De May**