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JAN 22 2007

John J. Finnigan, Jr.
Associate General Counsel

VIA OVERNIGHT MAIL

PUBLIC SERVICE
COMMISSION

January 19, 2007

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

Case No. 2007-00054

Re: Request to Establish Regulatory Asset for Deferred Vacation Expense

Dear Ms. O'Donnell:

The Commission's January 31, 2002 Order in Case No. 2001-00092 required Duke Energy Kentucky, Inc. ("DE-Kentucky" or "Company") to obtain Commission approval prior to establishing any new regulatory assets. DE-Kentucky requests Commission approval to establish a new regulatory asset relating to deferred vacation expense.

The Company must accrue a liability for vacation benefits that employees have earned but not yet used. This accrued liability is required by Financial Accounting Standards Board Statement of Financial Accounting Standards No. 43 ("FAS No. 43"). The liability must be accrued when the benefits are earned rather than when the benefits are paid.

Prior to the Duke/Cinergy merger, the Company deemed that vacation pay was earned during the year when the vacation pay was awarded, as the employee worked a proportionate number of months to the amount of vacation pay to be awarded. After reviewing the accounting literature from Generally Accepted Accounting Principles and Duke Energy's vacation policy and practices, the Company has now determined that a liability exists for the amount of vacation expense to be taken by employees in the next twelve month period. Duke Energy includes the cost of this vacation in the period employees are paid for their vacation.

The Company has determined that the proper accounting treatment is to record a charge to its balance sheet accounts for earned, but unpaid, vacation pay at the beginning of each year. Correspondingly, the Company would create a new regulatory asset as a sub-account in Account 182.3 - Other Regulatory Assets, for deferred vacation expense. Throughout the year, as employees use their vacation days and receive vacation pay, the Company will make appropriate credits to the accrued vacation expense account and charges to the deferred vacation expense regulatory asset account. By the end of the year, both accounts should be near zero.

The Company does not request, at the present time, that the Commission approve rate recovery for this regulatory asset. To the extent that the Company ever decides to include this regulatory asset as part of a future application for a rate increase, the Company acknowledges that it would have the burden to establish that such treatment is fair, just and reasonable.

Based on the foregoing, the Company respectfully requests that the Commission authorize the Company to establish a new regulatory asset as described above. Please date stamp and return the extra copy of this letter in the enclosed envelope. Thanks for your consideration in this matter.

Sincerely,

A handwritten signature in cursive script, appearing to read "John J. Finnigan, Jr.", written in black ink.

John J. Finnigan, Jr.
Associate General Counsel

JJF/sew

cc: Hon. Elizabeth E. Blackford