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John J. Finnigan, Jr.  
Associate General Counsel

**VIA FACSIMILE AND OVERNIGHT MAIL**

May 25, 2007

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

RECEIVED

MAY 29 2007

PUBLIC SERVICE  
COMMISSION

Re: In the Matter of the Application of Duke Energy Kentucky, Inc. for a Certificate of Public Convenience and Necessity to Construct Gas Distribution Facilities Within its Service Territory  
KyPSC Case No. 2007-00142

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Dear Ms. O'Donnell:

Enclosed are an original and nine copies of Duke Energy Kentucky, Inc.'s responses to the Staff's first set of data requests 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

JJF/sew  
Enclosures

**KyPSC Staff First Set Data Requests**  
**Duke Energy Kentucky Case No. 2007-00142**  
**Date Received: May 15, 2007**  
**Response Due Date: May 25, 2007**

**KyPSC-DR-01-001**

**REQUEST:**

1. Provide the estimated decrease in operation and maintenance costs after the proposed facilities are completed. This estimated cost should be Duke Kentucky's best estimate of operation and maintenance costs based on previous Accelerated Main Replacement Program ("AMRP") construction modules or projects or other projections that the company determines to be reasonable.

**RESPONSE:**

Duke Energy Kentucky estimated at that by the end of AMRP in 2010 that maintenance savings would amount to approximately \$700,000 per year. For 2007, Duke Energy Kentucky projects a maintenance savings of approximately \$640,000.

**WITNESS RESPONSIBLE:** Gary J. Hebbeler

**KyPSC Staff First Set Data Requests**  
**Duke Energy Kentucky Case No. 2007-00142**  
**Date Received: May 15, 2007**  
**Response Due Date: May 25, 2007**

**KyPSC-DR-01-002**

**REQUEST:**

2. Explain the criteria Duke Kentucky used to determine the construction projects proposed in this application.

**RESPONSE:**

At the inception of the Accelerated Main Replacement Program (AMRP), the Company developed a strategic replacement plan that it has followed every year to prioritize which sections of main to replace. This replacement plan categorizes the cast iron and bare steel mains according to risk factors associated with leaks, such as date installed; type of installation, *etc.* In all subsequent years of the AMRP, the Company has identified the specific module-based construction projects according to this strategic replacement plan. In addition, the Company will replace the mains based on the following considerations: governmental road projects, third-party replacements of other types of underground facilities located in proximity to the Company's mains, and street resurfacing. The Company has followed this process to determine its construction projects for the AMRP since the inception of the program.

**WITNESS RESPONSIBLE:** Gary J. Hebbeler

**KyPSC Staff First Set Data Requests**  
**Duke Energy Kentucky Case No. 2007-00142**  
**Date Received: May 15, 2007**  
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**KyPSC-DR-01-003**

**REQUEST:**

3. In Case No. 2001-00092,<sup>1</sup> Duke Kentucky stated that its distribution system was comprised of approximately 165 miles of cast iron and bare steel mains. State what percentage of the total cast iron and bare steel mains Duke Kentucky will have replaced upon completion of the projects proposed in this proceeding.

**RESPONSE:**

Upon completion of the 2007 Accelerated Main Replacement Program (AMRP), approximately 70% of cast iron and bare steel mains will be replaced (based on 209 total miles). Upon completion of the full AMRP in 2010, 100% of the cast iron and bare steel mains will be replaced (based on 209 total miles).

Through an inadvertent error, the total miles of cast iron and bare steel mains was incorrectly reported in Case No. 2001-00092; however, the Company's cost estimates were based on the correct total number of miles.

In Case No. 2002-00107, Duke Energy Kentucky correctly stated that 209 miles of cast iron and bare steel mains would be replaced under the AMRP.

**WITNESS RESPONSIBLE:** Gary J. Hebbeler

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<sup>1</sup> Case No. 2001-00092, Adjustment of Gas Rates of The Union Light, Heat and Power Company (Ky. PSC, Jan. 31, 2002).

**KyPSC-DR-01-004**  
**KyPSC Staff First Set Data Requests**  
**Duke Energy Kentucky Case No. 2007-00142**  
**Date Received: May 15, 2007**  
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**KyPSC-DR-01-004**

**REQUEST:**

4. In the past AMRP construction cases, the Commission has authorized Duke Kentucky to deviate from the proposed construction in an amount not to exceed 20 percent of the total proposed construction to address certain contingencies such as road resurfacing projects, etc.
  - a. State the total amount of construction that has been completed to date on such contingency projects.
  - b. State whether the construction of these contingency projects will reduce the time schedule for completion of the total mains replacements to less than the proposed 10 years.

**RESPONSE:**

- a. In Case No. 2006-00101 "Duke Energy Kentucky's April 2007 Update Report On Construction Costs For Accelerated Main Replacement Program," Duke Energy Kentucky reported that the actual construction costs for new gas plant-in-service added through the Accelerated Main Replacement Program (AMRP) in 2006 was \$12,693,447. This amount exceeded by 8.5% (\$993,447) the \$11,700,000 amount approved by the Commission. Please see Attachment A "2006 Kentucky Variance Explanations" in Case No. 2006-00101 for an explanation by job. The majority of the 2006 deviation is due to the change in Duke Energy Kentucky's sewer locating policy. This policy change requires the contractor to pre-locate and post camera all main trunk line sewers and sewer laterals to the property line for all boring techniques.

In Case No. 2005-00094 "Duke Energy Kentucky's April 2006 Update Report On Construction Costs For Accelerated Main Replacement Program," Duke Energy Kentucky reported that the actual construction costs for new gas plant-in-service added through the AMRP in 2005 was \$13,371,257. This amount exceeded by 19.4% (\$2,171,257) the \$11,200,000 amount approved by the Commission. Please see Attachment A "2005 Kentucky Variance Explanations" in Case No. 2005-00094 for an explanation by job. In 2005 the deviation is due to additional Module work (Lawton Rd. and Park Hills) to accommodate municipality's street

improvement programs. In addition, the difference in the Street Improvement Projects was added to accommodate various municipality requirements. The 2005 deviation also reflects items not contemplated at the time the Work Orders were written. These items include unanticipated field conditions and permit requirements.

The Company's actual costs for the annual filings prior to 2005 did not exceed the amounts that the Commission authorized the Company to spend for those years.

b. No.

**WITNESS RESPONSIBLE:** Gary J. Hebbeler

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**KyPSC-DR-01-005**

**REQUEST:**

5. Staff notes that the average replacement costs appear to have increased in the past few years. Explain why the costs have increased.

**RESPONSE:**

Duke Energy Kentucky competitively bids and awards contracts to the lowest and best bidder. Costs have increased as the result of increases in labor, materials and transportation costs. These cost increases can be attributed to several factors including: inflation, price of petroleum, Hurricane Katrina, and changes in Duke Energy Kentucky's construction policies related to safety issues.

**WITNESS RESPONSIBLE:** Gary J. Hebbeler