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VIA OVERNIGHT DELIVERY

July 24, 2008

Ms. Stephanie Stumbo
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40602-0615

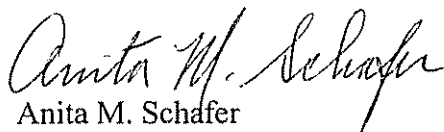
Re: Case No. 2008-00100

Dear Ms. Stumbo:

Enclosed please find an original and twelve copies of the Reply to the Attorney General's Supplemental Comments of Duke Energy Kentucky in the above captioned case.

Please date-stamp the extra two copies and return to me in the enclosed envelope.

Sincerely,


Anita M. Schafer
Senior Paralegal

cc: Certificate of Service

**BEFORE THE
KENTUCKY PUBLIC SERVICE COMMISSION**

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In The Matter Of:

JUL 25 2008

APPLICATION OF DUKE ENERGY)
KENTUCKY, INC. TO RE-INSTITUTE A) CASE NO. 2008-100
HOME ENERGY ASSISTANCE)
PROGRAM)

PUBLIC SERVICE
COMMISSION

**DUKE ENERGY KENTUCKY, INC.'S REPLY TO THE
ATTORNEY GENERAL'S SUPPLEMENTAL COMMENTS**

Now comes Duke Energy Kentucky, Inc., ("DE-Kentucky") and hereby respectfully submits its Reply to the Attorney General's Supplemental Comments in the above-styled proceeding filed on July 11, 2008 ("Supplemental Comments"). The Attorney General continues to oppose DE-Kentucky's Application to Re-Institute its Home Energy Assistance Program ("HEA Program"). In his Supplemental Comments, the Attorney General bases his displeasure with the program on two flawed assumptions: 1) DE-Kentucky's customers do not need another low income assistance program; and 2) Other options, such as payment arrangements or lobbying Congress for additional LiHEAP funding, are workable solutions. DE-Kentucky respectfully disagrees with the Attorney General on both counts and requests that the Commission approve DE-Kentucky's HEA Program as filed.

The HEA Program is necessary. The HEA Program is designed to assist qualifying low income customers who are in desperate need of assistance to keep their lights and heat on where no other funds are available or are inadequate to provide meaningful relief. Unlike other DE-Kentucky DSM programs, HEA Program dollars would provide assurance that some measure of energy assistance funding would be available year round to qualifying customers. Therefore, the HEA program fills a gap in low income energy assistance funding, which is oftentimes limited or

even unavailable due to seasonal and/ or financial constraints. The fact that in DE-Kentucky's 2006 Pilot HEA program, only 5% of the program participants fell within the targeted income range of between 150-200% is meaningless. Moreover, the fact that counties served by DE-Kentucky are ranked as having a median income in the top third of the state is also meaningless. Such a statistic does not mean the low income customers do not exist in the Northern Kentucky area. A visit to the offices of the Northern Kentucky Community Action Commission ("NKCAC") would enlighten anyone who does not believe that this area of Kentucky has residents who are in desperate need of assistance.

The important statistic in this proceeding is that in 2006, the Pilot HEA program funds were used and necessary to resolve or avoid energy crises for more than 3,400 total households. Absent the HEA pilot, those customers would likely have had no relief from eventual disconnection. The proposed HEA program will provide a greater benefit to eligible customers than did the previous program.

While the Attorney General makes a valid point that the cost of energy is affecting all customers and not just those who qualify as low income customers, the Attorney General fails to consider the magnitude of the impact on low income customers. The costs per kWh of electricity or ccf of natural gas are the same for all residential customers. However, low income persons are affected disproportionately, in that a greater percentage of their monthly income is absorbed by energy related expenses, whether it is fuel, or necessary gas and electric utility services.

The total bill impact of the proposed HEA program on a residential customer equals \$1.20 per year per meter. This is a small price to pay for assisting qualifying low income customers to keep their lights on or stay warm. This monetary assistance will reduce the number of disconnections and write off of bad debt, ultimately benefiting all customers' rates.

The Attorney General incorrectly assumes that extended payment alternatives or lobbying for additional government funding are better solutions than providing immediate monetary

assistance to low income customers in DE-Kentucky's service territory. While both options suggested by the Attorney General are not unreasonable, neither presents a viable or workable solution to assist low income customers who are in desperate need of immediate help at the time of need.

If a low income customer who comes to the NKCAC could meet monthly utility payment obligations, they would not need the assistance in the first place. Missing two to three months of utility payments could result in hundreds of dollars in arrears. While DE-Kentucky is proud to offer its customers billing alternatives including payment arrangements for arrearages, budget billing, and adjustable due dates, DE-Kentucky is not so naïve to assume that those options provide a feasible solution for low income customers who are either facing disconnection or are already disconnected. If a low income customer is unable to make the minimum payment necessary to maintain service due to an accrued arrearage, absent energy assistance dollars, payment arrangements and budget billing are of no use. A payment plan alone may not be helpful when the customer has to keep current and repay the past arrearage.

In many instances, the nominal dollars provided through a bill credit, such as the proposed HEA program, are enough to allow the person to keep their utilities on and help the customer get back on the right financial track. Unfortunately, this message seems to get lost among legislators and other government officials as government sponsored program budgets continue to be cut.

DE-Kentucky agrees that additional lobbying is necessary for government sponsored energy assistance program funding. However, DE-Kentucky submits that relying solely upon the mercy of the policy maker's red pen is not in the best interest of low income customers in DE-Kentucky's service territory.

CONCLUSION

For the reasons outlined herein above, DE-Kentucky respectfully requests the Commission approve DE-Kentucky's Application to Re-Institute its Home Energy Assistance Program as filed and as clarified throughout this proceeding.

Respectfully submitted,

DUKE ENERGY KENTUCKY, INC.

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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing filing was served on the following via ordinary

United States mail, postage prepaid, this 29th day of July, 2008:

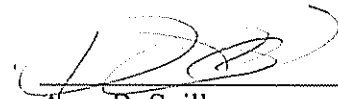
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