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John J. Finnigan, Jr
Associate General Counsel

VIA OVERNIGHT MAIL

February 19, 2007

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

RECEIVED

FEB 20 2007

PUBLIC SERVICE
COMMISSION

RE: In the Matter of The Annual Cost Recovery Filing For Demand Side Management By
The Union Light, Heat and Power Company D/B/A Duke Energy Kentucky
KyPSC Case No. 2006-00426

Dear Ms. O'Donnell:

I am enclosing an original and twelve copies of the Amended Application for Approval of a Revised PowerShare® Program, Approval of a High Efficiency School Incentive Program, Filing of the Annual Status Report, Application for Continuation of The Energy Education and Bill Assistance (Payment Plus) Program and The Personalized Energy Report Program, and Adjustment of The 2006 DSM Cost Recovery Mechanism with Filing of the Amended Tariff Sheets for Gas Rider DSM (Second Revised Sheet No. 62) and Electric Rider DSM (Second Revised Sheet No. 78) to be docketed with the Commission in the above-referenced case.

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

If you have any questions, please do not hesitate to call me.

Sincerely,

John J. Finnigan, Jr.
Associate General Counsel

JJF/sew

cc: All parties of record (w/encl.)

RECEIVED

BEFORE THE
KENTUCKY PUBLIC SERVICE COMMISSION

FEB 20 2007

PUBLIC SERVICE
COMMISSION

In The Matter Of:)
)
THE ANNUAL COST RECOVERY FILING)
FOR DEMAND SIDE MANAGEMENT BY)
THE UNION LIGHT, HEAT AND POWER COMPANY)
D/B/A DUKE ENERGY KENTUCKY)

CASE NO. 2006-00426

AMENDED APPLICATION FOR APPROVAL OF A REVISED POWERSHARE® PROGRAM, APPROVAL OF A HIGH EFFICIENCY SCHOOL INCENTIVE PROGRAM, FILING OF THE ANNUAL STATUS REPORT, APPLICATION FOR CONTINUATION OF THE ENERGY EDUCATION AND BILL ASSISTANCE (PAYMENT PLUS) PROGRAM AND THE PERSONALIZED ENERGY REPORT PROGRAM, AND ADJUSTMENT OF THE 2006 DSM COST RECOVERY MECHANISM WITH FILING OF THE AMENDED TARIFF SHEETS FOR GAS RIDER DSM (SECOND REVISED SHEET NO. 62) AND ELECTRIC RIDER DSM (SECOND REVISED SHEET NO.78)

On September 30, 2006, with the consensus of the Residential Collaborative and the Commercial and Industrial Collaborative, Duke Energy Kentucky, Inc. (formerly known as The Union Light Heat & Power Company and hereinafter referred to as Duke Energy Kentucky) filed an annual status report and an application to continue the Bill Assistance (Payment Plus) program and the Personalized Energy Report program, to expand the C&I High Efficiency Incentive program, and to propose an adjustment to the 2006 Demand Side Management (DSM) Cost Recovery Riders (Application).

The Residential and C&I Collaboratives gave their consensus to the original application. The amendments to the application only affect commercial and industrial customers. With one exception, Duke Energy Kentucky, with the consensus of the Commercial and Industrial Collaborative, seeks approval in this amended application, to include the costs of the revised PowerShare® program within the DSM Cost Recovery Rider and to implement a High Efficiency School Incentive program. The Applicant is

Duke Energy Kentucky of 1697 Monmouth St., Newport, Kentucky 41071. The Commercial & Industrial Collaborative members are Larry Cook (Office of the Attorney General), Jock Pitts (People Working Cooperatively), Karen Reagor (Kentucky NEED Project), John Cain (Wiseway Supply), Daniele Longo (Northern Kentucky Chamber of Commerce), Pat Dressman (Campbell County Fiscal Court), Bob Flick (Flick's Foods), Russell Guy (Campbell County Fiscal Court), Kris Knochelmann (Knochelmann Heating & Air), Robert Lape (Kenton County Schools), Ed Monohan, Sr. (Monohan Development Company), Gary Sinclair (Kenton County Fiscal Court), and John Davies (Kentucky Office of Energy Policy). Since the requested cost recovery for the PowerShare® program would be allocated across all non-residential customers, the Company has also obtained consensus on this filing from Mike Kurtz, attorney for Kentucky Industrial Utility Customers, Inc., as it pertains to that portion of recovery for the PowerShare® program from customers receiving transmission service. The one exception is the Attorney General's office, who will provide his opinion on the amended application at a later date.

Duke Energy Kentucky and the Collaboratives respectfully request approval of the programs as requested in the original and this amended application, and a modification of Duke Energy Kentucky's DSM Riders (Revised Appendices B and C) to reflect the reconciliation of planned and actual expenditures, lost revenues, and shared savings.

I. INTRODUCTION

On October 30, 2006, the Company filed a settlement agreement in Case No. 2006-00172, its recent electric rate case. The settlement agreement stipulated that the Company would recover incremental PowerShare® costs through its DSM Rider. In addition, the

Company has investigated the need to expand its C&I High Efficiency Incentive program targeted to schools. This led to the development of a High Efficiency School Incentive program. This filing requests approval to implement a PowerShare® program and a High Efficiency School Incentive program. The following section describes these programs. The final section provides the revised calculation of the DSM Riders.

II. NEW PROGRAMS

Program 11: PowerShare®

Since inception of the program in 2000, PowerShare® has been a market-based program providing credits to customers for load curtailments, based on the value of the curtailments in the short-term wholesale energy market. Because market prices are highly variable, customer credits have varied dramatically from year-to-year. For instance, in 2000 and 2001, customer credits were relatively high and these credits produced excellent customer participation. However, recent low market prices have resulted in low credits for customers with the ability to curtail load. These low credits have drastically reduced participation in the PowerShare® program, even as the Company has set new peak demand records. So, while the PowerShare® program has great potential value in curtailing load, it has been valued less by customers because of the low market-based credits.

In an effort to reinvigorate the program, transition to a stable program capable of producing consistent capacity value, and as part of the settlement agreement in Case No. 2006-00172, Duke Energy Kentucky will operate the PowerShare® CallOption as part of the Company's Demand Side Management (DSM) programs. Our DSM programs are

evaluated based upon the long-term avoided costs, rather than on short-term market prices for the summer ahead. In essence, the Company will use a long-term capacity value for the CallOption customer's agreement to curtail usage. Under this new pricing methodology, which would be updated on an annual basis, the credits offered to PowerShare® CallOption customers would be based upon the value of avoiding investment in a combustion turbine, as opposed to the short-term, highly variable market value. Although these long-term avoided capacity prices will be evaluated annually, this should stabilize the credits the Company can provide customers at an attractive level in exchange for load reductions. While materially higher than current credits, the new credits would not exceed the value of the annual avoided cost of a combustion turbine. Pricing at or below these levels will help to ensure the cost-effectiveness of the program overall. There is no projected termination date for this program. Customers are asked to enroll annually and Duke Energy Kentucky will report on program activities each year.

Brief Description: PowerShare® is the brand name given to Duke Energy Kentucky's Peak Load Management Program (Rider PLM, Peak Load Management Program KY.P.S.C. Electric No. 4, Sheet No. 77). The PLM Program is voluntary and offers customers the opportunity to reduce their electric costs by managing their electric usage during the Company's peak load periods. Customers and the Company will enter into a service agreement under this Rider, specifying the terms and conditions under which the customer agrees to reduce usage. There are two product options offered for PowerShare® called CallOption® and QuoteOption®:

- o CallOption® – A customer served under a CallOption® product agrees, upon

notification by the Company, to reduce its demand or provide generation for purchase by the Company. Each time the Company exercises its option under the agreement, the Company will provide the customer a credit for the energy reduced or generation provided. If available, the customer may elect to buy through the reduction at a market-based price. In addition to the energy credit, customers on the CallOption® will receive an option premium credit. Only customers able to provide a minimum of 100 kW load response qualify for CallOption®.

- o QuoteOption® – Under the QuoteOption® products, the customer and the Company agree that when the average wholesale market price for energy during the notification period is greater than a pre-determined strike price, the Company may notify the customer of a QuoteOption® event and provide a Price Quote to the customer for each event hour. The customer will decide whether to reduce demand or provide generation during the event period. If they decide to do so, the customer will notify the Company and provide the Company an estimate of the customer’s projected load reduction or generation. Each time the Company exercises the option, the Company will provide the customer an energy credit. There is no option premium for the QuoteOption® product since customer load reductions are voluntary. Only customers able to provide a minimum of 100 kW load response qualify for QuoteOption®.

Rider PLM was approved pursuant as part of the settlement agreement in Case No. 2006-00172. A more detailed description of program concepts and components can be found in Appendix E.

Target Market: Currently, the PowerShare® QuoteOption® program has 54

participants. Our goal for 2007 is to retain all customers that currently participate and to get as many of these customers as possible to migrate to the CallOption® program. This would provide additional demand response that can reduce the need for new plant. There is also one customer on an interruptible rate that is proposed to be eliminated in the settlement agreement in Case No. 2006-00172. Duke Energy will offer to transition this customer to the revised PowerShare® program.

Market Barriers: Mandatory curtailment can sometimes cause customer concern. Duke Energy Kentucky has addressed this issue by allowing customers the opportunity to “buy through” if necessary. There are also limits placed on how often the program is used. The customer can choose among three CallOption® offers, with maximum curtailments of 12, eight, or four times during the summer program months of June through September. The 12 and eight event offers are limited to three events in any one week and at most two consecutive daily events. The four event offer is designed specifically for customers who can not comply with many events in one week. This offer is limited to one event per week.

Marketing: Each customer currently enrolled in Quote Option® will be notified by Duke Energy Kentucky about the revisions to the PowerShare® program.

Program 12: High Efficiency School Incentive

In Case No. 2004-00389, the Commission approved a program for Duke Energy Kentucky that provides incentives to small commercial and industrial customers to install

high efficiency equipment in applications involving new construction, retrofit, and replacement of failed equipment. In the application filed September 30, 2006 in Case No. 2006-00426, Duke Energy Kentucky provided an update on the program and requested to double the size of the program in light of customer interest in the program.

Since the September 30, 2006 filing, the Company has considered expanding this program even further to provide support for energy efficiency targeted to schools. This High Efficiency School Incentive program will provide incentives for the same measures included in the existing C&I High Efficiency Incentive program, as well as for other custom efficiency initiatives in schools that may be cost-effective to implement. Duke Energy Kentucky requests a budget of approximately \$1,000,000 for this effort.

Brief Description: The High Efficiency School Incentive program provides incentives to schools K-12 in the Duke Energy Kentucky service area to conduct energy efficiency assessments at any school and purchase high efficiency equipment for applications in Category 3, 4, or 5 schools.¹ These applications may involve retrofit or replacement of failed equipment. Additionally, this program helps schools manage their energy consumption through PowerShare® and provides information about the Residential Comprehensive Energy Education program or KY NEED program.

¹ The Commonwealth of Kentucky uses the following building assessments to categorize the relative building conditions for each facility:

- 1 - Excellent (new, generally less than 10 years)
- 2 - Better (generally 10-20 years old)
- 3 - Good/Average (20-30 years old)
- 4 - Fair/Poor (30-40 years old, needs renovation)
- 5 - Poor (older than 40 years old)

Energy efficiency assessments may consist of a comprehensive evaluation (energy audit) of lighting, motors, boilers, cooling systems, air supply systems, energy management systems, and the building envelope. Alternatively, assessments may focus on selected components or systems such as lighting or HVAC systems. Assessments will also identify curtailable load that can be utilized for the PowerShare® program. Incentives will be provided through the existing prescriptive incentive option for standard technologies covered in the Duke Energy Kentucky C&I High Efficiency Incentive program, utilizing the existing program's scope and measures, along with a specific budget allocated for schools. Through this program, schools will be able to take advantage of existing cost-effective C&I prescriptive rebates and, glean energy savings insights from comprehensive assessments.

Participating schools will also be provided information regarding Duke Energy Kentucky's Residential Comprehensive Energy Education program or KY NEED program which integrates energy efficiency into fifth grade classroom curricula. Participating schools can also sign up for the PowerShare® program based on curtailable loads identified from the energy assessment. This program allows schools to earn additional savings for curtailing electric consumption during prescribed events.

Because the prescriptive C&I High Efficiency Incentive rebate program, Power Share®, and KY NEED are discussed in the original application, this amended application only reviews the High Efficiency School Incentive program's comprehensive energy audit subsidies and the custom incentive application process.

Target Market: All Duke Energy-Kentucky schools K-12, except those receiving transmission voltage service under Rate TT.

Technology Categories: Eligible equipment includes refrigeration, variable frequency drives, pumps, controls, motors, lighting, and HVAC equipment. Other custom measures, including shell measures, not specifically listed, will be considered based on assessment results and the cost-effectiveness of the proposed application.

Market Barriers: School buildings can use significant amounts of energy, yet are not frequently served by energy services companies (ESCOs). These customers may not understand the benefits of high efficiency alternatives. They may feel that the payback period for energy efficient equipment is too long. Duke Energy Kentucky's program offers an energy assessment to identify curtailable loads, provides the information needed to make sound energy efficiency investment decisions, and provides financial incentives for the schools in most need of energy efficiency improvements. Duke Energy Kentucky's program provides technology-specific and custom incentives to reduce efficiency implementation costs and improve the customer's payback.

Components of Delivery:

Incentives: Both Prescriptive and Custom Incentives are provided. The Prescriptive measures are standard cost-effective measures already shown through modeling to be cost-effective. These are well-known in the marketplace and have been offered by Duke

Energy Kentucky during the last year. Prescriptive measure incentive levels were determined based on Duke Energy Kentucky's cost-effectiveness modeling. Additional detail is provided under the C&I High Efficiency Incentive program review. The Custom incentives added in this High Efficiency School Incentive program will be based on the demonstrated cost-effectiveness of the cost per kW, kWh, and therm saved, the demonstrated avoided cost savings for the schools, and whether the measure savings have a reasonable payback to the school. Custom incentives allow providers to determine savings and costs before and after applicable incentives and measure installations occur. The maximum incentive payable for each school will be \$100,000 per school per year. Also, Duke Energy Kentucky will only fund efficiency savings that are cost-effective for the utility and the customer up to the point where the customer's payback period is two years or more. Duke Energy Kentucky assumes payback periods less than two years for energy savings would be paid by the schools irrespective of additional funding from Duke Energy Kentucky.

Assessment incentives will be provided to cover 25% of the cost of the assessment up to \$500 per school. If the school then proceeds with cost-effective Prescriptive or Custom measures installations, an additional 25% of the assessment cost up to \$500 will be covered through the incentive process as long as the value of the savings from the installations remains costs-effective. The assessments can be comprehensive assessments or by specific system such as lighting or heating.

PowerShare®: Duke will assist participating schools in identifying curtailable load and

signing up for the PowerShare® program. Through PowerShare®, customers agree to shed a fixed quantity of load up to 12 times a year when notified by the utility. In return, Duke pays the customer a financial incentive for shedding load.

Education/Training: Duke Energy Kentucky (or its C&I support subcontractor) will provide education and training to its market providers to help them understand the program and the appropriate applications for the technologies. Additionally, Duke Energy Kentucky will provide energy efficiency education curriculum support materials to participating schools through its existing KY NEED program.

Marketing: To make the school systems aware of the offer, Duke Energy Kentucky will mail program information and then follow up with interested schools. Additional information will be mailed to local ESCOs and contractors serving the schools.

Market Support: Market support varies by technology. Most technologies included within the prescriptive program are proven and in the marketplace, though not widely applied. Duke Energy Kentucky will provide to market suppliers (contractors and ESCOs) additional support and education on newer technologies that have lesser acceptance, greater efficiency potential, and Duke Energy Kentucky's custom application process. Existing market suppliers will provide assessments and installations. Duke Energy Kentucky will work with the market suppliers and the schools to complete the applications to receive incentives.

Delivery Organizations: Duke Energy Kentucky will use its subcontractor currently supporting the C&I High Efficiency Incentive program in Kentucky and its internal DSM team to manage and implement the program. Additional outside technical assistance will be retained to analyze technical applications and provide customer/market provider assistance as necessary.

Quality Control/Monitoring: To assure appropriate installation of equipment, applications for incentives will be reviewed and checked for accuracy and whether measures meet appropriate standards. Random field inspections will occur to assure appropriate installation.

The results of the cost effectiveness for this program are UCT of 1.75, a TRC of 2.86, and a RIM of 1.09.

III. CALCULATION OF THE REVISED 2007 DSM COST RECOVERY MECHANISM

Adding the PowerShare® program and the High Efficiency School Incentive program will increase the DSM Rider for the same non-residential rate classes identified in the original application and will trigger collection of revenues for the PowerShare® program from all non-residential rate classes.

The reconciliation of the DSM Rider involves a comparison of projected vs. actual program expenses, lost revenues, and shared savings as well as inclusion of the prior year's reconciliation. The actual cost of residential and non-residential program expenditures, lost

revenues, and shared savings for this reporting period was \$2.3 million. The projected level of expenditures is \$ 5.1 million.

Lost revenues are computed using the applicable marginal block rate net of fuel costs and other variable costs times the estimated kWh savings for a three-year period from installation of the DSM measure. The estimate of kWh savings is based upon the results from any recently completed impact evaluation studies and actual customer participation. Lost revenues accumulate over a three-year period from the installation of each measure, unless a general rate case has occurred. Since a rate case reached completion between the timing of the original application and the timing of this amended application, the Company has reduced the level of recovery for lost revenues to reflect the impact of the rate case. This applies to implementation of past energy efficiency measures. The projected impact of lost revenues from installation of new energy efficiency measures continues to be included in the rate calculation.

With respect to shared savings, Duke Energy Kentucky utilized the shared incentive of 10% of the total savings net of the costs of measures, incentives to customers, marketing, impact evaluation, and administration. The savings are estimated by multiplying the number of participants for each measure times the UCT value and then subtracting the program costs. Shared savings only are valued for new installation of new DSM measures. For the PowerShare® program, calculation of shared savings is reduced to the first year due to the fact that the level of participation can change each year.

Outline of DSM Activity

Duke Energy Kentucky plans to offer the following DSM programs in Duke

Kentucky's service territory in 2007:

- Program 1: Residential Conservation and Energy Education (Low-Income Weatherization)
- Program 2: Residential Home Energy House Call
- Program 3: Residential Comprehensive Energy Education Program (NEED)
- Program 4: Program Management, Development and Evaluation Funds
- Program 5: Energy Education & Bill Assistance Program (Payment Plus)
- Program 6: Power Manager
- Program 7: Energy Star Products
- Program 8: Energy Efficiency Website
- Program 9: Personal Energy Report (PER)
- Program 10: C&I High Efficiency Incentive
- Program 11: PowerShare®
- Program 12: High Efficiency School Incentive

2007 DSM Riders

In accordance with the Commission's Order in Case No. 95-312, the Joint Applicants submit the proposed DSM Riders (Revised Appendices B and C). The Riders are intended to recover projected 2007 program costs, lost revenues and shared savings, to reconcile the actual DSM revenue requirement, as previously defined, to the revenue recovered under the DSM Riders for the period July 1, 2005 through June 30, 2006. Appendix D, page 1 of 5, tabulates the reconciliation of the DSM Revenue Requirement associated with the prior reconciliation, Duke Energy Kentucky's program costs, lost revenues, and shared savings between July 1, 2005 and June 30, 2006, and the revenues

collected through the DSM Riders over the same period. The calculation of lost revenues and shared savings only covers the period from the date of the Order in Case No. 2004-00389 through June 30, 2006. The true-up adjustment is based upon the difference between the actual DSM revenue requirement and the revenues collected during the period July 1, 2005 through June 30, 2006.

The actual DSM revenue requirement for the period July 1, 2005 through June 30, 2006 consists of: (1) program expenditures, lost revenues, and shared savings; and (2) amounts approved for recovery in the previous reconciliation filing. The actual program costs incurred are reflected in column (2) labeled "Projected Program Costs 7/2005 to 6/2006."

Appendix D, page 5 of 5 contains the calculation of the 2006 Residential DSM Riders. The calculation includes the reconciliation adjustments calculated in Appendix D, page 1 of 5 and the DSM revenue requirement for 2007. The residential DSM revenue requirement for 2007 includes the costs associated with the Residential DSM programs, the program development funds, the pilot Energy Education and Bill Assistance Program (Payment Plus), the Power Manager program, the Energy Star Products program, the Energy Efficiency Website program, the Personalized Energy Report program, and any applicable net lost revenues and shared savings (Appendix D, pages 2 and 3 of 5). Total revenue requirements are incorporated along with the projected electric and gas volumes (Appendix D, page 4 of 5) in the calculation of the Residential DSM Rider.

Appendix D, page 5 of 5 also contains the calculation of the 2007 Commercial and Industrial DSM Rider. The calculation includes the reconciliation adjustments calculated in Appendix D, page 1 of 5 and the DSM revenue requirement for 2006. The Commercial

& Industrial DSM revenue requirement for 2007 includes the costs associated with the commercial and industrial DSM program (C&I High Efficiency Incentive), the PowerShare® program, the High Efficiency School Incentive program, and the associated net lost revenues and shared savings (Appendix D, pages 2 and 3 of 5). The 2007 Commercial and Industrial DSM Rider is calculated in two parts. One part (Part A) is based upon the revenue requirements for the C&I High Efficiency Incentive Program and the High Efficiency School Incentive program. This part is only recovered from all non-residential rate classes except rate TT. The other part (Part B) is based upon the revenue requirements for the PowerShare® program and is recovered from all non-residential rate classes including rate TT.

Total revenue requirements are incorporated along with the projected electric volumes (Appendix D, page 4 of 5) in the calculation of the Residential DSM Rider.

The Company's proposed 2007 DSM Riders, shown as Revised Appendices B and C, replace the current DSM Riders, which were implemented in the first available billing cycle of April, 2006. The electric DSM rider, proposed to be effective with the first billing cycle in January 2007, is applicable to service provided under Duke Energy Kentucky's electric service tariffs as follows:

Residential Electric Service provided under:

Rate RS, Residential Service, Sheet No. 30

Non-Residential Electric Service provided under:

Rate DS, Service at Secondary Distribution Voltage, Sheet No. 40

Rate DT, Time-of-Day Rate for Service at Distribution Voltage, Sheet No. 41

Rate EH, Optional Rate for Electric Space Heating, Sheet No. 42

Rate SP, Seasonal Sports, Sheet No. 43

Rate GS-FL, Optional Unmetered General Service Rate for Small Fixed Loads, Sheet No. 44

Rate DP, Service at Primary Distribution Voltage, Sheet No. 45

Rate RTP-M, Real Time Pricing – Market-Based Pricing, Sheet No. 59

Rate RTP, Experimental Real Time Pricing Program, Sheet No. 99

Rate TT, Service at Transmission Voltage, Sheet No. 51

The gas DSM rider is applicable to service provided under the following residential gas service tariff:

Rate RS, Residential Service, Sheet No. 30

Calculation of the Residential Charge

The proposed residential charge per kWh for 2007 was calculated by dividing the sum of: (1) the reconciliation amount calculated in Appendix D, page 1 of 5; and (2) the DSM Revenue Requirement associated with the DSM programs projected for calendar year 2007, by the projected sales for calendar year 2007. DSM Program Costs for 2007 include the total implementation costs plus program rebates, lost revenues, and shared savings. The calculations in support of the residential recovery mechanism are provided in Appendix D, page 5 of 5.

Calculation of the Non-Residential Charge

The proposed non-residential charge per kWh for 2007 was calculated in two parts. The first part (Part A), applicable to all non-residential rate classes except Rate TT, is

calculated by dividing the sum of: (1) the reconciliation amount calculated in Appendix D, page 1 of 5; and (2) the DSM Revenue Requirement associated with the C&I High Efficiency Incentive Program and the High Efficiency School Incentive program DSM programs projected for calendar year 2007, by the respective projected sales for calendar year 2007. The second part (Part B), applicable to all non-residential rate classes including Rate TT, is calculated by dividing the DSM Revenue Requirement associated with the PowerShare® program projected for calendar year 2007, by total non-residential projected sales for calendar year 2007. DSM Program Cost for 2007 includes the total implementation costs plus program rebates, lost revenues and shared savings.

The rider applicable to all non-residential rate classes except Rate TT is the sum of Part A and Part B. The rider applicable to all non-residential rate classes including Rate TT is only Part B.

Allocation of the DSM Revenue Requirement

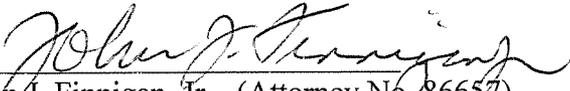
As required by KRS 278.285(3), the DSM Cost Recovery Mechanism attributes the costs to be recovered to the respective class that benefits from the programs. The amounts associated with the reconciliation of the Rider are similarly allocated as demonstrated in Appendix D, page 2 of 5. The costs for the Power Manager program are fully allocated to the residential electric class, since this is the class benefiting from the implementation of the program. As required, qualifying industrial customers are permitted to “opt-out” of participation in, and payment for, the C&I High Efficiency Incentive Program and the High Efficiency School Incentive program. All of Duke Energy Kentucky’s Rate TT customers met the “opt-out” requirements prior to the implementation of the DSM Riders

in May 1996, and are not subject to this portion of the DSM Cost Recovery Mechanism. However, all non-residential customers, including Rate TT customers, will be charged for the PowerShare® program.

WHEREFORE, the Joint Applicants respectfully request that the Commission review and approve this Application.

Respectfully submitted,

DUKE ENERGY KENTUCKY, INC.

By: 
John J. Finnigan, Jr. (Attorney No. 86657)
Associate General Counsel
Duke Energy Shared Services, Inc.
Room 25ATII
P. O. Box 960
Cincinnati, Ohio 45201-0960
(513) 287-3601

CERTIFICATE OF SERVICE

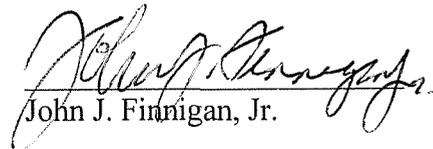
I hereby certify that a copy of the foregoing filing was served on the following via ordinary United States mail, postage prepaid, this 19th day of February, 2007:

Larry Cook, Assistant Attorney General
The Kentucky Office of the Attorney General
1024 Capital Center Drive
Frankfort, Kentucky 40602-2000

Anita L. Mitchell
Public Service Commission
730 Schenkel Lane
Frankfort, Kentucky 40602

Florence W. Tandy
Northern Kentucky Community Action Commission
P.O. Box 193
Covington, Kentucky 41012

Carl Melcher
Northern Kentucky Legal Aid, Inc.
302 Greenup
Covington, Kentucky 41011


John J. Finnigan, Jr.

Duke Energy Kentucky
1697-A Monmouth Street
Newport, Kentucky 41071

Appendix B Rider DSMR Electric
KY.P.S.C. Electric No. 2
First Revised Sheet No. 78
Cancels and Supersedes
Original Sheet No. 78
Page 1 of 1

RIDER DSMR
DEMAND SIDE MANAGEMENT RATE

The Demand Side Management Rate (DSMR) shall be determined in accordance with the provisions of Rider DSM, Demand Side Management Cost Recovery Rider, Sheet No. 75 of this Tariff.

The DSMR to be applied to residential customer bills beginning with the January 2007 revenue month is \$.000449 per kilowatt-hour.

The DSMR to be applied to non-residential service customer bills beginning with the January 2007 revenue month for distribution service is \$0.001237 per kilowatt-hour, and \$0.000150 per kilowatt-hour for transmission service.

Issued by authority of the Kentucky Public Service Commission in Case No.
dated _____.

Issued:

Effective: January 2, 2007

Issued by Sandra P. Meyer, President

Duke Energy Kentucky
1697-A Monmouth Street
Newport, Kentucky 41071

Appendix C Rider DSMR Gas – Revised

KY.P.S.C. Gas No. 2
First Revised Sheet No. 62
Cancels and Supersedes
Original Sheet No. 62
Page 1 of 1

RIDER DSMR

DEMAND SIDE MANAGEMENT RATE

The Demand Side Management Rate (DSMR) shall be determined in accordance with the provisions of Rider DSM, Demand Side Management Cost Recovery Rider, Sheet No. 61 of this Tariff.

The DSMR to be applied to residential customer bills beginning with the January 2007 revenue month is \$(0.056222) per hundred cubic feet.

The DSMR to be applied to non-residential service customer bills beginning with the January 2007 revenue month is \$0.00 per hundred cubic feet.

Issued by authority of an Order by the Kentucky Public Service Commission, dated _____ in
Case No. _____

Issued:

Effective: January 2, 2007

Issued by Sandra P. Meyer, President

Appendix D
Kentucky DSM Rider

Comparison of Revenue Requirement to Rider Recovery

Residential Programs	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
	Projected Program Costs 7/2005 to 6/2006 (A)	Projected Lost Revenues 7/2005 to 6/2006 (A)	Projected Shared Savings 7/2005 to 6/2006 (A)	Program Expenditures 7/05 through 6/06 (B)	Gas	Electric	Lost Revenues 7/05 through 6/06 (B)	Shared Savings 7/05 through 6/06 (B)	Gas (D)	Electric (E)	Rider Collection Gas	Electric	(Over)/Under Collection Gas (G)	Electric (H)
Res. Conservation & Energy Education	\$ 489,800	\$ 1,283	\$ (1,340)	\$ 308,702	\$ 194,173	\$ 114,529	\$ 3,931	\$ (1,885)			NA	NA	NA	NA
Refrigerator Recycling Pilot	\$ 100,000	\$ 3,188	\$ 2,254	\$ 28,825	\$ -	\$ 28,829	\$ 2,394	\$ 1,653			NA	NA	NA	NA
Residential Home Energy House Call	\$ 150,000	\$ 15,771	\$ 26,686	\$ 144,102	\$ 90,640	\$ 53,462	\$ 15,426	\$ 34,296			NA	NA	NA	NA
Res. Computerized Elderly Education	\$ 81,500	\$ -	\$ -	\$ 59,185	\$ 37,229	\$ 21,960	\$ -	\$ -			NA	NA	NA	NA
Home Energy Assistance Plus	\$ 75,000	\$ -	\$ -	\$ 77,015	\$ -	\$ 77,015	\$ -	\$ -			NA	NA	NA	NA
Power Manager	\$ 750,000	\$ -	\$ 70,463	\$ 715,396	\$ -	\$ 715,397	\$ -	\$ 64,386			NA	NA	NA	NA
Program Development Funds	\$ 140,000	\$ -	\$ -	\$ 95,900	\$ 60,321	\$ 35,579	\$ -	\$ -			NA	NA	NA	NA
Energy Star Products	\$ 240,430	\$ 126,096	\$ 51,220	\$ 94,080	\$ 59,176	\$ 34,904	\$ 45,936	\$ 72,630			NA	NA	NA	NA
Energy Efficiency Website	\$ 21,493	\$ 9,577	\$ 4,195	\$ -	\$ -	\$ -	\$ -	\$ -			NA	NA	NA	NA
Personnel Energy Report Pilot Program	\$ 109,246	\$ -	\$ -	\$ 15,963	\$ 10,041	\$ 5,923	\$ -	\$ -			NA	NA	NA	NA
Home Energy Assistance Pilot Program	\$ 241,295	\$ -	\$ -	\$ 112,622	\$ 70,839	\$ 41,783	\$ -	\$ -			NA	NA	NA	NA
Revenues collected except for HEA	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -			\$ 42,967	\$ 58,742	\$ -	\$ -
Total	\$ 2,408,764	\$ 155,915	\$ 153,478	\$ 1,651,800	\$ 522,419	\$ 1,129,381	\$ 67,687	\$ 171,060	\$ 415,922	\$ (231,867)	\$ 1,964,389	\$ 2,468,999	\$ (1,045,248)	\$ (1,332,718)

(A) Amounts identified in report filed on September 30, 2005 and updated January 16, 2006.

(B) Actual program expenditures, lost revenues, and shared savings for the period July 1, 2005 through June 30, 2006 and lost revenues for this period from prior period DSM measure installations.

(C) Allocation of program expenditures to gas and electric. Uses 62.5% gas based upon saturation of gas space heating.

(D) Recovery allowed in accordance with the Commission's Order in Case No. 2004-00389.

(E) Recovery allowed in accordance with the Commission's Order in Case No. 2004-00389.

(F) Revenues collected through the DSM Rider between July 1, 2005 and June 30, 2006.

(G) Column (8) + Column (9) - Column (11).

(H) Column (4) + Column (5) + Column (6) + Column (7) - Column (10) - Column (12).

Commercial Programs	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Projected Program Costs 7/2005 to 6/2006 (A)	Projected Lost Revenues 7/2005 to 6/2006 (A)	Projected Shared Savings 7/2005 to 6/2006 (A)	Program Expenditures 7/05 through 6/06 (B)	Lost Revenues 7/05 through 6/06 (B)	Shared Savings 7/05 through 6/06 (B)	Reconciliation (C)	Rider Collection (D)	(Over)/Under Collection (E)
High Efficiency Program	\$ 52,380	\$ 17,482	\$ 2,674	\$ 249,298	\$ 62,745	\$ 45,681			
Lighting	\$ 1	\$ 6,661	\$ 3,647	\$ 31,115	\$ 1,436	\$ 18,277			
HVAC	\$ 35,690	\$ 5,210	\$ 6,430	\$ -	\$ -	\$ -			
Meters	\$ 25,169	\$ 74,709	\$ 112,207	\$ 32,938	\$ -	\$ -			
Other	\$ 112,703	\$ 104,062	\$ 124,958	\$ 313,351	\$ 64,181	\$ 63,958			
Total	\$ 225,942	\$ 104,062	\$ 124,958	\$ 313,351	\$ 64,181	\$ 63,958	\$ (426,840.00)	\$ (607,229)	\$ 557,917

(A) Amounts identified in report filed on September 30, 2005.

(B) Actual program expenditures, lost revenues, and shared savings for the period July 1, 2005 through June 30, 2006 and lost revenues for this period from prior period DSM measure installations.

(C) Recovery allowed in accordance with the Commission's Order in Case No. 2004-00389.

(D) Revenues collected through the DSM Rider between July 1, 2004 and June 30, 2005.

(E) Column (4) + Column (5) + Column (6) + Column (7) - Column (8)

Revised Appendix D

2007 Projected Program Costs, Lost Revenues, and Shared Savings

Residential Program Summary

	Costs		Lost Revenues		Shared Savings		Total		Allocation of Costs		Budget (Costs, Lost Revenues, & Shared Savings)	
	Costs	Lost Revenues	Shared Savings	Total	Electric	Gas	Electric Costs	Gas Costs	Electric	Gas	Electric	Gas
Residential - Current Programs/Measures												
Residential Conservation & Energy Education	\$ 499,800	\$ 12,233	\$ (8,996)	\$ 503,037	37.1%	62.9%	\$ 185,426	\$ 314,374	37.1%	62.9%	\$ 188,663	\$ 314,374
Refrigerator Replacement	\$ 100,000	\$ 5,411	\$ 4,700	\$ 110,111	100.0%	0.0%	\$ 100,000	\$ -	100.0%	0.0%	\$ 110,111	\$ -
Home Energy House Call	\$ 150,000	\$ 30,729	\$ 26,686	\$ 207,415	37.1%	62.9%	\$ 55,650	\$ 94,350	37.1%	62.9%	\$ 113,065	\$ 94,350
Residential Comprehensive Energy Education	\$ 81,500	\$ -	\$ -	\$ 81,500	37.1%	62.9%	\$ 30,237	\$ 51,264	37.1%	62.9%	\$ 30,237	\$ 51,264
Home Energy Assistance Plus (continuing)	\$ 150,000	\$ -	\$ -	\$ 150,000	100.0%	0.0%	\$ 55,650	\$ 94,350	100.0%	0.0%	\$ 55,650	\$ 94,350
Power Manager	\$ 875,000	\$ -	\$ 70,463	\$ 945,463	100.0%	0.0%	\$ 875,000	\$ -	100.0%	0.0%	\$ 945,463	\$ -
Program Development Funds	\$ 140,000	\$ -	\$ -	\$ 140,000	37.1%	62.9%	\$ 51,940	\$ 88,060	37.1%	62.9%	\$ 51,940	\$ 88,060
Energy Star Products	\$ 240,430	\$ 196,415	\$ 51,220	\$ 488,065	100.0%	0.0%	\$ 240,430	\$ -	100.0%	0.0%	\$ 488,065	\$ -
CFL's (Compact Fluorescent Lights)												
Torchieres (Floor lamps)	\$ 25,160	\$ 13,499	\$ 5,913	\$ 44,572	37.1%	62.9%	\$ 9,334	\$ 15,826	37.1%	62.9%	\$ 28,746	\$ 15,826
Energy Efficiency Web Site	\$ 109,246	\$ -	\$ -	\$ 109,246	37.1%	62.9%	\$ 40,530	\$ 68,716	37.1%	62.9%	\$ 40,530	\$ 68,716
Personalized Energy Report Pilot Program	\$ 2,371,136	\$ 258,287	\$ 149,986	\$ 2,779,409			\$ 1,644,197	\$ 726,939			\$ 2,052,470	\$ 726,939
Total Costs, Net Lost Revenues, Shared Savings	\$ -	\$ -	\$ -	\$ -			\$ -	\$ -			\$ -	\$ -

C&I DSM Program Summary

	Costs		Lost Revenues		Shared Savings		Total		Allocations		Budget (Costs, Lost Revenues, & Shared Savings)	
	Costs	Lost Revenues	Shared Savings	Total	Electric	Gas	Electric Costs	Gas Costs	Electric	Gas	Electric	Gas
High Efficiency Program	\$ 104,760	\$ 153,936	\$ 5,349	\$ 264,045	100.0%	0.0%	\$ 104,760	\$ 264,045	100.0%	0.0%	\$ 104,760	\$ 264,045
Lighting	\$ 71,380	\$ 16,045	\$ 7,294	\$ 94,718	100.0%	0.0%	\$ 71,380	\$ 94,718	100.0%	0.0%	\$ 71,380	\$ 94,718
HVAC	\$ 50,339	\$ 10,421	\$ 12,859	\$ 73,619	100.0%	0.0%	\$ 50,339	\$ 73,619	100.0%	0.0%	\$ 50,339	\$ 73,619
Motors	\$ 225,407	\$ 149,418	\$ 224,415	\$ 599,240	100.0%	0.0%	\$ 225,407	\$ 599,240	100.0%	0.0%	\$ 225,407	\$ 599,240
Other	\$ 451,885	\$ 329,820	\$ 249,916	\$ 1,031,622			\$ 451,885	\$ 1,031,622			\$ 451,885	\$ 1,031,622
Total for the High Efficiency Program												
High Efficiency School Incentive Program	\$ 104,760	\$ 34,963	\$ 5,349	\$ 145,072	100.0%	0.0%	\$ 104,760	\$ 145,072	100.0%	0.0%	\$ 104,760	\$ 145,072
Lighting	\$ 71,380	\$ 13,323	\$ 7,294	\$ 91,996	100.0%	0.0%	\$ 71,380	\$ 91,996	100.0%	0.0%	\$ 71,380	\$ 91,996
HVAC	\$ 50,339	\$ 10,421	\$ 12,859	\$ 73,619	100.0%	0.0%	\$ 50,339	\$ 73,619	100.0%	0.0%	\$ 50,339	\$ 73,619
Motors	\$ 225,407	\$ 149,418	\$ 224,415	\$ 599,240	100.0%	0.0%	\$ 225,407	\$ 599,240	100.0%	0.0%	\$ 225,407	\$ 599,240
Other	\$ 451,885	\$ 208,125	\$ 249,916	\$ 909,927			\$ 451,885	\$ 909,927			\$ 451,885	\$ 909,927
Total for the High Efficiency School Incentive Program												
PowerShare@ Program	\$ 265,000	\$ -	\$ 107,641	\$ 372,641	100.0%	0.0%	\$ 265,000	\$ 372,641	100.0%	0.0%	\$ 265,000	\$ 372,641
Total C&I DSM Program	\$ -	\$ -	\$ -	\$ -			\$ -	\$ -			\$ -	\$ -

Duke Energy Kentucky
Demand Side Management Cost Recovery Rider (DSMR)
Summary of Calculations for 2006 Programs

January, 2007 through December, 2007

	Program Costs (A)
<u>Electric Rider DSM</u>	
Residential Rate RS	\$ 2,052,470
Distribution Level Rates Part A DS, DP, DT, GS-FL, EH & SP	\$ 1,941,548
Transmission Level Rates & Distribution Level Rates Part B	\$ 372,641
<u>Gas Rider DSM</u>	
Residential Rate RS	\$ 726,939

(A) See Appendix D, page 2 of 5.

Duke Energy Kentucky
Demand Side Management Cost Recovery Rider (DSMR)
Summary of Billing Determinants

Year	2006
Projected Annual Electric Sales MWH	
Rates RS	1,472,498
Rates DS, DP, DT, GS-FL, EH, & SP	2,320,532
Rates DS, DP, DT, GS-FL, EH, SP, & TT	2,492,251
Projected Annual Gas Sales MCF	
Rate RS	6,498,195

Revised Appendix D

Duke Energy Kentucky
Demand Side Management Cost Recovery Rider (DSMR)
Summary of Calculations

January, 2007 through December, 2007

Rate Schedule	True-Up Amount (A)	Expected Program Costs (B)	Total DSM Revenue Requirements	Estimated Billing Determinants (C)	DSM Cost Recovery Rider (DSMR)
Electric Rider DSM Residential Rate RS	\$ (1,391,358)	\$ 2,052,470	\$ 661,112	1,472,498 mWh	0.000449 \$/kWh
Distribution Level Rates Part A DS, DP, DT, GS-FL, EH & SP	\$ 582,465	\$ 1,941,548	\$ 2,524,014	2,320,532 mWh	0.001088 \$/kWh
Transmission Level Rates & Distribution Level Rates Part B TT	\$ -	\$ 372,641	\$ 372,641	2,492,251 mWh	0.000150 \$/kWh
Distribution Level Rates Total DS, DP, DT, GS-FL, EH & SP	\$ (1,092,283)	\$ 726,939	\$ (365,344)	6,498,195 MCF	(0.056222) \$/MCF
<u>Gas Rider DSM Residential Rate RS</u>					
Total Rider Recovery		\$	\$ 3,192,423		
Customer Charge Electric No.4 Residential Rate RS		New Numbers \$ -	Annual Revenues \$ -	Number of Customers -	Monthly Customer Charge \$ -
Gas No. 5 Residential Rate RS		\$ -	\$ -	-	\$ -
Total Customer Charge Revenues		\$	\$		
Total Recovery			\$ 3,192,423		

(A) (Over)/Under of Appendix D page 1 multiplied by 1.044 for 2006 for the average three-month commercial paper rate to include interest on over or under-recovery.
(B) Appendix D, page 2.
(C) Appendix D, page 4.

Appendix E

PowerShare® 2007

Program Concepts

	<u>CallOption®</u>	<u>QuoteOption®</u>
Load Response	Mandatory (Obligated)	Elective
Energy Credit (EC)	Shared (Fixed)	Shared (Variable)
Premium Paid	Yes	No
Applicable Periods	June 1, 2007 through September 30, 2007	Year-Round
Share of Market Savings	No	No
Energy Credit Calculation (Total Customer Benefit)	= Strike Price	= Greater of Tariff OR Tariff + 50% of Market-Tariff differential
Strike Prices & Premiums	\$0.10 (\$25 per kW) \$0.10 (\$17 per kW) \$0.10 (\$7 per kW)	Strike Prices relevant only for predicted load response levels. One price quote will be offered to all Quote Option customers.
Maximum Number Of Calls	12 times for \$25 Premium 8 times for \$17 Premium 4 times for \$7 Premium	Unlimited potential <u>OFFERS</u>
Decision to Call Or Offer	3:30 PM EDT Day ahead based on average 8-hour day-ahead Market Price forecast greater than Strike Price.	Normally 9:00 AM EDT same-day based on 8-hour average same-day Market Price forecast that is greater than \$0.10 per kWh. Price Quotes may also be offered later in the day due to market fluctuations. Customer acceptance with estimated load reduction required within one hour.

PowerShare® 2007

Program Concepts

Definitions

- Market Price:** MISO “Into CIN.ULHP”-Day-ahead price for CallOption® decision.
For QuoteOption® PriceQuote: Same-day price to normally be quoted not later than 9:00 AM EDT for Option period.
- Buy-through:** (Non-compliance with CallOption® mandatory obligation)
Price will be estimated hourly but billed on ACTUAL buy-through cost per PLM Tariff, not to exceed \$3.00/kWh. Buy-through energy billed at \$3.00/kWh if “not available” in bid-offer Market.
- Expected Load Level (ELL) :** An up-front estimate of the customer’s expected summer load levels is calculated using the customers’ recent summer loads. The initial estimated load levels will be on the customer’s loads for each of the eight CallOption® hours.
- Proforma Load Level:** Hourly load estimates used to measure fixed reduction load. Customer and Duke Energy Kentucky will enter into an agreement in which the fixed reduction load is quantified and mutually agreeable. The proforma load level will be calculated each day provided to the customer via the PowerShare® web site, and will be based on an analysis of the following:
- The customer’s load history, with the most recent loads weighted most heavily;
 - Any weekday effects, where applicable;
 - Weather adjustments, for those customers that exhibit weather related load changes.
- True-Up:** For CallOption® Firm Load Level and End-Use Customers only, the November bill will contain a Premium adjustment to reflect the customers’ actual loads during the CallOption® season. The adjustment is intended to properly compensate customers for load actually available for the CallOption®. The adjustment will provide additional credits to those customers whose loads were greater than the estimated ELLs during the summer, and a reduction in credits to those customers whose loads were less than the estimated ELLs. The downward adjustment will never exceed the originally calculated September premium.

PowerShare® 2007 Standard and Basic Program Product Description Highlights

2007 Targets

There is no specific target list for new customers. Our goal is to retain all customers that are currently participants in PowerShare®. In addition, our efforts will concentrate on migrating load to the CallOption® from customers currently on the QuoteOption®.

CallOption® Overview

Proactively approach all existing QuoteOption® customers to either enroll as a CallOption® participant or re-sign them in the QuoteOption® product.

Product Offering

CallOption® Operational Plan

June through September day-ahead notification (by 3:30 p.m.) for the hours 12:00 p.m. – 8:00 p.m. EDT. The maximum number of calls will be limited based on the premium price defined below.

Depending on the option, the maximum number of consecutive calls per week is two. The maximum number of calls in a week (Monday – Friday) is three.

CallOption® Compliance Plan

Firm Level
Fixed Reduction
Metered Generator
End Use

CallOption® Determinants

Strike Price	\$0.10
Premium	A pre-determined premium will be paid out according to the month, premium expected level and option load.
	\$25 Can be exercised up to 12 times
	\$17 Can be exercised up to 8 times
	\$7 Can be exercised up to 4 times
True-up	Firm level and End-Use customers will participate in a premium true up at the end of the summer. The fourth premium payment will be adjusted upward or downward to reflect customer's actual loads. The maximum downward adjustment will be no greater than the customer's fourth premium. However, customers whose loads show a significant change (either upward or downward) during the summer may be subject to adjustments prior to the end of the summer.

CallOptio®n Energy Credit

The energy credit will be \$0.10 / kwh.

CallOption® Buy-through

Buy-through will be capped at \$3.00 per kWh.

Pro Forma

Will be calculated on a daily basis and adjusted to weather. The weather adjustment will be made according to the weather response specific to the customer.

Aggregation

Will be available for customers who meet the appropriate criteria

- The contract for the aggregated accounts must be at a minimum **1MW**.
- All accounts included in the PowerShare contract must be either on standard tariff or RTP. They cannot be mixed.
- Accounts must be in the same time zone.

Timeline

CallOption® is a June through September product. Renewal can occur yearly in the spring.

QuoteOption® Overview-Standard Program

Our Goal is to retain all existing QuoteOption® participants on the program and migrate as many customers as possible to CallOption®.

Product Offering

QuoteOption® Operational Plan

One price quote will be offered to all QuoteOption® customers. Customers will indicate their load reduction levels under the designated strike price for internal purposes only.

QuoteOption® Compliance Plan

Fixed Reduction
Metered Generator

QuoteOption® Energy Credit

The minimum energy credit will be \$0.10 / kwh. A shared energy credit will be the standard.

Pricing Points (for planning purposes)

\$0.10 / kwh

Aggregation

Will be available for customers who meet the appropriate criteria

- The contract for the aggregated accounts must be at a minimum **1MW**.
- All accounts included in the PowerShare® contract must be either on standard tariff or RTP. They cannot be mixed.
- Accounts must be in the same time zone.

Timeline

QuoteOption® is a continuous product. Once the customer signs up for PowerShare® they will remain on QuoteOption® indefinitely until they elect not to participate in PowerShare. ®

QuoteOption® Overview-Basic Program

Basic Overview

Customer usage data will be gathered by monthly meter readings. All meter readings are obtained through the normal meter reading processes (either regular routes with Itron reading devices or overnight callout through an existing phone line). Meter data is sent monthly for *pro forma* development. The customer will nominate against a previously developed *pro forma*. The actual event day *pro forma* is developed once the next monthly meter readings are obtained. Billing settlement is done at the next monthly billing cycle after an event once data has been obtained on the regularly scheduled read day.

Product Offering

QuoteOption® Operational Plan

One price quote will be offered to all QuoteOption® customers. Customers will indicate their load reduction levels under the designated strike price for internal purposes only.

QuoteOption® Compliance Plan

Fixed Reduction
Metered Generator

QuoteOption® Energy Credit

The minimum energy credit will be \$0.10 / kwh. A shared energy credit will be the standard.

Pricing Points (for planning purposes)

\$0.06 / kwh, \$0.10 / kwh, and \$0.25 / kwh

Timeline

QuoteOption® is a continuous product. Once the customer signs up for PowerShare® they will remain on QuoteOption® indefinitely until they elect not to participate in PowerShare®.

Miscellaneous Information

Load Limits Guidelines

<u>Load</u>	<u>Reduction Amount</u>
200kW to 10 mW	10% of load with 100kW minimum
10 mW and above	1 mW minimum

Phone-line and Meters

PowerShare® Standard

All customers participating under the PowerShare® Program will need to have a working phoneline/cellphone to an interval meter.

PowerShare Basic

All customers participating in the PowerShare® Basic Program will need to have an interval meter. A phone line or cell phone is not required to participate in PowerShare® Basic. All new customer meter installations will be a managed process via the Product Management Product support Team.

Load Reduction Survey

Will not be mandatory. In efforts to minimize costs, detailed surveys should only be done if necessary.

PowerShare® 2007 Distributed Resources

I. Program Purpose

The PowerShare® Distributed Resource (DR) program is an option product offering under the PowerShare® umbrella. The purpose of the DR program is to reduce Duke Energy Kentucky's demand at a cost less than the cost of purchasing power in the wholesale energy market. Through the program design, the DR program will develop a portfolio of customer assets that have characteristics similar to a combustion turbine (CT). Thus, the DR program shall reduce Duke Energy Kentucky's risk and maximize market opportunities during high priced times.

II. General Product Descriptions

The DR product offering has two basic service offerings. The first offering is designed to closely match the characteristics of a CT. The second offering has a lot of the characteristics of a CT. Each offering has several options for Duke Energy Kentucky to offer to customers based on the customer risk tolerance and operation ability.

Remote Dispatch (RED) Product

Under this product offering, the customer must allow Duke Energy Kentucky to remote start/stop their generator or production capabilities. Since Duke Energy Kentucky will have remove start/stop capabilities, Duke Energy Kentucky will limit the customer's risk to the amount of premium paid to the customer. The customer will be responsible for paying the cost of the remove start/stop device. Duke Energy Kentucky must be able to meter the device that is being remotely started/stopped. The customer will also be responsible for paying the cost to install the meter. Duke Energy Kentucky must be able to monitor the amount of load reduction the device is providing. The monitoring capability does not have to be real time or exact. Depending on the monitoring capabilities that Duke Energy Kentucky requires, customer will pay the associated cost. Depending on future markets, Duke Energy Kentucky may revise monitoring requirements. In exchange for participating in the DR program, Duke Energy Kentucky will pay the customer an option premium based on Table 1. Also, each time Duke Energy Kentucky remotely starts/stops a device, Duke Energy Kentucky will pay the customer an energy credit consistent with the strike price per kWh listed in Table 1. The energy credits will be based on the generation meter, not the equipment used for monitoring.

Confirmed Product

Under this product offering, the customer has the responsibility for controlling the device/asset when requested by Duke Energy Kentucky. Duke Energy Kentucky must receive confirmation that the customer has received the option notification. The notification and confirmation process will be done via the telephone. Since the customer is responsible for starting/stopping the load reduction asset, the customer will be exposed to market risk if they do not reduce the agreed upon amount of load. Duke Energy Kentucky would like to meter the asset providing the load reduction. If metering is prohibitive, Duke Energy Kentucky will agree to provide a *pro forma* load shape as a means of determining the amount of load reduction necessary to comply with the option agreement. When a *pro forma* load shape is used, the customer and Duke Energy Kentucky will agree upon which method is best to exchange money. The methods available will have the same operation characteristics as described in the PowerShare® Standard program. If applicable, the Customer will be responsible for paying the cost to install the meter. Duke Energy Kentucky must be able to monitor the amount of load reduction the device is providing. The monitoring capability does not have to be real time or exact. Depending on the monitoring capabilities that Duke Energy Kentucky requires, customer will pay the associated cost.

Dependent upon future markets, Duke Energy Kentucky may revise monitoring requirements. In exchange for participating in the DR program, Duke Energy Kentucky will pay the customer an option premium based on Table 1. Also, each time the customer supplies energy in response to a dispatch request by Duke Energy, Duke Energy Kentucky will pay the customer an energy credit consistent with the strike price per kWh as listed in Table 1. The energy credits will be based on the generation meter not the equipment used for monitoring.

III. Customer Eligibility

Due to the PowerShare® DR program characteristics and net value to the program, the DR program will not be offered to all customers. Product Management (PM) and Business Account Management (BAM) will develop a target lead list. The target lead list will be comprised primarily of customers capable of providing at least one (1) megawatt (MW) of load reduction. PM will manage the target lead list. BAM must obtain PM approval to make any changes or additions in the target lead list.

IV. Operational Characteristics

RED Product

- Remote Start/Stop Capability
- Metering
- Monitoring
- No notification of customer is required
- Load displacement within ten (10) minutes.
- Option Hours – See Table 1
- Minimum of two (2) hours per day
- Maximum of two (2) events per day
- Maximum of sixteen (16) hours per day
- Contract term – see Table 1
- Risk-Limited to customer premium. See applicable notes

Confirmed Product

- Confirmation of event
- Metering/Pro Forma
- Monitoring
- Load displacement within one (1) hour
- Option Hours – See Table 1
- Minimum of two (2) hours per day
- Maximum of two (2) events per day
- Maximum of sixteen (16) hours per day
- Contract term – see Table 1
- Risk – Buy through at market price, capped at \$3/kWh

V. Pricing

DR Product Premiums – The service offerings in Table 1 below are applicable for both the RED and CONFIRM product.

Table 1

Option	Contract Term	Hours of Operation (Sign-up Minimum)	Strike Price / Energy Credit (\$/kWh)	Premium (\$/kW)
DR Products	Twelve Months	150	\$0.10	\$35.00

Notes:

1. PM reserves the right, prior to a customer signing a DR contract, to adjust the premium if there is a significant change in the forward market.
2. Monthly Premium Calculation (MPC) – The premiums will be calculated based on the prime rating of the generator. The premiums will be divided by the number of months of the contract and paid monthly (Example Attachment 1).
3. For RED Program customers:
 - i. The MPC will apply
 - ii. Premium Adjustment Calculation (PAC) – If the load reduction equipment does not function during an event, the premium shall be adjusted for that specific billing month. The premium will be adjusted by the portion of the event hour of response for the month. (Example Attachment 1).
 - iii. Output Premium Adjustment (OPA) – Once an event has occurred, RCS reserves the right to adjust the premium if the actual output of the generator is 85% or less of the prime rating. The response adjusted will be calculated by averaging the interval data, excluding the start and stop interval, during the events of the month (Example Attachment 1).
4. Multi-year contracts are available. Multi-year contract premiums will be priced based on the forward market forecast. All multi-year contracts must have the characteristics in Table 1.
5. Duke Energy Kentucky reserves the rights to periodically test the assets.

VI. Implementation

1. The 2007 DR program will be rolled out to the account managers with customers on the target lead list by March 1, 2007.
2. DR contracts term must start on June 1, 2007.
3. DR contracts must be signed by May 1, 2007.
4. Metering, monitoring, remote start, and applicable DR customer procedures must be completed by June 1, 2007.