Duke Energy®

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John J. Finnigan, Jr.
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MAR 28 2007

PUBLIC SERVICE
COMMISSION

VIA OVERNIGHT MAIL

March 27, 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

Dear Ms. O'Donnell:

Enclosed are an original and eight copies of Duke Energy Kentucky, Inc.'s response to the Staff's second 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 Finnigan

John J. Finnigan, Jr.
Associate General Counsel

KyPSC-DR-02-001

REQUEST:

1. Refer to Item 1(a) of Duke Kentucky's response to the Commission Staff's first data request. Duke Kentucky has explained that it is unlikely that it will issue secured debt in the near term due to the restrictions that would be placed on its assets if it uses secured debt.
   a. Identify the type of restrictions that issuing secured debt would place on Duke Kentucky's assets.
   b. Does issuing unsecured debt rather than secured debt provide any cost savings for Duke Kentucky?
   c. If the answer to (b) is yes, provide an estimate of the amount of savings Duke Kentucky could experience.

RESPONSE:

a. Secured debt is marginally more restrictive than unsecured debt because of the lien that such debt imposes on the Company's assets. The effect is a limitation on the Company's ability to sell or otherwise transfer assets, as well as a higher on-going compliance obligation to demonstrate that the secured debt is adequately collateralized at all times.

b. No. Refer to item 1(b) of Duke Kentucky's response to the Commission Staff's first data request. The interest rate coupon on secured debt is approximately five to ten basis points lower than that of secured debt. However, the Company does not believe that the current margin (margins can vary over time) justifies the higher level of restrictions and compliance obligations that secured debt requires.

c. See response to KyPSC-DR-02-001(b).

WITNESS RESPONSIBLE: Stephen G. De May