139 East Fourth Street, R. 25 At II
P.O. Box 960
Cincinnati, Ohio 45201-0960
Tel: 513-287-3601
Fax: 513-287-3810
John.Finnigan@duke-energy.com

John J. Finnigan, Jr.
Associate General Counsel

VIA OVERNIGHT MAIL

March 2, 2007

RECEIVED
MAR 05 2007
PUBLIC SERVICE
COMMISSION

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

Re: Application of the Union, Light Heat and Power Company d/b/a Duke Energy Kentucky, Inc. for Authority to Establish A Regulatory Asset for Deferred Vacation Expense 2007-00054

Dear Ms. O'Donnell:

Enclosed are an original and five 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 this letter in the enclosed envelope.

Thank you.

Sincerely,

John J. Finnigan, Jr.
Associate General Counsel

205852

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

MAR 05 2007

PUBLIC SERVICE COMMISSION

In the Matter of Application of The	)	
Union, Heat and Power Company d/b/a	)	
Duke Energy Kentucky for Authority to	)	CASE NO. 2007-00054
Establish A Regulatory Asset For	)	
Deferred Vacation Expense	)	

DUKE ENERGY KENTUCKY, INC.'S
RESPONSES TO THE KENTUCKY PUBLIC SERVICE COMMISSION'S
FIRST SET OF DATA REQUESTS

Duke Energy Kentucky, Inc. submits the following responses to the Commission's First Set of Data Requests in this proceeding via overnight mail.

Respectfully submitted,

DUKE ENERGY KENTUCKY, INC.

John J. Finnigan, Jr. (86657)
Associate General Counsel
Duke Energy Shared Services, Inc.
2500 Atrium II
P. O. Box 960
Cincinnati, Ohio 45201-0960
Phone: (513) 287-3601
Fax: (513)287-3810
e-mail: john.finnigan@duke-energy.com

KyPSC-DR-01-001

REQUEST:

1. Explain why Statement of Financial Accounting Standards ("SFAS") No. 43, issued in 1980, has not been applied previously. Provide the changes that have occurred to vacation policies that necessitate the implementation of the statement. Provide the time period(s) these changes occurred.

RESPONSE:

Following consummation of the Duke Energy/Cinergy merger in April 2006, the legacy Duke Energy and legacy Cinergy policies were reviewed and revised to ensure consistency. A new policy applicable to all Duke Energy employees was effective January 1, 2007. This vacation policy permits employees to take the entire year's vacation at any time during the year, which is consistent with the legacy Cinergy policy. Upon reviewing the accounting treatment for the policy, it was determined that Duke Energy Kentucky should record a liability for the following twelve months of vacation as the vacation is deemed to be earned in advance. The liability is calculated net of expected forfeitures.

WITNESS RESPONSIBLE: Dwight L. Jacobs

REQUEST:

2. Provide the proposed journal entry to implement SFAS No. 43 which shows the cumulative effect of the implementation.

RESPONSE:

The following entry would be made to record the SFAS No. 43 liability:

Debit 182 Regulatory Asset	$2,571,741
Credit 242 Other Current Liability	$2,571,741

WITNESS RESPONSIBLE: Dwight L. Jacobs

KyPSC Staff First Set Data Requests
Duke Energy Kentucky
Case No. 2007-00054
Date Received: February 23, 2007
Response Due Date: March 5, 2007

KyPSC-DR-01-003

REQUEST:

3. In its letter requesting establishment of a regulatory asset, Duke Kentucky states that, "[t]he 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." A review of the standard appears to indicate that SFAS No. 43 requires a liability be established for all earned vacation compensation that meets the conditions listed in SFAS No. 43, regardless of the period it is to be paid to the employee. Explain the statement that limits the liability to vacation expense taken in the next 12-month period.

RESPONSE:

Duke Energy Kentucky policy only permits vacation to be earned up to 12 months in advance; therefore, accruing for additional periods is not considered necessary.

WITNESS RESPONSIBLE: Dwight L. Jacobs

KyPSC-DR-01-004

REQUEST:

4. In its letter requesting establishment of a regulatory asset, Duke Kentucky states that, "[b]y the end of the year, both accounts should be near zero."

   a. Provide the account number and name of the accounts referred to as "both."
   b. Explain why the accounts should be near zero at the end of the year.

RESPONSE:

a. The accounts referred to in the letter requesting establishment of a regulatory asset are: Account #182 Regulatory Asset, and Account #242 Other Current Liability. Also, see response to question KyPSC-DR-01-002.

b. The accounts cited above should be near zero at the end of the year for the current year activity. For example, the amount established at December 31, 2006 for 2007 vacation should be zero by December 31, 2007 as the 2007 vacation is taken (note the exception in response to question KyPSC-DR-01-005[c]). The accounts will simultaneously increase for 2008 vacation as it is earned throughout 2007.

WITNESS RESPONSIBLE: Dwight L. Jacobs

REQUEST:

5. Provide sample accounting entries for the events listed below, pursuant to the requirements of the SFAS No. 43. For purposes of this question, assume the accounting entries are for one employee, a manager with 12 years of service with Duke Kentucky. Base the entries on what would be the vacation leave such an employee would normally earn, and use the average salary for an employee with that position and years of service. Show all the account numbers and account titles Duke Kentucky anticipates would be needed to reflect each accounting entry.

    a. The initial entry to reflect earned but unpaid vacation pay at the beginning of the year.
    b. The entry to reflect the employee taking a week's vacation in June.
    c. The entry to reflect the employee still has 4 days of unused vacation leave at the end of the calendar year.
    d. The entry to reflect the employee terminating his employment effective August 1. If this entry is dependent upon the circumstances surrounding the termination, provide each alternative and identify the reason for the differences.

RESPONSE:

For purposes of this response, a manager with 12 years of service is eligible for 4 weeks of vacation and is assumed to have a salary of $75,000. The entries below do not consider any payroll taxes or other adjustments that would be made when an employee is paid for vacation leave.

a. The initial entry is as follows:

Debit 182 Regulatory Asset	$5,769
Credit 242 Other Current Liability	$5,769

*- amount calculated as $75,000/52 weeks * 4 weeks*

b. The entry to reflect the employee taking a week's vacation is as follows:

Debit 242 Other Current Liability	$1,442
Credit 182 Regulator y Asset	$1,442

- amount calculated as $5,769/4 weeks

c. The entry to reflect 4 days of unused vacation at the end of the calendar year is as follows:

Debit 242 Other Current Liability $1,154
Credit 182 Regulator y Asset $1,154

d. The entry to reflect the employee terminating his employment effective August 1 is as follows (note that for purposes of this example only, it is assumed that this employee was not included in the expected forfeiture amount that was included in the liability calculation at the beginning of the year):

(i) entries assuming that the employee had not yet taken any vacation prior to terminating employment:

Debit 242 Other Current Liability $5,769
Credit 182 Regulator y Asset $5,769
- the purpose of this entry is to reduce the liability established at the beginning of the year

Debit 242 Other Current Liability $3,365
Credit 182 Regulator y Asset $3,365
- the purpose of this entry is to reduce the liability established during the current year for the next year's vacation deemed to be earned (assumed 7 months of 1 year liability for example purposes)

(ii) entry assuming that the employee had taken 1 week of vacation prior to terminating employment:

Debit 242 Other Current Liability $4,327
Credit 182 Regulator y Asset $4,327
- the purpose of this entry is to reduce the liability established at the beginning of the year

Debit 242 Other Current Liability $3,365
Credit 182 Regulator y Asset $3,365
- the purpose of this entry is to reduce the liability established during the current year for the next year's vacation deemed to be earned (assumed 7 months of 1 year liability for example purposes)

(iii) entry assuming that the employee had taken 4 weeks of vacation prior to terminating employment:

Debit 242 Other Current Liability $3,365
Credit 182 Regulator y Asset $3,365
- the purpose of this entry is to reduce the liability established during the current year for the next year's vacation deemed to be earned (assumed 7 months of 1 year liability for example purposes); note that no entry is necessary to reduce the liability established at the beginning of the year as it has been fully relieved.

WITNESS RESPONSIBLE: Dwight L. Jacobs