



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 29, 2007

Ms. Elizabeth O'Donnell
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
P.O. Box 615
Frankfort, Kentucky 40602-0615

RECEIVED

MAR 30 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
Case No. 2007- 00147

Dear Ms. O'Donnell:

Enclosed please find an original and twelve copies of the Application of Duke Energy Kentucky, Inc. in the above-referenced case.

I have also enclosed an original set of maps, labeled CPCN Filing and CPCN Modules 305, 469, 349, 309, Altavia, 317, 320, 351, and two copy sets of the same.

Please date stamp and return the two extra copies of my cover letter and the Application in the enclosed envelope.

If you have any questions, please do not hesitate to contact me at (513) 287-3601.

Sincerely,

John J. Finnigan, Jr.

cc: Hon. Larry Cook (with copy of Application)

RECEIVED

MAR 30 2007

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

PUBLIC SERVICE
COMMISSION

In the Matter of:

APPLICATION OF DUKE ENERGY)
KENTUCKY, INC. FOR A CERTIFICATE)
OF PUBLIC CONVENIENCE AND)
NECESSITY TO CONSTRUCT GAS)
DISTRIBUTION FACILITIES WITHIN)
ITS SERVICE TERRITORY)

CASE NO. 2007-00147

* * * * *

APPLICATION

* * * * *

Pursuant to KRS 278.020, 807 KAR 5:001, Sections 8 and 9, and the Commission's Order dated December 22, 2005 in *In the Matter of Adjustment of Gas Rates of The Union Light, Heat and Power Company*, Case No. 2005-00042, Duke Energy Kentucky, Inc. ("DE-Kentucky," formerly known as "The Union Light, Heat and Power Company") respectfully states as follows:

1. DE-Kentucky is a Kentucky corporation with its principal office and principal place of business at 1697A Monmouth Street, Newport Shopping Center, Newport, Kentucky 41071. Its mailing address is P.O. Box 960, Cincinnati, Ohio 45201.
2. DE-Kentucky is a utility engaged in the gas and electric business. DE-Kentucky purchases, sells, stores and transports natural gas in Boone, Campbell, Gallatin, Grant, Kenton and Pendleton Counties, Kentucky. DE-Kentucky also generates electricity, which it distributes and sells in Boone, Campbell, Grant, Kenton and Pendleton counties.

3. Pursuant to 807 KAR 5:001, Section 8(3), DE-Kentucky states that a certified copy of its Articles of Incorporation, as amended, is on file with the Commission in Case No. 2006-00172.

4. In Case No. 2005-00042, DE-Kentucky sought Commission approval of a base rate increase for its gas operations, including the re-approval of Rider AMRP. Under DE-Kentucky's proposal, Rider AMRP provided for an annual adjustment to rates over a ten-year period, to allow DE-Kentucky to recover the costs of replacing its cast iron and bare steel mains on an accelerated basis, including the cost of recovering customer-owned service lines connected to such mains.

5. In an Order dated January 31, 2002 in Case No. 2001-00092, the Commission approved Rider AMRP, subject to certain modifications, for an initial period of three years. In an Order dated December 22, 2005 in Case No. 2005-00042, the Commission re-approved Rider AMRP, subject to certain modifications, through the end of the program life in 2010. The Commission's Orders require DE-Kentucky to file an application for a certificate of public convenience and necessity ("CPCN") for the mains that DE-Kentucky will replace under the program. The purpose of this application is to comply with these Commission Orders. DE-Kentucky previously filed an application for a CPCN for the 2002, 2003, 2004, 2005 and 2006 Rider AMRP construction work in Case No. 2002-00089, Case No. 2002-00407, Case No. 2004-00017, and Case No. 2005-00094, and Case No. 2006-00101 respectively.

6. Pursuant to 807 KAR 5:001, Section 9(2)(a), DE-Kentucky states that the proposed construction is or will be required by public convenience and necessity because cast iron and bare steel mains comprise approximately 5% of DE-Kentucky's natural gas distribution system, and such mains are subject to leaks at a greater rate than coated steel or polyethylene, leading to higher

operating and maintenance expenses, greater line losses and safety and reliability risks. Further information to support the fact that the proposed construction is or will be required by public convenience and necessity is contained in the following filings by DE-Kentucky on May 4, 2001 in Case No. 2001-00092: Direct Testimony of Leonard C. Randolph, Jr.; Direct Testimony of Sevket Torpis; and the April, 2001 Independent Review of Cast Iron and Bare Steel Pipe Replacement Program Report prepared by Stone & Webster Consultants, as well as the Commission's Orders dated January 31, 2002 in Case No. 2001-00092 and December 22, 2005 in Case No. 2005-00042, all of which are incorporated by reference herein.

7. Pursuant to 807 KAR 5:001, Section 9(2)(b), DE-Kentucky states that the construction work involves the replacement of existing cast iron and bare steel facilities, including mains, main-to-curb services and curb-to-meter services, and that DE-Kentucky has previously filed with the Commission the applicable franchises from the proper public authorities.

8. Pursuant to 807 KAR 5:001, Section 9(2)(c), DE-Kentucky states that the construction work will occur at various locations throughout DE-Kentucky's distribution system. DE-Kentucky has divided the work into modules. A module consists of two to five miles of cast iron and bare steel mains located within a particular community. The location for the construction work within the modules is indicated on the construction maps filed herewith. The modules are rank-ordered according to various factors, including safety and reliability considerations, to determine the priority under which the construction work contained within each module should be performed. In addition to module work, DE-Kentucky will continue to perform 2007 Cast Iron Maintenance Optimization System® ("CIMOS") and Bare Steel Maintenance Optimization System® ("BSMOS") programs, street improvement projects and any emergency replacements that

may arise in 2007.

DE-Kentucky will use contractors and employees to perform and supervise the work. DE-Kentucky will utilize conventional excavation and main construction techniques and, to the extent possible, directional drilling techniques. DE-Kentucky will follow and will require its contractors to follow DE-Kentucky's manual of construction practices on file with the Commission.

9. In the Commission's Order dated October 7, 2002 *In the Matter of the Application of The Union Light, Heat and Power Company for a Certificate of Public Convenience and Necessity to Construct Gas Distribution Facilities within its Service Territory and for a Deviation from Administrative Regulation 807 KAR 5:022, Section 9(17)*, Case No. 2002-00089, the Commission authorized DE-Kentucky to deviate from the Commission's August 29, 2002 Order granting a certificate for public convenience and necessity, to the extent that DE-Kentucky incurred additional costs for metallic main and services replacement work, not to exceed by 20% the amount authorized by the Commission's August 29, 2002 Order. The Commission issued similar Orders in Case Nos. 2004-00017, 2005-00094 and 2006-00101.

10. In the instant application, DE-Kentucky requests authorization to incur construction costs in the amount of \$13,000,000 for module work, CIMOS and BSMOS work and street improvement work during 2007. The projects are as described in Attachment A. In addition, consistent with the Commission's previous orders in DE-Kentucky's CPCN cases for its Rider AMRP increases, DE-Kentucky requests a deviation, to the extent that actual construction costs exceed the projected cost of \$13,000,000, in an amount up to 20% of the projected cost.

11. Pursuant to 807 KAR 5:001, Section 9(2)(d), DE-Kentucky states that it has

submitted with this filing maps showing the location or route of the construction. DE-Kentucky requests permission to provide only three sets of these maps due to the voluminous number of maps, rather than the standard filing requirement of ten sets. To DE-Kentucky's knowledge, no other like facilities owned by others are located anywhere within the map area.

12. Pursuant to 807 KAR 5:001, Section 9(2)(e), DE-Kentucky states that it proposes to finance the construction through continuing operations and debt instruments as necessary.

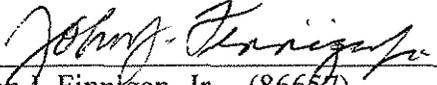
13. Pursuant to 807 KAR 5:001, Section 9(2)(f), DE-Kentucky states that the estimated cost of construction of the proposed facilities, including the cost of replacing metallic service lines connected to cast iron and bare steel mains, for the 2007 construction program is \$13,000,000.

14. DE-Kentucky expects that its estimated cost of operation and maintenance will decrease after the proposed facilities are completed because the cast iron and bare steel lines are being replaced with plastic lines, which have a lower leak rate. In fact, DE-Kentucky passes such O&M savings to customers as part of the annual Rider AMRP rate adjustment.

WHEREFORE, DE-Kentucky respectfully requests that the Commission issue a Certificate of Public Convenience and Necessity pursuant to KRS 278.020(1) for the above-described construction as requested herein.

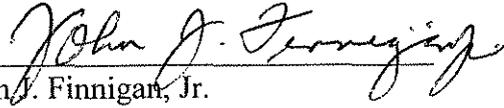
Respectfully submitted,

DUKE ENERGY KENTUCKY, INC.


John J. Finnigan, Jr. (86697)
Associate General Counsel
Duke Energy Kentucky, Inc.
139 East Fourth Street, Rm 25 ATII
Cincinnati, Ohio 45201-0960
Phone: (513) 287-3601 /Fax: (513) 287-3810
e-mail: john.finnigan@duke-energy.com

CERTIFICATE OF SERVICE

This is to certify that a copy of the foregoing Application of Duke Energy Kentucky, Inc. has been served via overnight mail to the following party on this 29th day of March, 2007:



John J. Finnigan, Jr.

Hon. Larry Cook
Office of the Attorney General
Utility Intervention and Rate Division
1024 Capital Center Drive
Frankfort, Kentucky 40601

Duke Energy Kentucky
Estimate of 2007 Construction Expenditures
Associated with AMRP

	<u>Estimated Costs (1)</u>	<u>Estimated Footages</u>
<u>Module Jobs</u>		
Module 305 (2)	2,008,120	13,229
Module 309 (2)	1,250,796	9,921
Module 317 (2)	2,237,433	15,297
Module 320 (2)	352,772	2,678
Module 349 (2)	2,122,695	10,600
Module 351 (2)	299,274	1,965
Module 469 (2)	<u>1,123,650</u>	<u>5,867</u>
	9,394,740	
 <u>CIMOS Jobs</u>		
Altavia (2)	480,700	2,649
Projected (3)	<u>746,443</u>	
	1,227,143	
 <u>Street Improvement Jobs</u>		
Projected (3)	<u>678,117</u>	
 2006 Carry-over	 <u>1,700,000</u>	
 Total Estimate for 2007	 <u><u>13,000,000</u></u>	

Notes:

- (1) Includes contractor labor, materials, company labor, other and loadings.
- (2) Contracts have been awarded.
- (3) These jobs will be sent to contractors for bid.

**Duke Energy Kentucky
2007 Construction Program At Feb. 13, 2007**

Job Number	Work Order Number	Job Name	Type	Type of Award	Bids	Contractor	Footage	Bid Price	Work Order Estimate	Projection Worksheet (1)	Curb-To Meters	Estimated Cost Curb-To-Meters	Estimated Footage At 70 Feet Per					
05-8305-4	B7912	Module 305 (2)	MOD	Bid	1st	AMS	13,229	1,375,747	1,449,652	2,008,119.84	302	284,789	21,140					
04-8309-9	B8007	Module 309 (2)	MOD	Bid	1st	AMS	9,921	814,274	875,519	1,250,795.73	195	189,054	13,650					
04-8320-6	B8010	Module 320 (2)	MOD	Bid	1st	AMS	2,678	230,580	274,696	352,771.63	41	38,004	2,870					
04-8349-5	B8014	Module 349 (2)	MOD	Bid		Arby	10,600	1,376,469	1,520,316	2,122,694.93	328	264,393	22,960					
04-8351-1	B8016	Module 351 (2)	MOD	Bid		Brewer	1,965	252,911	176,435	299,273.67	99	40,974	6,930					
05-8317-9	C3667	Module 317 (2)	MOD	Bid	1st	AMS	15,297	1,526,210	1,651,220	2,237,433.55	329	314,008	23,030					
06-1052-7	C6464	Altavia (2)	MOD	Bid	1st	AMS	2,649	279,818	346,686	480,699.81	68	55,994	4,760					
07-8469-4	C8045	Module 469 (2) FT. Thomas	MOD	Bid		Northern	5,867	787,175	957,980	746,443.43	88	58,041	6,160					
												62,206	6,643,184	7,252,504	10,621,883	1,450	1,245,257	101,500

- Notes:
- (1) Includes contractor labor, materials, company labor, other and loadings.
 - (2) Contracts have been awarded.
 - (3) These jobs have been sent to contractors for bid.
 - (4) These jobs will be sent to contractors for bid.
 - (5) Construction drawings for these projects were provided with the 2004 Annual Filing and First Quarter 2004 Update Filing.

