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December 24, 2008

Mr. Rocco O. D'Ascenzo
Senior Counsel
Duke Energy Business Services, Inc
2500 Atrium II
P.O. Box 960
Cincinnati, Ohio 45201-0960

Re: Case No. 2008-00489

Dear Mr. D'Ascenzo:

Enclosed is a memorandum that has been entered into the record of this case describing informal communication between a member of the Commission's Staff and employees of Duke Energy concerning this case. The communication was exploratory in nature for the purpose of clarifying the meaning of the text in a specific section of the company's November 26, 2008 application.

Any comments regarding the memorandum or communication described therein should be filed within 5 days of the date of this letter. If you have any questions, please direct them to Mr. Rick Bertelson of the Commission's legal division.


Sincerely,

A handwritten signature in cursive script that reads "Stephanie Stumbo".

Stephanie Stumbo
Executive Director

Enclosure

INTRA-AGENCY MEMORANDUM
KENTUCKY PUBLIC SERVICE COMMISSION

TO: Main Case File - Case No. 2008-00489
FROM: Jeff Shaw 
DATE: December 24, 2008
RE: Informal Communication

The last sentence in paragraph 9 of the application filed in this matter by Duke Energy Kentucky (Duke Kentucky") has caused concern among some staff members as to its exact meaning. The sentence in question reads "In its next electric rate case, Duke Energy Kentucky will include in its test year, any incremental costs related to the ASM." ASM is the acronym for the MISO "Ancillary Service Market."

In order to determine what Duke Kentucky's intent was regarding this sentence, on December 22, 2008, I spoke with Mr. Don Wathen of Duke Kentucky along with his colleagues, Mr. Paul Smith and Mr. John Finnigan. Mr. Wathen explained that, while Duke Kentucky anticipates being a net seller of ancillary services under the MISO ASM and thereby, generates incremental revenues, if it ends up being a net purchaser which generates incremental costs, it will seek rate recovery of the incremental costs incurred in the test year of its next rate case. Mr. Wathen expressly stated that this sentence in no way should be interpreted as Duke Kentucky having an interest or intent in deferring any ASM-related incremental costs incurred prior to the test year of its next rate case for consideration in that rate case.

Based on the communication described herein, the Commission will be advised that the relief Duke Kentucky seeks in this proceeding does not include deferring, for future rate recovery, any costs related to participating in the MISO ASM which it incurs prior to the test period it proposes to utilize in its next electric base rate case.