

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF DUKE ENERGY KENTUCKY,) CASE NO.
INC. FOR AN ADJUSTMENT OF GAS RATES) 2009-00202

SECOND DATA REQUEST OF COMMISSION STAFF
TO DUKE ENERGY KENTUCKY, INC.

Duke Energy Kentucky, Inc. ("Duke Kentucky" formerly The Union Light, Heat and Power Company "ULH&P"), pursuant to 807 KAR 5:001 is to file with the Commission the original and 10 copies of the following information, with a copy to all parties of record. The information requested herein is due no later than August 31, 2009. Responses to requests for information shall be appropriately bound, tabbed and indexed. Each response shall include the name of the witness responsible for responding to the questions related to the information provided.

Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or the person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

Duke Kentucky shall make timely amendment to any prior response if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request to which

Duke Kentucky fails or refuses to furnish all or part of the requested information, it shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention shall be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request. When applicable, the requested information shall be separately provided for total company operations and jurisdictional operations.

1. Refer to Volume I of the application, Tab 33.
 - a. Refer to FR 10(9)(h)(1), the Projected Income Statement 2009-2011. Explain the large decrease in Other Revenue from 2009 to 2010.
 - b. Refer to 10(9)(h)(8), the Mix of Gas Supply 2009-2011.
 - (1) Explain why lines 2 and 10 are labeled "Undetermined".
 - (2) Explain why the amounts on line 13, Total Cost, do not reconcile with line 8, Gas Purchased, on the Projected Income Statement 2009-2011.
 - c. Explain the disparity between the increase in gas retail customers shown in the Customer Forecast 2009 – 2011, 10(9)(h)(14), and the decrease in sales volumes shown in the MCF Sales Forecast 2009 – 2011 on the following page, 10(9)(h)(15).
2. Refer to Volume IV, Tab 47.
 - a. Provide a copy of the cost of service study, Exhibits FR-10(9)v-1 through FR-10(9)v-6, electronically on CD-ROM in Microsoft Excel format with all formulas intact and unprotected.

b. Refer to FR-10(9)v-1, page 10 of 23. Explain why the two rows titled "Elim Other Than DE-KY Portion" are allocated using different allocation factors.

c. Refer to FR-10(9)v-1, page 15 of 23. Explain why Misc. Service Revenue is allocated to the rate classes based on total customer number rather than directly assigned for items such as bad check and reconnection charges.

d. Refer to FR-10(9)v-2 through FR-10(9)v-5. Provide these schedules on a total basis as opposed to the rate class basis provided in the application.

e. Refer to FR-10(9)v-2, page 2 of 20.

(1) Under "Distribution Plant", explain why the division of Mains into the demand and customer portion is 78.2 and 21.8 percent, respectively, rather than 85 and 15 percent as calculated on WPFR-9v-6, page 16 of 27.

(2) Under "General & Intangible Plant" and "Common & Other Plant", provide the basis for the percentage allocations among the six items listed under each category, stated below, and explain why these allocations do not match those on WPFR-9v-6, page 5 of 27.

Production Plant	3.76%
Production Plant Commodity	4.63%
Distribution Plant	50.84%
Customer Accounting	34.42%
Customer Service & Information	6.35%
Sales	0%

f. Refer to FR-10(9)v-2, page 5 of 20. Explain why it is reasonable to allocate "Misc Deferrals" using the KA&G_CA allocator.

g. Refer to FR-10(9)v-2, page 7 of 20. Under "Distribution O&M", explain why the division of Mains into the demand and customer portion is 78.2 and

21.8 percent, respectively, rather than 85 and 15 percent as calculated on WPFR-9v-6, page 16 of 27.

h. Refer to FR-10(9)-2, page 19 of 20.

(1) In the first column, there are two allocators titled "Distr Land, Struc & Equip Dem" and "Distr Land, Struc & Equip Cust." Explain how the amounts in these accounts were classified as demand-related versus customer-related.

(2) Explain how the allocator "Present Revenues by Function" was derived.

i. Refer to WPFR-9v-6, page 1 of 27. This page states that the Average and Excess Demand-Peak Day ratios were calculated based on 2007 Mcf and load research data. Explain why 2008 data was not used.

j. Refer to WPFR-9v-6, pages 17 and 18 of 27. Describe the "Handy Whitman Index for Gas Utility Construction, Northern Central Region" and why it is being used in the minimum size study rather than actual cost data.

3. Refer to Volume V, Tab C, Schedule C-2.1.

a. Refer to page 1 of 16. Line 3, Gas Cost Revenue, and Line 15, Purchased Gas, are both shown as \$78,939,367. The amount for Other Gas Supply Expenses, Line 16, is \$589,496. Describe the nature of this account and state whether any of the amounts recorded therein would have been recovered through Duke Kentucky's gas cost adjustment ("GCA").

b. Refer to page 2 of 16.

(1) Although Duke Kentucky's tariff lists a late payment charge, Account 487001, Late Payment Charges, has a zero balance. Explain whether or not Duke Kentucky currently charges a late payment penalty.

(2) Provide the detail of Account 496017, Provision for Rate Refunds.

c. Refer to page 13 of 16. Provide work papers supporting the \$1,403,255 balance in Account 904000, Uncollectible Accounts.

4. Refer to Volume V, Tab D, Schedule D-2.4. Explain how the \$146,105 adjustment was calculated.

5. Refer to Volume V, Tab I. Explain why residential revenue, line 4, Schedule I-2.1, decreases from \$93,979,581 in 2008 to \$80,925,193 in the base period when Schedule I-4, line 4, shows residential sales increasing, over this same period, from 6,653,731 to 6,747,636 Mcf.

6. Refer to Volume VI, Tab L.

a. Refer to page 1 of 5. For Rate RS, Duke Kentucky states that a customer charge of \$25.11 would be required for full recovery of customer-related costs but that the \$30.00 proposed recovers all of the customer-related costs plus some of the fixed costs necessary to serve these customers. Provide the calculation for the customer charge and volumetric charge that would be required if the customer charge fully recovered all fixed costs necessary to serve these customers.

b. Explain why Duke is proposing a \$30 per month customer charge for Rate RS when it calculated customer-related costs to be \$25.11 per customer.

c. Compare the proposed Rate RS customer charge to the proposed Rate GS customer charge; Duke states that its calculation of the customer charge required for the full recovery of customer-related costs for Rate GS would result in a customer charge of \$47.82 per customer, and “Accordingly”, it is proposing to set the customer charge at \$47.50. Explain the difference in treatment of these two classes.

d. Refer to page 1 of 5. For Rate GS, Duke Kentucky states that a customer charge of \$47.82 would be required for full recovery of customer-related costs, and therefore, the company is proposing a customer charge of \$47.50. Provide the calculation for the customer charge and volumetric charge that would be required if the customer charge fully recovered all fixed costs necessary to serve these customers.

e. Refer to page 2 of 5. For Rate IT, Duke Kentucky states that a customer charge of \$784.74 would be required for full recovery of customer-related costs, but that the company is proposing to maintain its current customer charge of \$430.00. Provide the calculation for the customer charge and volumetric charge that would be required if the customer charge fully recovered all fixed costs necessary to serve these customers.

f. Refer to page 2 of 5. For Rate FT-L, Duke Kentucky states that a customer charge of \$305.17 would be required for full recovery of customer-related costs, but that the company is proposing to maintain its current customer charge of \$430.00. Provide the calculation for the customer charge and volumetric charge that would be required if the customer charge fully recovered all fixed costs necessary to serve these customers.

g. Refer to page 2 of 5. Duke Kentucky states that, in the past, it has set the customer charge for Rate IT and FT-L at the same level and is proposing to maintain the current customer charge for the two classes. Explain in detail why Duke Kentucky desires to set the customer charges for these two classes at the same level rather than increase the IT customer charge and reduce its FT-L customer charged based on its calculations of customer-related costs to serve these customers. Include in the response an explanation of whether Duke Kentucky believes Rate FT-L customers are subsidizing Rate IT customers.

7. Provide, as of December 31, 2008, or the most recent date for which the information is available, the number of Duke Kentucky's residential customers that do not use gas for space heating purposes. In addition, provide the average monthly usage of Duke Kentucky's non-space-heating residential customers for 2008, or for the 12 months ended as of the date used in response to the first part of this request item.

8. Has Duke Kentucky performed any kind of sensitivity analysis to determine the customer charge level that would result in fuel-switching by 1) non-space-heating residential and 2) space-heating residential customers? If yes, provide the results of the analysis.

9. Refer to Volume VI, Tab L-2 page 70 of 70.

a. Provide detailed cost justification information for the Installation of Meter Pulse Equipment of \$500, the replacement of Meter Index charge of \$155, and the additional trip charge of \$60.

b. State whether the meter pulse equipment will be owned by the customer or Duke Kentucky.

c. Which customer classes are targeted by the proposed Rate MPS, Meter Pulse Service?

d. Have customers requested this service?

e. How many customers, broken down by customer class, does Duke Kentucky expect to take advantage of this service?

10. Refer to Volume VI, Tab M.

a. Provide a copy of this response electronically on CD-ROM in Microsoft Excel format with all formulas intact and unprotected.

b. List and explain all differences in methodology between this cost of service study and the one filed by Duke Kentucky in its most recent gas rate case.

c. Refer to Schedule M-2.2, page 1 of 7. Column M is calculated by subtracting column K from column F. Explain what is contained in column F and the purpose of column M.

11. Refer to Volume VII of the application, Tab C, Exhibit WPC-2b. For each item listed under "Other Revenue", provide the annual amount for the years 2004 through 2008.

12. Refer to page 9 of the Direct Testimony of Julia S. Janson ("Janson Testimony"), specifically, the reference to the December 2008 Bill Comparison Report provided by the American Gas Association ("AGA"), which indicated that Duke Kentucky's delivery rates for residential, commercial, and industrial customers "were lower than all other Kentucky investor-owned utilities reported in the survey." Provide the referenced AGA report.

13. Refer to lines 19 – 23 on page 12 of the Janson Testimony. Provide the surveys and survey results which show that local economic development officials have a 100 percent satisfaction rate with Duke Kentucky's economic development efforts and services.

14. Refer to page 19 of the Janson Testimony. Explain how the J.D. Power 2008 study of residential customer satisfaction for the country's 60 large gas utilities specifically captures the satisfaction level of the customers of Duke Kentucky.

15. Refer to page 4 of the Direct Testimony of Stephen R. Lee, specifically, the response starting on line 14, which states that the weather normalization methodology used in developing Duke Kentucky's projected sales and revenues is "the same methodology that management incorporates for preparing budgets and forecasts and for presentations of financial projections to the Board of Directors, credit ratings agencies and the investment community." Explain whether the methodology is identical to what is described in the Direct Testimony of Timothy A. Phillips ("Phillips Testimony").

16. Refer to page 11 of the Direct Testimony of Brenda R. Melendez and Volume IV of Duke Kentucky's application, at Tab 42, which contains its independent auditor's annual opinion report, which consists of a one-page letter from Deloitte & Touche, LLP, to its board of directors. Provide the full audit report, including, but not limited to, the audited financial statements and the notes to those statements.

17. Refer to the Direct Testimony of Roger A. Morin ("Morin Testimony"), page 29, and Attachments RAM-2 and RAM-3.

a. Provide the most recent company profiles as reported by Value Line for each of the companies in each of the proxy groups listed in RAM-2 and RAM-3.

b. Describe the criteria used to select the companies and explain how those criteria were applied in the selection of the companies in each proxy group.

c. Identify the gas utilities and combination electric and gas utilities not selected for the respective proxy groups and explain why they were not selected.

18. Refer to the Morin Testimony, page 31. Provide a copy of the Harris, Marston, Mishra and O'Brien article, "Ex Ante Cost of Equity Estimates of S&P 500 Firms: The Choice Between Global and Domestic CAPM."

19. Provide Attachment RAM-4 electronically on CD-ROM in Microsoft Excel format with all formulas intact and unprotected.

20. Refer to page 14 of the Direct Testimony of Robert M. Parsons ("Parsons Testimony"), Schedule D-2.11 and Workpaper WPD-2.11a. Identify and describe the specific items and/or reasons for Other Operating Expenses being \$362,672 greater in the forecasted period than in the base period.

21. Refer to page 14 of the Parsons Testimony, Schedule D-2.13 and Workpaper WPD-2.13a. Identify and describe the specific items and/or reasons for Taxes Other than Income Taxes being \$2,761,119 greater in the forecasted period than in the base period.

22. Refer to pages 15 and 27 of the Parsons Testimony. Page 15 indicates that the adjustment related to the company's proposal to move the portion of bad debt charge offs associated with gas cost revenue to its GCA is \$255,116. On page 27, the difference between the total uncollectible expense of \$338,344 and the portion related to the cost of delivering gas to customers, \$122,920, is \$215,424. Explain whether the

\$255,116 and \$215,424 represent different costs and, if not, why the two amounts should not be the same.

23. Refer to pages 17 – 18 of the Parsons Testimony. Explain whether the proposed methodology for calculating property tax expense has been used by Duke Kentucky in any of its previous forecasted test year rate cases.

24. Refer to page 28 of the Parsons Testimony, which indicates that the amount of uncollectible expense in Duke Kentucky's base rates and in the gas commodity component would have to be adjusted if the Commission does not approve its proposed treatment of uncollectible expense. Provide the amount of such adjustments along with revised versions of all schedules, exhibits and work papers that will be affected by these adjustments.

25. On page 28 of his testimony, Mr. Parson states, "including 100% of the uncollectible expense as a fixed charge in base rates results in the Company either over- or under-recovering its uncollectible expense". For each of the last five calendar years, provide the amount Duke Kentucky has over- or under-recovered due to uncollectible expense being included as a fixed charge in base rates. Include the supporting calculations in the response.

26. Refer to page 29 of the Parsons Testimony. Provide the adjustment to Working Capital necessary, along with revised versions of all schedules, exhibits and work papers that will be affected if the Commission does not approve the proposed treatment of carrying costs on gas stored underground.

27. Refer to the Parsons Testimony, Attachment RMP-3.

a. Refer to Line 1. Explain what is meant by "net" charge offs.

b. Refer to Line 4. Explain what is meant by “gas collection charges”, why it is added to the total, and why “gas late payment charges” are subtracted from the total.

28. Refer to pages 6 through 8 of the Phillips Testimony, which discusses the National Oceanic and Atmospheric Administration’s (“NOAA”) 30-year weather data for 1961-1990 and 1971-2000 and Attachment TAP-2, which shows the 30-year degree day normals for these 30-year periods as reported by NOAA. Provide the actual heating degree days for the Covington, Kentucky weather station, as reported by NOAA, for each year from 1961 through 2000.

29. Refer to page 11 of the Phillips Testimony, which shows the results of a Mean Percent Error (“MPE”) test to determine any bias in the 30-year and 10-year weather normals. Provide the calculations of the MPE levels.

30. Provide revised versions of Schedules M-2.2 and M-2.3 based on 25 year weather normalized Mcf sales and a base temperature of 65 degrees to calculate heating degree days. Provide the response in hard copy as well as electronically on CD-ROM in Microsoft Excel format with all formulas intact and unprotected.

31. Provide revised versions of Schedules M-2.2 and M-2.3 based on 30 year weather normalized Mcf sales and a base temperature of 65 degrees to calculate heating degree days. Provide the response in hard copy as well as electronically on CD-ROM in Microsoft Excel format with all formulas intact and unprotected.

32. Refer to page 12 of the Direct Testimony of Jon R. Spanos (“Spanos Testimony”).

a. Given that Mr. Spanos analyzed Duke Kentucky's accounting entries that recorded plant transactions for the period 1956 through 2008, explain why 1980 through 2008 is the period chosen by Mr. Spanos from which historical data was used to develop his estimated net salvage percentages.

b. Mr. Spanos also considered "estimates for other gas companies" in developing his estimated net salvage percentages. Provide the names of these gas companies and the dates of the studies from which their estimates were drawn.

33. Refer to page II-28 of the depreciation study performed by Mr. Spanos ("Spanos Study"), which was filed at TAB 44 in Volume IV of Duke Kentucky's application.

a. The net salvage for Account 2760, Mains, is negative 12 percent based on 1980 – 2008. Describe the 1993 "unusual occurrence" which fell within this period.

b. Explain whether the "overall statistical indication" refers to the negative 12 percent net salvage or if it refers to something else.

c. Provide the calculations of the most recent five year average, which is "just above the lower end of the range" of estimates of other gas companies.

d. For all plant accounts other than account 2760, Mains, provide the net salvage percentage based on the period 1980 through 2008 and the average cost of removal for the five most recent calendar years.

34. Refer to pages III-4 and III-5 of the Spanos Study, which contain a summary of the results of the study as applied to plant as of December 31, 2008.

a. Provide a revised version of this summary using the Equal Life Group (“ELG”) method but which reflects actual historical net salvage percentages from the company’s data for the period 1980 – 2008.

b. Provide a revised version of the summary using the Average Life Group (“ALG”) method which, in all other respects, reflects the same assumptions and estimates used to develop the results of the Spanos Study.

35. Refer to Schedule D-2.12 and Workpaper WPD-2.12a. Provide a schedule in the format used in Schedule B-3.2 which shows the calculations of the depreciation expense that produces the \$757,715 expense adjustment.

36. Refer to Schedule B-3.2.

a. Provide a revised version of the schedule based on the ELG method, as recommended by Mr. Spanos, but which reflects the company’s actual historical net salvage percentages from the period 1980 – 2008.

b. Provide a revised version of the schedule based on the ALG method which, in all other respects, reflects the same assumptions and estimates used in the Spanos Study.

37. Refer to pages 3 – 4 of the Direct Testimony of William Don Wathan, Jr. (“Wathan Testimony”). Provide a schedule showing the calculation of how the \$112 million in gross plant added since Duke Kentucky’s last gas rate case accounts for \$16.9 million of the requested increase of \$17.5 million.

38. Refer to pages 12 – 16 of the Wathan Testimony which address the company’s proposal to shift a portion of bad debt expense from base rates to its GCA.

a. On page 12, Mr. Wathan states that expenses that are treated differently for ratemaking (recovered outside of base rates) are typically “expenses that are of sufficient magnitude, volatile, and outside the utility’s control.” The discussion on page 15 of the Parsons Testimony appears to indicate that Duke Kentucky’s forecasted test year includes \$215,424 of uncollectible expense related to the cost of the natural gas commodity. Explain how, given the overall level of investment and operating expenses related to Duke Kentucky’s gas operations, this amount is considered of “sufficient magnitude” to warrant recovery outside of base rates.

b. On page 14, Mr. Wathan states that Duke Kentucky proposes to modify its GCA filings to “include a periodic update for bad debt expense associated with the commodity portion of customers’ bills.” Duke Kentucky makes GCA filings on a monthly basis. Explain how frequently it plans to include periodic updates for bad debt expense in its GCA filings.

39. Duke Kentucky and Duke Energy Ohio (“Duke Ohio”) are the only gas distribution utilities in the Duke Energy system. Has Duke Ohio proposed, or received approval, to shift the portion of bad debt expense associated with the commodity of customers’ bills from its base rates to its gas cost recovery mechanism? If yes to either part of this request, provide the docket number of the relevant Public Utility Commission of Ohio (“PUCO”) proceeding.

40. Refer to pages 15 – 16 of the Wathan Testimony, which discusses the effect of bad debt expense recovery through base rates on customers switching to alternative suppliers. Explain whether Duke Kentucky is contemplating offering a choice

program to small volume customers. If so, when? If not, why is the effect of hypothetical switching offered for the Commission's consideration?

41. Refer to pages 16 – 18 of the Wathan Testimony, specifically, the discussion of the proposal to recover the carrying costs of its investment in gas stored underground through its GCA rather than through base rates, as is currently done.

a. Mr. Wathen provides an example of an investment of \$10 million in gas stored underground being reduced by half, to \$5 million, as a result of a sharp decline in natural gas prices. Provide, for the years 2004 through 2008 and the first six months of 2009, the monthly value (dollars) of Duke Kentucky's gas stored underground inventory.

b. Identify the Ohio utility, other than Duke Ohio that uses a methodology similar to what Duke Kentucky is proposing for recovery of the carrying costs on gas stored underground. Provide the docket numbers of the PUCO proceedings in which the methodology was approved for each utility.

42. Refer to the Direct Testimony of James E. Ziolkowski ("the Ziolkowski Testimony") at page 8.

a. Starting at line 19, Mr. Ziolkowski states that Duke Ohio has implemented a Modified Straight-Fixed Variable ("MSFV") rate design. Provide the effective date of the approval of the MSFV rate design and a comparison of the rate design approved in Ohio with the rate design proposed in this case.

b. Is Duke Kentucky aware of fuel-switching by the residential customers of Duke Ohio that could be attributed to a partial or complete shift to a MSFV rate design? If yes, to what extent has fuel-switching been realized?

43. Refer to the Ziolkowski Testimony at pages 9 and 10 which discusses Duke Kentucky's proposed rate design and its demand side management ("DSM") programs. Describe the effect, if any, the proposed rate design would have on the lost revenue component of the DSM calculation, if approved.

44. Refer to the table on page 11 of the Ziolkowski Testimony to which Mr. Ziolkowski refers in order to demonstrate steadily declining throughput per customer. Compare the information on this table to average Mcf sales per residential customer shown on line 52, Volume V, Tab I.

a. Explain the discrepancy in these sales figures.

b. The information in Tab I of Volume V shows years of increasing as well as decreasing usage. Provide Duke Kentucky's estimates for Mcf sales per residential customer for the years 2013 – 2014.

45. Refer to pages 11 – 12 of the Ziolkowski Testimony. Mr. Ziolkowski states that declining throughput due to energy efficiency creates a dilemma for Duke Kentucky between advocating further conservation measures and attaining an adequate return by selling more gas. Explain why the dilemma posed by advocating further conservation measures is not addressed by Duke Kentucky's DSM Cost Recovery Rider which provides not only for lost revenue from decreased throughput, but also for program incentive recovery.

46. Refer to page 13 of the Ziolkowski Testimony. Mr. Ziolkowski states that Duke Kentucky's low income customers use more energy on average than its other residential customers. Provide the data supporting this statement.

47. Refer to Attachment JEZ-1 of the Ziolkowski Testimony, pages 1 – 4 of 5. For lines 1, 2, 5 and 7 on these pages, explain how the amount was calculated or, if it is calculated elsewhere in the application, provide the location of the calculations.

48. Refer to pages 2 and 15 of the Direct Testimony of Jay R. Alvaro (“Alvaro Testimony”). On page 2, Mr. Alvaro states that Duke Kentucky proposes “to share the cost of incentive compensation programs between shareholders and customers using the same method” approved by the Commission in Case Nos. 2005-00042¹ and 2006-00172.²

a. The referenced cases are the most recent gas and electric base rate cases of Duke Kentucky (then operating as ULH&P). Given that Case No. 2006-00172 resulted in a settlement that did not address incentive compensation programs, explain how Commission approval of that settlement can be considered approval of any method for sharing the cost of incentive compensation between shareholders and customers.

b. The text on page 15 of the Alvaro Testimony states that Duke Kentucky proposes “to share its incentive plan expense between shareholders and customers in a manner consistent with what the Commission approved” in the 2005 and 2006 rate cases. This text has a different meaning than the text on page 2, which refers to “using the same method” previously approved by the Commission. Clarify whether Duke Kentucky is proposing to use the same (identical) method as was approved by the

¹ Case No. 2005-00042, The Union Light, Heat and Power Company (Ky. PSC Dec. 22, 2005).

² Case No. 2006-00172, The Union Light, Heat and Power Company (Ky. PSC Dec. 21, 2006).

Commission in Case No. 2005-00042 or a similar method, which is consistent with what the Commission previously approved.

49. Refer to page 18 of the Alvaro Testimony, specifically, lines 3 – 14, which indicate that the costs of achieving reductions in operating and maintenance costs should be borne by customers “[b]ecause customers ultimately benefit from any reductions and cost savings achieved through lower rates.” Rates are lower due to reductions and cost savings after the reductions and savings are reflected in rates via a rate case. Explain whether Mr. Alvaro agrees that, until such reductions and cost savings are built into rates through a rate case, they will increase the utility’s earnings, thus benefiting shareholders.

50. Refer to page 12 of the Direct Testimony of Stephen G. De May, who states that Duke Kentucky anticipates capital needs of approximately \$273 million for calendar years 2009 through 2011. He goes on to state that the company expects its capital requirements to be principally funded from internally generated cash of \$184 million and debt issuances of \$110 million, offset by dividends to its parent of \$9 million. There appears to be a disconnect between the amount of the capital needs, \$273 million, and the amount, \$285 million, of the anticipated funding. Clarify whether one or more of the amounts cited in the testimony need to be revised.

51. Refer to page 11 of the Direct Testimony of David L. Doss (“Doss Testimony”). State whether there has been any change in the status of the audit, which commenced on November 13, 2008, by the Federal Energy Regulatory Commission’s Office of Enforcement since the July 1, 2009 date cited in the testimony.

52. Refer to Attachment DLD-5 to the Doss Testimony, a report by Liberty Consulting Group (“Liberty”) on its audit of Duke Kentucky’s merger-related agreements.

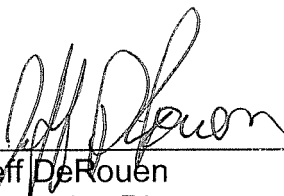
a. On page 20 of the Liberty report in Section III, Accounting Issues, Conclusion No. 3, refers to labor charged to affiliates by legacy Cinergy companies, including Duke Kentucky, not fully reflecting embedded cost. The response following that conclusion states that consolidation of payroll processing and accounting systems in 2008 will eliminate this problem. Explain whether these systems were consolidated as planned and if such consolidation eliminated the problem cited.

b. Refer to Conclusion No. 6 on page 21 and Recommendation No. 3 on pages 22 - 23 of the Liberty report, which refer to Duke Kentucky not maintaining a formal affiliate transaction accounting manual. What has been the company’s response to Liberty’s conclusion and recommendation on this subject?

c. Refer to page 76 of the Liberty report in Section V, Service Company Charges. Conclusion No. 14 reads “The costs incurred to accomplish the spin-off of the gas business are not related to the costs to provide regulated utility service.” This conclusion relates to Finding No. 6 on page 66 on the 2007 costs of Duke Energy for “the spin-off of the gas business.” What gas business was spun-off in conjunction with the Duke-Cinergy merger?

53. Refer to page 13 of the Direct Testimony of Gary J. Hebbeler (“Hebbeler Testimony”). Provide calculations, plus a narrative description, of the \$3.8 million in maintenance savings that the Accelerated Main Replacement Program (“AMRP”) has provided.

54. Refer to Volume VIII, page 26 of the Hebbeler Testimony.
- a. Provide the number of leak repairs, by year, from 2002 through 2008.
 - b. Provide the number of outages per 1,000 customers, by year, for the period 2002 through 2008.
 - c. Provide the AGA Benchmarking Study mentioned on lines 16 – 18.
55. Refer to page 31 of the Hebbeler Testimony. Provide the gas cost estimates used in applying projected gas cost for the determination of purchased gas expense.
56. Refer to Schedule B-4.1, which shows construction projects that will be underway during the forecasted period. The amount for Project G7RISER is consistent with the discussion on page 18 of the Hebbeler Testimony on the accelerated riser replacement program. Explain whether Project KYCIBS10 is for completion of the AMRP or is another construction project.



Jeff DeRouen
Executive Director
Public Service Commission
P.O. Box 615
Frankfort, Ky. 40602

DATED **AUG 17 2009**

cc: All parties

Lawrence W Cook
Assistant Attorney General
Office of the Attorney General Utility & Rate
1024 Capital Center Drive
Suite 200
Frankfort, KY 40601-8204

Rocco O D'Ascenzo
Duke Energy Kentucky, Inc.
P. O. Box 960
139 East 4th Street
Cincinnati, OH 45201

Julie S Janson
President
Duke Energy Kentucky, Inc.
P. O. Box 960
139 East 4th Street
Cincinnati, OH 45201