Duke Energy®

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Senior Paralegal

VIA OVERNIGHT DELIVERY

May 27, 2010

Mr. Jeff Cline
Public Service Commission
Commonwealth of Kentucky
211 Sower Boulevard
Frankfort, Kentucky 40602-0615

Re: In the Matter of an Adjustment of Gas Rates of The Union Light, Heat and Power Company, Case No. 2001-00092; and

In the Matter of the Joint Application of Duke Energy Corporation, Duke Energy Holding Corp., Deer Acquisition Corp., Cougar Acquisition Corp., Cinergy Corp., The Cincinnati Gas & Electric Company and The Union Light, Heat and Power Company for Approval of a Transfer and Acquisition of Control, Case No. 2005-00228.

Dear Mr. Cline:

I have enclosed Duke Energy Kentucky, Inc.'s First Quarter 2010 final jurisdictional financial statements per order by the Commission in the above-referenced cases.

Please file-stamp the extra copy of this letter and return to me in the enclosed return-addressed envelope.

If you have any questions regarding the financial statements, please contact Ms. Brenda Melendez, Manager, Accounting at (513) 287-1554.

Very truly yours,

Dianne Kuhnell

Dianne Kuhnell
Senior Paralegal

Enclosure

cc: Ms. Brenda Melendez

Duke Energy Kentucky, Inc.

Financial Statements

(Unaudited)

March 31, 2010

DUKE ENERGY KENTUCKY, INC.
CONDENSED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended March 31, 2010	2009
	(in thousands)	
Operating Revenues		
Electric	$ 85,202	$ 87,344
Gas	65,734	57,701
Total Operating Revenues	150,936	145,045
Operating Expenses		
Fuel used in electric generation and purchased power	33,111	36,654
Natural gas purchased	40,008	40,054
Operation, maintenance and other	33,043	31,635
Depreciation and amortization	14,699	10,768
Property and other taxes	1,038	3,505
Total Operating Expenses	121,899	122,616
Operating Income	29,037	22,429
Other Income and Expenses, net	948	815
Interest Expense	4,533	4,588
Income Before Income Taxes	25,452	18,656
Income Tax Expense	8,872	6,866
Net Income	$ 16,580	$ 11,790

See Notes to Unaudited Condensed Financial Statements

DUKE ENERGY KENTUCKY, INC.
CONDENSED BALANCE SHEETS
(UNAUDITED)

ASSETS	March 31, 2010	December 31, 2009
	(in thousands)	
Current Assets		
Cash and cash equivalents	$ **30,412**	$ 26,883
Receivables (net of allowance for doubtful accounts of $316 at March 31, 2010 and $318 at December 31, 2009)	**98,958**	70,978
Inventory	**41,745**	48,452
Other	**6,582**	5,187
Total current assets	**177,697**	151,500
Investments and Other Assets		
Intangible assets	**6,100**	6,884
Other	**5,862**	5,649
Total investments and other assets	**11,962**	12,533
Property, Plant, and Equipment		
Cost	**1,599,047**	1,584,117
Less accumulated depreciation and amortization	**652,422**	641,260
Net property, plant, and equipment	**946,625**	942,857
Regulatory Assets and Deferred Debits		
Deferred debt expense	**5,661**	5,787
Other	**43,921**	46,351
Total regulatory assets and deferred debits	**49,582**	52,138
Total Assets	**$ 1,185,866**	$ 1,159,028

See Notes to Unaudited Condensed Financial Statements

DUKE ENERGY KENTUCKY, INC.
CONDENSED BALANCE SHEETS
(UNAUDITED)

LIABILITIES AND COMMON STOCKHOLDER'S EQUITY

	March 31, 2010	December 31, 2009
	(in thousands)	
Current Liabilities		
Accounts payable	$ 57,025	$ 53,025
Taxes accrued	21,697	14,871
Interest accrued	3,774	3,703
Current maturities of long-term debt	1,914	1,879
Other	14,433	14,217
Total current liabilities	98,843	87,695
Long-term Debt	343,288	343,665
Deferred Credits and Other Liabilities		
Deferred income taxes	199,132	199,926
Investment tax credit	3,274	3,514
Accrued pension and other postretirement benefit costs	25,840	28,685
Regulatory liabilities	47,433	47,240
Asset retirement obligations	7,147	7,063
Other	22,236	19,147
Total deferred credits and other liabilities	305,062	305,575
Commitments and Contingencies		
Common Stockholder's Equity		
Common stock – $15 00 par value; 1,000,000 shares authorized and 585,333 shares outstanding at March 31, 2010 and December 31, 2009	8,780	8,780
Paid-in capital	167,494	167,494
Retained earnings	262,399	245,819
Total common stockholder's equity	438,673	422,093
Total Liabilities and Common Stockholder's Equity	$ 1,185,866	$ 1,159,028

See Notes to Unaudited Condensed Financial Statements

DUKE ENERGY KENTUCKY, INC.
CONDENSED STATEMENTS OF CHANGES IN COMMON STOCKHOLDER'S EQUITY AND COMPREHENSIVE INCOME
(UNAUDITED)
(in thousands)

	Common Stock	Paid-in Capital	Retained Earnings	Total Common Stockholder's Equity
Balance at December 31, 2008	$ 8,780	$ 167,494	$ 217,751	$ 394,025
Net income and total comprehensive income			11,790	11,790
Balance at March 31, 2009	$ 8,780	$ 167,494	$ 229,541	$ 405,815
Balance at December 31, 2009	$ 8,780	$ 167,494	$ 245,819	$ 422,093
Net income and total comprehensive income			16,580	16,580
Balance at March 31, 2010	$ 8,780	$ 167,494	$ 262,399	$ 438,673

See Notes to Unaudited Condensed Financial Statements

DUKE ENERGY KENTUCKY, INC.
CONDENSED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Three Months Ended March 31, 2010	2009
	(in thousands)	
Cash Flows from Operating Activities		
Net income	$ 16,580	$ 11,790
Adjustments to reconcile net income to net cash provided by operating activities.		
Depreciation and amortization	14,847	10,947
Deferred income taxes	(2,083)	4,433
Contribution to company sponsored pension plan	-	(13,554)
Accrued pension and other postretirement benefit costs	497	391
(Increase) decrease in:		
Net realized and unrealized mark-to-market and hedging transactions	31	2,072
Receivables	8,311	17,554
Inventory	6,707	(2,410)
Other current assets	(1,396)	7,518
Increase (decrease) in:		
Accounts payable	(2,066)	(3,302)
Taxes accrued	6,826	(441)
Other current liabilities	1	(4,070)
Regulatory asset/liability deferrals	2,519	(6,304)
Other assets	2,869	3,600
Other liabilities	(503)	(4,275)
Net cash provided by operating activities	53,140	23,949
Cash Flows from Investing Activities		
Capital expenditures	(11,894)	(12,404)
Notes from affiliate, net	(37,377)	(4,985)
Other	25	42
Net cash used in investing activities	(49,246)	(17,347)
Cash Flows from Financing Activities		
Redemption of long-term debt	(365)	(437)
Other	-	(3,282)
Net cash used in financing activities	(365)	(3,719)
Net increase in cash and cash equivalents	3,529	2,883
Cash and cash equivalents at beginning of period	26,883	11,768
Cash and cash equivalents at end of period	$ 30,412	$ 14,651

See Notes to Unaudited Condensed Financial Statements

DUKE ENERGY KENTUCKY, INC
Notes to Unaudited Condensed Financial Statements

1. Organization and Basis of Presentation

Organization. Duke Energy Kentucky, Inc. (Duke Energy Kentucky), a Kentucky corporation organized in 1901, is a combination electric and gas public utility company that provides service in northern Kentucky. Duke Energy Kentucky's principal lines of business include generation, transmission and distribution of electricity as well as the sale of and/or transportation of natural gas. Duke Energy Kentucky is subject to the regulatory provisions of the Kentucky Public Service Commission (KPSC) and the FERC. Duke Energy Kentucky's common stock is wholly owned by Duke Energy Ohio, Inc. (Duke Energy Ohio), an Ohio corporation organized in 1837, which is wholly owned by Cinergy Corp. (Cinergy), a Delaware corporation organized in 1993. Cinergy is a wholly owned subsidiary of Duke Energy Corporation (Duke Energy).

Basis of Presentation. These statements reflect Duke Energy Kentucky's proportionate share of the East Bend generating station which is jointly owned with Dayton Power & Light.

These Unaudited Financial Statements reflect all normal recurring adjustments that are, in the opinion of management, necessary to fairly present Duke Energy Kentucky's financial position and results of operations. Amounts reported in the interim Unaudited Statements of Operations are not necessarily indicative of amounts expected for the respective annual periods due to the effects of seasonal temperature variations on energy consumption, regulatory rulings, the timing of maintenance on electric generating units, changes in mark-to-market valuations, changing commodity prices, and other factors.

Use of Estimates. To conform to generally accepted accounting principles (GAAP) in the United States (U.S.), management makes estimates and assumptions that affect the amounts reported in the Unaudited Financial Statements and Notes. Although these estimates are based on management's best available knowledge at the time, actual results could differ.

Unbilled Revenue. Revenues on sales of electricity and gas are recognized when either the service is provided or the product is delivered. Unbilled retail revenues are estimated by applying an average revenue per kilowatt-hour or per thousand cubic feet (Mcf) for all customer classes to the number of estimated kilowatt-hours or Mcfs delivered but not billed. Unbilled wholesale energy revenues are calculated by applying the contractual rate per megawatt hour (MWh) to the number of estimated MWh delivered, but not yet billed. Unbilled wholesale demand revenues are calculated by applying the contractual rate per megawatt (MW) to the MW volume not yet billed. The amount of unbilled revenues can vary significantly from period to period as a result of factors including seasonality, weather, customer usage patterns and customer mix.

Cinergy Receivables Company LLC (Cinergy Receivables) is a bankruptcy remote, special purpose entity that is a wholly-owned limited liability company of Cinergy. Unbilled revenues, which are primarily recorded as Receivables on the Balance Sheets and exclude receivables sold to Cinergy Receivables, primarily relate to wholesale sales and were approximately $1 million at March 31, 2010 and December 31, 2009.

Additionally, Duke Energy Kentucky sells, on a revolving basis, nearly all of its retail accounts receivable and related collections to Cinergy Receivables. As discussed further in Notes 8 and 13, Duke Energy Kentucky meets the revised sales/derecognition criteria of the new accounting rules adopted January 1, 2010 and, therefore, continues to account for the transfers of receivables to Cinergy Receivables as sales. Accordingly, the receivables sold are not reflected on the Balance Sheets of Duke Energy Kentucky. Receivables for unbilled revenues related to retail accounts receivable at Duke Energy Kentucky included in the sales of accounts receivable to Cinergy Receivables at March 31, 2010 and December 31, 2009 were $16 million and $23 million, respectively.

2. Regulatory Matters

Franchised Electric and Gas

Rate Related Information. The KPSC approves rates for retail electric and gas services within the Commonwealth of Kentucky.

Energy Efficiency. On November 15, 2007, Duke Energy Kentucky filed its annual application to continue existing energy efficiency programs, consisting of nine residential and two commercial and industrial programs, and to true-up its gas and electric tracking mechanism for recovery of lost revenues, program costs and shared savings. On February 11, 2008, Duke Energy Kentucky filed a motion to amend its energy efficiency programs. On December 1, 2008, Duke Energy Kentucky filed an application for a save-a-watt Energy Efficiency Plan. The application seeks a new energy efficiency recovery mechanism similar to what was proposed in Ohio. On January 27, 2010, Duke Energy Kentucky withdrew the application to implement save-a-watt and plans to file a revised portfolio in the future. Until that time, energy efficiency programs continue under Duke Energy Kentucky's demand-side management program.

Gas Rate Cases. In 2002, the KPSC approved Duke Energy Kentucky's gas base rate case which included, among other things, recovery of costs associated with an accelerated gas main replacement program. The approval authorized a tracking mechanism to recover certain costs including depreciation and a rate of return on the program's capital expenditures. The Kentucky Attorney General appealed to the Franklin Circuit Court the KPSC's approval of the tracking mechanism as well as the KPSC's subsequent approval of annual rate adjustments under this tracking mechanism. In 2005, both Duke Energy Kentucky and the KPSC requested that the court dismiss these cases.

In February 2005, Duke Energy Kentucky filed a gas base rate case with the KPSC requesting approval to continue the tracking mechanism and for a $14 million annual increase in base rates. A portion of the increase was attributable to recovery of the current cost of the accelerated gas main replacement program in base rates. In June 2005, the Kentucky General Assembly enacted Kentucky Revised Statute 278.509 (KRS 278.509), which specifically authorizes the KPSC to approve tracker recovery for utilities' gas main replacement programs. In December 2005, the KPSC approved an annual rate increase and re-approved the tracking mechanism through 2011. In February 2006, the Kentucky Attorney General appealed the KPSC's order to the Franklin Circuit Court, claiming that the order improperly allows Duke Energy Kentucky to increase its rates for gas main replacement costs in between general rate cases, and also claiming that the order improperly allows Duke Energy Kentucky to earn a return on investment for the costs recovered under the tracking mechanism which permits Duke Energy Kentucky to recover its gas main replacement costs.

In August 2007, the Franklin Circuit Court consolidated all the pending appeals and ruled that the KPSC lacks legal authority to approve the gas main replacement tracking mechanism, which was approved prior to the enactment of KRS 278.509 in 2005. To date, Duke Energy Kentucky has collected approximately $9 million in annual rate adjustments under the tracking mechanism. Per the KPSC order, Duke Energy Kentucky collected these revenues subject to refund pending the final outcome of this litigation.

Duke Energy Kentucky and the KPSC have requested that the Kentucky Court of Appeals grant a rehearing of its decision. On February 5, 2009, the Kentucky Court of Appeals denied the rehearing requests of both Duke Energy Kentucky and the KPSC. Duke Energy Kentucky filed a motion for discretionary review to the Kentucky Supreme Court on or about March 6, 2009. The Kentucky Supreme Court accepted discretionary review of this case and merit briefs were filed on October 19, 2009. Duke Energy Kentucky filed its reply brief on January 4, 2010. The Kentucky Supreme Court heard oral arguments on May 14, 2010. An order is expected by year end 2010.

On July 1, 2009, Duke Energy Kentucky filed its application for an approximate $18 million increase in base natural gas rates. Duke Energy Kentucky also proposed to implement a modified straight fixed-variable rate design for residential customers, which involves moving more of the fixed charges of providing gas service, such as capital investment in pipes and regulating equipment, billing and meter reading, from the volumetric charges to the fixed monthly charge. On November 19, 2009, Duke Energy Kentucky and the Kentucky Attorney General jointly filed a Stipulation and Recommendation reflecting their settlement of the gas rate case. The Stipulation and Recommendation reflects a revenue increase of $13 million, which reflected a 10.375% Return on Equity. Duke Energy Kentucky agreed to withdraw its request for a straight fixed-variable rate design and to forego filing another gas rate case in the eighteen months following approval of the Stipulation and Recommendation. The KPSC issued an order approving the Stipulation and Recommendation on December 29, 2009. New rates went into effect January 4, 2010.

3. Commitments and Contingencies

Environmental

Duke Energy Kentucky is subject to federal, state and local regulations regarding air and water quality, hazardous and solid waste disposal and other environmental matters. These regulations can be changed from time to time, imposing new obligations on Duke Energy Kentucky.

Remediation activities. Duke Energy Kentucky and its affiliates are responsible for environmental remediation at various contaminated sites. These include some properties that are part of ongoing Duke Energy Kentucky operations, sites formerly owned or used by Duke Energy Kentucky entities, and sites owned by third parties. Remediation typically involves management of contaminated soils and may involve groundwater remediation. Managed in conjunction with relevant federal, state and local agencies, activities vary with site conditions and locations, remedial requirements, complexity and sharing of responsibility. If remediation activities involve statutory joint and several liability provisions, strict liability, or cost recovery or contribution actions, Duke Energy Kentucky could potentially be held responsible for contamination caused by other parties. In some instances, Duke Energy Kentucky may share liability associated with contamination with other potentially responsible parties, and may also benefit from insurance policies or contractual indemnities that cover some or all cleanup costs. All of these sites generally are managed in the normal course of business or affiliate operations.

Duke Energy Kentucky has accrued costs associated with remediation activities at some of its current and former sites, as well as other relevant environmental contingent liabilities. Management, in the normal course of business, continually assesses the nature and extent of known or potential environmental-related contingencies and records liabilities when losses become probable and are reasonably estimable. Costs associated with remediation activities within Duke Energy Kentucky's operations are typically expensed unless recovery of the costs is deemed probable.

Clean Water Act 316(b). The U.S. Environmental Protection Agency (EPA) finalized its cooling water intake structures rule in July 2004. The rule established aquatic protection requirements for existing facilities that withdraw 50 million gallons or more of water per day from rivers, streams, lakes, reservoirs, estuaries, oceans, or other U.S. waters for cooling purposes. Coal-fired generating facilities in which Duke Energy Kentucky is either a whole or partial owner are affected sources under that rule. On April 1, 2009, the U.S. Supreme Court ruled in favor of the plaintiff that the EPA may consider costs when determining which technology option each site should implement. Depending on how the cost-benefit analysis is incorporated into the revised EPA rule, the analysis could narrow the range of technology options required for the affected facilities. Because of the wide range of potential outcomes, Duke Energy Kentucky is unable to estimate its costs to comply at this time.

Clean Air Interstate Rule (CAIR). The EPA finalized its CAIR in May 2005. The CAIR limits total annual and summertime NO_x emissions and annual SO_2 emissions from electric generating facilities across the Eastern U.S. through a two-phased cap-and-trade program. Phase 1 begins in 2009 for NO_x and in 2010 for SO_2. Phase 2 begins in 2015 for both NO_x and SO_2. On March 25, 2008, the U.S. Court of Appeals for the District of Columbia (D.C. Circuit) heard oral argument in a case involving multiple challenges to the CAIR. On July 11, 2008, the D.C. Circuit issued its decision in *North Carolina v. EPA* No. 05-1244 vacating the CAIR. The EPA filed a petition for rehearing on September 24, 2008 with the D.C. Circuit asking the court to reconsider various parts of its ruling vacating CAIR. In December 2008, the D.C. Circuit issued a decision remanding the CAIR to the EPA without vacatur. The EPA must now conduct a new rulemaking to modify the CAIR in accordance with the court's July 11, 2008 opinion. This decision means that the CAIR as initially finalized in 2005 remains in effect until the new EPA rule takes effect. The EPA has indicated that it currently plans on issuing a proposed rule in June 2010. It is uncertain how long the current CAIR will remain in effect or how the new rulemaking will alter the CAIR.

Duke Energy Kentucky plans to spend approximately $5 million between 2010 and 2014 to comply with Phase 1 of the CAIR. Duke Energy Kentucky is currently unable to estimate the costs to comply with any new rule the EPA will issue in the future as a result of the D.C. District Court's December 2008 decision discussed above.

Coal Combustion Product (CCP) Management. Duke Energy Kentucky currently estimates that it will spend approximately $14 million over the period 2010-2014 to install synthetic caps and liners at existing CCP landfills, develop a new CCP landfill and to convert CCP handling systems from wet to dry systems. The EPA and a number of states are considering additional regulatory measures that will contain specific and more detailed requirements for the management and disposal of coal combustion products, primarily ash, from coal-fired power plants. The EPA has indicated that it intends to propose a rule in second quarter 2010. Additional laws and regulations under consideration which more stringently regulate coal ash, including the potential regulation of coal ash as hazardous waste, will likely increase costs for Duke Energy Kentucky's coal facilities. Duke Energy Kentucky is unable to estimate its potential costs at this time.

Litigation

Section 126 Petitions. In March 2004, the state of North Carolina filed a petition under Section 126 of the CAA in which it alleges that sources in 13 upwind states, including Kentucky, significantly contribute to North Carolina's non-attainment with certain ambient air quality standards. In August 2005, the EPA issued a proposed response to the petition. The EPA proposed to deny the ozone portion of the petition based upon a lack of contribution to air quality by the named states. The EPA also proposed to deny the particulate matter portion of the petition based upon the CAIR Federal Implementation Plan (FIP), that would address the air quality concerns from neighboring states. On April 28, 2006, the EPA denied North Carolina's petition based upon the final CAIR FIP described above. North Carolina has filed a legal challenge to the EPA's denial. Briefing in that case is under way. On March 5, 2009 the D.C. Circuit remanded the case to the EPA for reconsideration. The EPA has conceded that the D.C. Circuit's July 18, 2008 decision in the CAIR litigation, *North Carolina v. EPA* No. 05-1244, discussed above, and a subsequent order issued by the D.C. Circuit on December 23, 2008, have eliminated the legal basis for the EPA's denial of North Carolina's Section 126 petition. At this time, Duke Energy Kentucky cannot predict the outcome of this proceeding.

Carbon Dioxide (CO_2) Litigation. In July 2004, the states of Connecticut, New York, California, Iowa, New Jersey, Rhode Island, Vermont, Wisconsin and the City of New York brought a lawsuit in the U.S. District Court for the Southern District of New York against Cinergy, American Electric Power Company, Inc., American Electric Power Service Corporation, The Southern Company, Tennessee Valley Authority, and Xcel Energy Inc. A similar lawsuit was filed in the U.S. District Court for the Southern District of New York against the same companies by Open Space Institute, Inc., Open Space Conservancy, Inc., and The Audubon Society of New Hampshire. These lawsuits allege that the defendants' emissions of CO_2 from the combustion of fossil fuels at electric generating facilities contribute to global warming and amount to a public nuisance. The complaints also allege that the defendants could generate the same amount of electricity while emitting significantly less CO_2. The plaintiffs are seeking an injunction requiring each defendant to cap its CO_2 emissions and then reduce them by a specified percentage each year for at least a decade. In September 2005, the District Court granted the defendants' motion to dismiss the lawsuit. The plaintiffs have appealed this ruling to the Second Circuit Court of Appeals. Oral arguments were held before the Second Circuit Court of Appeals on June 7, 2006. In September 2009, the Court of Appeals issued a ruling reversing the lower court ruling. Duke Energy Kentucky is currently evaluating its options for rehearing and appeal. It is not possible to predict with certainty whether Duke Energy Kentucky will incur any liability or to estimate the damages, if any, that Duke Energy Kentucky might incur in connection with this matter.

Hurricane Katrina Lawsuit. In April 2006, Cinergy was named in the third amended complaint of a purported class action lawsuit filed in the U.S. District Court for the Southern District of Mississippi. Plaintiffs claim that Cinergy, along with numerous other utilities, oil companies, coal companies and chemical companies, are liable for damages relating to losses suffered by victims of Hurricane Katrina. Plaintiffs claim that defendants' greenhouse gas emissions contributed to the frequency and intensity of storms such as Hurricane Katrina. On August 30, 2007, the court dismissed the case and plaintiffs filed a notice of appeal. In October 2009, the Court of Appeals issued an opinion reversing the district court and reinstating the lawsuit. Defendants filed a petition for rehearing en banc, which was granted. Argument is scheduled for May 24, 2010. It is not possible to predict with certainty whether Duke Energy Kentucky will incur any liability or to estimate the damages, if any, that Duke Energy Kentucky might incur in connection with this matter.

Other Litigation and Legal Proceedings. Duke Energy Kentucky is involved in other legal, tax and regulatory proceedings arising in the ordinary course of business, some of which involve substantial amounts. Duke Energy Kentucky believes that the final disposition of these proceedings will not have a material adverse effect on its results of operations, cash flows or financial position.

Duke Energy Kentucky has exposure to certain legal matters that are described herein. As of both March 31, 2010 and December 31, 2009, Duke Energy Kentucky has recorded insignificant reserves for these proceedings and exposures. Duke Energy Kentucky expenses legal costs related to the defense of loss contingencies as incurred.

Other Commitments and Contingencies

General. Duke Energy Kentucky enters into various commitments to purchase or sell power or capacity. As of March 31, 2010, most of these commitments are designated as non-derivative or normal purchases and sales and therefore not recognized on the Balance Sheets.

4. Debt and Credit Facilities

Money Pool. Duke Energy Kentucky receives support for its short-term borrowing needs through its participation with Duke Energy and other Duke Energy subsidiaries in a money pool arrangement. Under this arrangement, those companies with short-term funds may provide short-term loans to affiliates participating under this arrangement. The money pool is structured such that Duke Energy Kentucky separately manages its cash needs and working capital requirements. Accordingly, there is no net settlement of receivables and payables between the money pool participants. As of March 31, 2010 and December 31, 2009, Duke Energy Kentucky had short-term money pool receivables of approximately $66 million and $29 million, respectively, which are classified within Receivables in the accompanying Balance Sheets. The $37 million increase in receivables during the three months ended March 31, 2010, is reflected within investing activities on the Statements of Cash Flows.

Available Credit Facilities. The total capacity under Duke Energy's master credit facility, which expires in June 2012, is approximately $3.14 billion. The credit facility contains an option allowing borrowing up to the full amount of the facility on the day of initial expiration for up to one year. Duke Energy Kentucky has borrowing capacity under the master credit facility up to a specified sub limit. However, Duke Energy has the unilateral ability under the master credit facility to increase or decrease the borrowing sub limit, subject to maximum cap limitations, at any time. At March 31, 2010, Duke Energy Kentucky had a borrowing sub limit and available capacity under Duke Energy's master credit facility of $100 million. The amount available to Duke Energy Kentucky under its sub limit to Duke Energy's master credit facility may be reduced by draw downs of cash, borrowings through the money pool arrangement, or use of the master credit facility to backstop the issuances of letters of credit and certain tax-exempt bonds.

At both March 31, 2010 and December 31, 2009, approximately $50 million of certain tax-exempt bonds, which are short-term obligations by nature, were classified as Long-Term Debt on the Balance Sheets due to Duke Energy Kentucky's intent and ability to utilize such borrowings as long-term financing. Duke Energy Kentucky's credit facilities with non-cancelable terms in excess of one year as of the balance sheet date give Duke Energy Kentucky the ability to refinance these short-term obligations on a long-term basis. The $50 million of tax-exempt bonds outstanding at March 31, 2010 are backstopped by a letter of credit, which expires in September 2011. Under this letter of credit agreement, Duke Energy Kentucky may request the issuance of letters of credit up to $51 million on its behalf to support various series of tax-exempt bonds issued or to be issued on behalf of

Duke Energy Kentucky. This credit facility, which is not part of Duke Energy's master credit facility, may not be used for any purpose other than to support tax-exempt bonds issued by Duke Energy Kentucky and Duke Energy Indiana.

Restrictive Debt Covenants. Duke Energy's and Duke Energy Kentucky's debt and credit agreements contain various financial and other covenants, including, but not limited to, a covenant regarding the debt-to-total capitalization ratio at Duke Energy and Duke Energy Kentucky to not exceed 65%. Failure to meet these covenants beyond applicable grace periods could result in accelerated due dates and/or termination of the agreements. As of March 31, 2010, Duke Energy and Duke Energy Kentucky were in compliance with all covenants that would impact Duke Energy Kentucky's ability to borrow funds under the debt and credit facilities. In addition, some credit agreements may allow for acceleration of payments or termination of the agreements due to nonpayment, or the acceleration of other significant indebtedness of the borrower or some of its subsidiaries. None of the debt or credit agreements contain material adverse change clauses.

5. Intangible Assets

Intangible assets consist of emission allowances which had a carrying amount of $6 million and $7 million as of March 31, 2010 and December 31, 2009, respectively.

6. Risk Management, Derivative Instruments and Hedging Activities

Duke Energy Kentucky has limited exposure to market price changes of fuel and emission allowance costs incurred for its retail customers due to the use of cost tracking and recovery mechanisms in the state of Kentucky. Duke Energy Kentucky does have exposure to the impact of market fluctuations in the prices of electricity, fuel and emission allowances associated with its generation output not utilized to serve native load or committed load (off-system, wholesale power sales). Exposure to interest rate risk exists as a result of the issuance of variable and fixed rate debt. Duke Energy Kentucky employs established policies and procedures to manage its risks associated with these market fluctuations using various commodity and financial derivative instruments, including swaps, futures, forwards and options.

Duke Energy Kentucky does not have any significant commodity derivatives.

Interest Rate Hedges. Changes in interest rates expose Duke Energy Kentucky to risk as a result of its issuance of variable and fixed rate debt. Duke Energy Kentucky manages its interest rate exposure by limiting its variable-rate exposures to a percentage of total debt and by monitoring the effects of market changes in interest rates. Duke Energy Kentucky also enters into financial derivative instruments such as interest rate swaps and U.S. Treasury lock agreements to manage and mitigate interest rate risk exposure. Duke Energy Kentucky's existing interest rate derivative instruments and related ineffectiveness were insignificant to its results of operations, cash flows and financial position in 2010 and 2009. The notional amount for Duke Energy Kentucky's interest rate swap is $27 million at March 31, 2010. Regulatory accounting treatment is applied to this swap, and therefore, there is no mark-to-market impact on earnings.

Credit Risk. Where exposed to credit risk, Duke Energy Kentucky analyzes the counterparties' financial condition prior to entering into an agreement, establishes credit limits and monitors the appropriateness of those limits on an ongoing basis.

Duke Energy Kentucky's industry has historically operated under negotiated credit lines for physical delivery contracts. Duke Energy Kentucky may use master collateral agreements to mitigate certain credit exposures. The collateral agreements provide for a counterparty to post cash or letters of credit to the exposed party for exposure in excess of an established threshold. The threshold amount represents an unsecured credit limit, determined in accordance with the corporate credit policy. Collateral agreements also provide that the inability to post collateral is sufficient cause to terminate contracts and liquidate all positions.

Duke Energy Kentucky also obtains cash or letters of credit from customers to provide credit support outside of collateral agreements, where appropriate, based on its financial analysis of the customer and the regulatory or contractual terms and conditions applicable to each transaction.

7. Fair Value of Financial Assets and Liabilities

Under the accounting guidance for fair value, fair value is considered to be the exchange price in an orderly transaction between market participants to sell an asset or transfer a liability at the measurement date. The fair value definition focuses on an exit price, which is the price that would be received to sell an asset or paid to transfer a liability versus an entry price, which would be the price paid to acquire an asset or received to assume a liability. Although the accounting guidance for fair value does not require additional fair value measurements, it applies to other accounting pronouncements that require or permit fair value measurements.

Recurring and non-recurring fair value measurements are classified based on the following fair value hierarchy, as prescribed by the accounting guidance for fair value, which prioritizes the inputs to valuation techniques used to measure fair value into three levels:

Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities that Duke Energy Kentucky has the ability to access. An active market for the asset or liability is one in which transactions for the asset or liability occur with sufficient frequency and volume to provide ongoing pricing information. Duke Energy Kentucky does not adjust quoted market prices on Level 1 inputs for any blockage factor.

Level 2 – a fair value measurement utilizing inputs other than a quoted market price that are observable, either directly or indirectly, for the asset or liability. Level 2 inputs include, but are not limited to, quoted prices for similar assets or liabilities in an active market, quoted prices for identical or similar assets or liabilities in markets that are not active and inputs other than quoted market prices that are observable for the asset or liability, such as interest rate curves and yield curves observable at commonly quoted intervals, volatilities, credit risk and default rates. A level 2 measurement cannot have more than an insignificant portion of the valuation based on unobservable inputs.

Level 3 – any fair value measurements which include unobservable inputs for the asset or liability for more than an insignificant portion of the valuation. A level 3 measurement may be based primarily on level 2 inputs.

There are no financial assets or financial liabilities that are not required to be accounted for at fair value under GAAP for which the option to record at fair value has been elected. However, in the future, Duke Energy Kentucky may elect to measure certain financial instruments at fair value in accordance with this accounting guidance.

The following tables provide the fair value measurement amounts for assets and liabilities recorded on Duke Energy Kentucky's Balance Sheets at fair value at March 31, 2010 and December 31, 2009:

Description	Total Fair Value Amounts at March 31, 2010	Level 1	Level 2	Level 3
		(in thousands)		
Derivative Assets[a]	$ 105	$ 105	$ —	$ —
Derivative Liabilities[b]	(3,367)	—	(3,318)	(49)
Net (Liabilities) Assets	$(3,262)	$ 105	$(3,318)	$(49)

Description	Total Fair Value Amounts at December 31, 2009	Level 1	Level 2	Level 3
		(in thousands)		
Derivative Liabilities[b]	(3,359)	—	(3,344)	(15)

(a) Included in Other within Current Assets on the Balance Sheets.
(b) Included in Other within Current Liabilities and Other within Deferred Credits and Other Liabilities on the Balance Sheets.

The following table provides a reconciliation of beginning and ending balances of assets measured at fair value on a recurring basis where the determination of fair value includes significant unobservable inputs (Level 3):

Rollforward of Level 3 Measurements

	Derivatives (net)
	(in thousands)
Balance at January 1, 2010	$(15)
Total gains included on balance sheet	16
Net purchases, sales, issuances and settlements	(50)
Balance at March 31, 2010	$(49)
Balance at January 1, 2009	$178
Total losses included on balance sheet	(64)
Net purchases, sales, issuances and settlements	(141)
Balance at March 31, 2009	$(27)

Additional fair value disclosures. The fair value of financial instruments, excluding financial assets and certain financial liabilities included in the scope of the accounting guidance for fair value measurements disclosed in the tables above, is summarized in the following table. Judgment is required in interpreting market data to develop the estimates of fair value.

	As of March 31, 2010		As of December 31, 2009	
	Book Value	Approximate Fair Value	Book Value	Approximate Fair Value
	(in thousands)			
Long-term debt, including current maturities	$345,202	$342,318	$345,544	$340,487

At both March 31, 2010 and December 31, 2009, the fair value of cash and cash equivalents, accounts receivable, accounts payable and notes payable are not materially different from their carrying amounts because of the short-term nature of these instruments and/or because the stated rates approximate market rates.

8. Variable Interest Entities

A VIE is an entity that is evaluated for consolidation by more than a simple analysis of voting control. The analysis to determine whether an entity is a VIE considers contracts with an entity, credit support for an entity, the adequacy of the equity investment of an entity and the relationship of voting power to the amount of equity invested in an entity. This analysis is performed either upon the creation of a legal entity or upon the occurrence of an event requiring reevaluation, such as a significant change in an entity's assets or activities. If an entity is determined to be a VIE, a qualitative analysis of control determines the party that consolidates a VIE based on what party has the power to direct the most significant activities of a legal entity that impact its economic performance as well as what party has rights to receive benefits or is obligated to absorb losses that are significant to the VIE. The analysis of the party that consolidates a VIE is a continual reassessment.

As discussed in Note 13, Duke Energy Kentucky adopted new accounting rules associated with VIEs effective January 1, 2010. There were no material changes in decisions on consolidation of VIEs for Duke Energy Kentucky.

NON-CONSOLIDATED VIEs

The table below shows the VIE that Duke Energy Kentucky does not consolidate and how this entity impacts Duke Energy Kentucky's Balance Sheets. As discussed below, Duke Energy Kentucky does not consolidate Cinergy Receivables as it is not the primary beneficiary. The adoption of new accounting rules related to VIEs effective January 1, 2010 did not have any impact on the presentation of this non-consolidated VIE on any of Duke Energy Kentucky's Financial Statements. The table also provides information on the maximum exposure to loss.

	Cinergy Receivables
(in thousands)	
At March 31, 2010	
Balance Sheets	
Receivables	$29,292
Total Assets	$29,292
At March 31, 2010	
Loss exposure in excess of carrying value	
Maximum exposure to loss	$29,292
Net carrying value	29,292
Loss exposure in excess of carrying value	—

No financial support was provided to Cinergy Receivables during the three months ended March 31, 2010 that was not previously contractually required.

Cinergy Receivables. Cinergy Receivables was formed in order to secure low cost financing for Duke Energy Kentucky and other operating subsidiaries of Cinergy. Duke Energy Kentucky sells on a revolving basis, at a discount, nearly all of its customer accounts receivable to Cinergy Receivables. The receivables which are sold are selected in order to avoid any significant concentration of credit risk and exclude delinquent receivables. The receivables sold are securitized by Cinergy Receivables through a facility managed by two unrelated third parties and the receivables are used as collateral for commercial paper issued by the unrelated third parties. These loans provide the cash portion of the proceeds paid by Cinergy Receivables to Duke Energy Kentucky. The proceeds obtained by Duke Energy Kentucky from the sales of receivables are largely cash but do include a subordinated note from Cinergy Receivables (subordinated retained interest in the sold receivables) for a portion of the purchase price (typically approximates 25% of the total proceeds). The amount borrowed by Cinergy Receivables against these receivables is non-recourse to the general credit of Cinergy, and is the sole source of funds to satisfy the debt obligation for the accounts receivable sold and the associated cash collected. Borrowing is limited to approximately 75% of the transferred receivables. Losses on collection in excess of the discount are first absorbed by the equity of Cinergy Receivables and next by the subordinated retained interests held by Duke Energy Kentucky and the other operating subsidiaries who sell receivables to Cinergy Receivables. The discount on the receivables reflects interest expense plus an allowance for bad debts net of a servicing fee charged by Duke Energy Kentucky. Duke Energy Kentucky is responsible for the servicing of the receivables (collecting and applying the cash to the appropriate receivables). Depending on the experience with collections, additional equity infusions to Cinergy Receivables may be required to be made by Duke Energy in order to maintain a minimum equity balance of $3 million. The amount borrowed fluctuates based on the amount of receivables sold.

Cinergy Receivables is considered a VIE because the equity capitalization is insufficient to support its operations, the power to direct the most significant activities of the entity are not performed by the equity holder, Cinergy, and deficiencies in the net worth of Cinergy Receivables are not funded by Cinergy. The most significant activity of Cinergy Receivables relates to the decisions made with respect to the management of delinquent receivables. These decisions, as well as the requirement to make up deficiencies in net worth, are made by Duke Energy and not by Cinergy. Accordingly, Cinergy Receivables is consolidated by Duke Energy and not by Duke Energy Kentucky.

The subordinated note, which is classified within Receivables in the Balance Sheets, amounts to $29 million and $33 million at March 31, 2010 and December 31, 2009, respectively, is subordinate to senior loans that Cinergy Receivables obtains from commercial paper conduits controlled by unrelated financial institutions. The retained interest reflected on the Balance Sheets of Duke Energy Kentucky approximates fair value.

The carrying value of the retained interest is determined by allocating the carrying value of the receivables between the assets sold and the interests retained based on relative fair value. The key assumptions used in estimating the fair value for Duke Energy Kentucky in 2010 were an anticipated credit loss ratio of 0.9%, a discount rate of 2.6% and a receivable turnover rate of 12.2%. Because the receivables generally turnover in less than two months, credit losses are reasonably predictable due to the broad customer base and lack of significant concentration, and the purchased beneficial interest is subordinate to all retained interests and thus would absorb losses first, the allocated bases of the subordinated notes are not materially different than their face value. The hypothetical effect on the fair value of the retained interest assuming both a 10% and a 20% unfavorable variation in credit losses or discount rates is not material due to the short turnover of receivables and historically low credit loss history. Interest accrues to Duke Energy Kentucky on the retained interest using the accretable yield method, which generally approximates the stated rate on the notes since the allocated basis and the face value are nearly equivalent. An impairment charge is recorded against the carrying value of both the retained interest and purchased beneficial interest whenever it is determined that an other-than-temporary impairment has occurred.

The following table shows the gross and net receivables sold, retained interests, sales, and cash flows during the three months ended March 31, 2010:

	Three Months Ended March 31, 2010
	(in thousands)
Receivables sold as of March 31,	$69,918
Less: Retained interest	29,292
Net receivables sold as of March 31,	$40,626
Sales	
Receivables sold	$162,455
Loss recognized on sale	1,402
Cash flows	
Cash proceeds from receivables sold	$165,080
Collection fees received	81
Return received on retained interest	845

Cash flows from the sale of receivables are reflected within Operating Activities on Duke Energy Kentucky's Statements of Cash Flows.

Collection fees received in connection with the servicing of transferred accounts receivable are included in Operation, maintenance and other on Duke Energy Kentucky's Statements of Operations.

The loss recognized on the sale of receivables is calculated monthly by multiplying the receivables sold during the month by the required discount which is derived monthly utilizing a three year weighted average formula that considers charge-off history, late charge history, and turnover history on the sold receivables, as well as a component for the time value of money. The discount rate, or component for the time value of money, is calculated monthly by summing the prior month-end London Interbank Offered Rate (LIBOR) plus a fixed rate of 2.39%.

9. Employee Benefit Obligations

Duke Energy Kentucky participates in pension and other post-retirement benefit plans sponsored by Duke Energy. Duke Energy Kentucky's net periodic benefit costs as allocated by Duke Energy were as follows:

	Three Months Ended March 31, 2010	*Three Months Ended March 31, 2009*
	(in thousands)	
Qualified Pension Benefits	$ 326	$ 255
Other Postretirement Benefits	$ 166	$ 131

Duke Energy's policy is to fund amounts on an actuarial basis to provide assets sufficient to meet benefit payments to be paid to plan participants. In February 2009, Duke Energy Kentucky made a cash contribution of approximately $14 million, which represented its proportionate share of an approximate $500 million total contribution to Cinergy's and Duke Energy's qualified pension plans. Duke Energy also sponsors employee savings plans that cover substantially all employees. Duke Energy Kentucky expensed pre-tax employer matching contributions of approximately $278 thousand and $279 thousand for each of the three months ended March 31, 2010 and 2009, respectively.

10. Severance

In January 2010, Duke Energy announced plans to offer a voluntary severance plan to approximately 8,750 eligible employees. As this is a voluntary plan, all severance benefits offered under this plan are considered special termination benefits under GAAP. Special termination benefits are measured upon employee acceptance and recorded immediately absent a significant retention period. If a significant retention period exists, the cost of the special termination benefits are recorded ratably over the remaining service periods of the affected employees. The window for employees to request to voluntarily end their employment under this plan opened on February 3, 2010 and closed on February 24, 2010 for approximately 8,400 eligible employees, which includes approximately 15 Duke Energy Kentucky employees. Also in January 2010, Duke Energy announced that it will consolidate certain corporate office functions, resulting in transitioning over the next two years of approximately 350 positions from its offices in the Midwest to its corporate headquarters in Charlotte, North Carolina. Employees who do not relocate have the option to elect to participate in the voluntary plan discussed above, find a regional position within Duke Energy or remain with Duke Energy through a transition period, at which time a severance benefit would be paid under Duke Energy's ongoing severance plan. For employees affected by the consolidation of Duke Energy's corporate functions in Charlotte, North Carolina, the window closed March 31, 2010. One employee of Duke Energy Kentucky accepted the voluntary severance program.

Duke Energy Kentucky's total estimated costs associated with the voluntary severance program is $4 million, which primarily includes an allocation of its proportionate share of benefits costs for employees of Duke Energy's shared services affiliate that provides support to Duke Energy Kentucky. In the first quarter of 2010, Duke Energy Kentucky recorded charges of $2 million associated with this voluntary severance program. As certain employees who accepted the voluntary severance program have significant retention periods, the remaining costs will be recognized ratably over the remaining service period of the employees, with the substantial majority of the remaining costs to be recognized throughout the remainder of 2010.

Additionally, Duke Energy believes that it is possible that the voluntary severance plan may trigger settlement accounting or curtailment accounting with respect to its pension and other post-retirement benefit plans. At this time, management is unable to determine the likelihood that settlement or curtailment accounting will be triggered.

11. Income Taxes and Other Taxes

The taxable income of Duke Energy Kentucky is reflected in Duke Energy's U.S. federal and state income tax returns. Duke Energy Kentucky has a tax sharing agreement with Duke Energy, where the separate return method is used to allocate tax expenses and benefits to the subsidiaries whose investments or results of operations provide these tax expenses and benefits. The accounting for income taxes essentially represents the income taxes that Duke Energy Kentucky would incur if Duke Energy Kentucky were a separate company filing its own tax return as a C-Corporation.

At March 31, 2010 and December 31, 2009, Duke Energy Kentucky's liability for unrecognized tax benefits was $5,590 thousand and $5,559 thousand, respectively. Of the liability for unrecognized tax benefits at March 31, 2010, no portion of the total unrecognized tax benefits, if recognized, would affect the effective tax rate. Duke Energy Kentucky does not anticipate a significant increase or decrease in unrecognized tax benefits in the next twelve months.

Duke Energy Kentucky is no longer subject to U.S. federal examination for years before 2005. The years 2005 and 2006 are in Appeals. The Internal Revenue Service (IRS) is currently auditing the federal income tax returns for years 2006 and 2007. With few exceptions, Duke Energy Kentucky is no longer subject to state, local or non-U.S. income tax examinations by tax authorities for years before 2005.

The $2.0 million increase in income tax expense for the comparative three-month periods ended March 31, 2010 and 2009 is due primarily to the $6.8 million increase in pre-tax income.

12. Related Party Transactions

Duke Energy Kentucky engages in related party transactions which are generally performed at cost and in accordance with the applicable state and federal commission regulations. Balances due to or due from related parties included in the Balance Sheets as of March 31, 2010 and December 31, 2009 are as follows:

	March 31, 2010	December 31, 2009
	(in thousands)	
Receivables	$ 284	$ 4,084
Accounts payable	$18,768	$22,058

Duke Energy Kentucky is charged its proportionate share of corporate governance and other costs by a consolidated affiliate of Duke Energy. Corporate governance and other shared services costs are primarily related to human resources, legal and accounting fees, as well as other third party costs. The expenses associated with certain allocated corporate governance and other shared service costs for Duke Energy Kentucky, which are recorded in Operation, Maintenance and Other within Operating Expenses on the Statements of Operations were $22 million and $21 million, respectively, for the three months ended March 31, 2010 and 2009.

Duke Energy Kentucky incurs expenses from Duke Energy Ohio related to purchasing network integration transmission service from the Midwest Independent Transmission System Operator (MISO) and ancillary services. These expenses, which are recorded in Operation, maintenance and other within Operating Expenses on the Statements of Operations, were approximately $3 million and $4 million for the three months ended March 31, 2010 and 2009, respectively.

See Note 9 for detail on expense amounts allocated from Duke Energy to Duke Energy Kentucky related to Duke Energy Kentucky's participation in Duke Energy's qualified and non-qualified defined benefit pension plans and post-retirement health care and insurance benefits. Additionally, Duke Energy Kentucky has been allocated accrued pension and other post-retirement and post-employment benefit obligations from Duke Energy of approximately $29 million at March 31, 2010 and December 31, 2009, respectively. The above amounts have been classified in the Balance Sheet as follows:

		March 31, 2010		December 31, 2009
		(in thousands)		
Other current liabilities	$	118	$	118
Accrued pension and other postretirement benefit costs	$	25,840	$	25,222
Other deferred credits and other liabilities	$	3,396	$	3,463

Additionally, as discussed in Note 8, certain trade receivables have been sold by Duke Energy Kentucky to Cinergy Receivables, a consolidated entity formed by Cinergy. The proceeds obtained from the sales of receivables are largely cash, but do include a subordinated note from Cinergy Receivables for a portion of the purchase price. This subordinated note is classified as Receivables in the Balance Sheets and was approximately $29 million and $33 million as of March 31, 2010 and December 31, 2009, respectively. The interest income associated with the subordinated note, which is recorded in Other Income and Expenses, net on the Statements of Operations, was approximately $1 million for each of the three months ended March 31, 2010 and 2009.

As discussed further in Note 4, Duke Energy Kentucky participates in a money pool arrangement with Duke Energy and other Duke Energy subsidiaries. As of March 31, 2010, Duke Energy Kentucky was in a receivable position of approximately $66 million. As of December 31, 2009, Duke Energy Kentucky was in a receivable position of approximately $29 million.

13. New Accounting Standards

The following new accounting standards were adopted by Duke Energy Kentucky subsequent to March 31, 2009 and the impact of such adoption, if applicable, has been presented in the Financial Statements:

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 860—Transfers and Servicing (ASC 860). In June 2009, the FASB issued revised accounting guidance for transfers and servicing of financial assets and extinguishment of liabilities, to require additional information about transfers of financial assets, including securitization transactions, as well as additional information about an enterprise's continuing exposure to the risks related to transferred financial assets. This revised accounting guidance eliminates the concept of a qualifying special-purpose entity (QSPE) and requires those entities which were not subject to consolidation under previous accounting rules to now be assessed for consolidation. In addition, this accounting guidance clarifies and amends the derecognition criteria for transfers of financial assets (including transfers of portions of financial assets) and requires additional disclosures about a transferor's continuing involvement in transferred financial assets. For Duke Energy Kentucky, this revised accounting guidance is effective prospectively for transfers of financial assets occurring on or after January 1, 2010, and early adoption of this statement is prohibited. Since 2002, Duke Energy Kentucky has sold, on a revolving basis, nearly all of its accounts receivable and related collections through Cinergy Receivables, a bankruptcy-remote QSPE. The securitization transaction was structured to meet the criteria for sale accounting treatment, and accordingly, Duke Energy Kentucky did not consolidate Cinergy Receivables, and the transfers have been accounted for as sales. Duke Energy Kentucky's sales of accounts receivable and related financial statement presentation was not impacted by the adoption of ASC 860. See Note 8 for additional information.

ASC 810—Consolidation (ASC 810). In June 2009, the FASB amended existing consolidation accounting guidance to eliminate the exemption from consolidation for QSPEs, and clarified, but did not significantly change, the criteria for determining whether an entity meets the definition of a VIE. This revised accounting guidance also requires an enterprise to qualitatively assess the determination of the primary beneficiary of a VIE based on whether that enterprise has both the power to direct matters that most significantly impact the activities of a VIE and the obligation to absorb losses or the right to receive benefits of a VIE that could potentially be significant to a VIE. In addition, this revised accounting guidance modifies existing accounting guidance to require an ongoing evaluation of a VIEs primary beneficiary and amends the types of events that trigger a reassessment of whether an entity is a VIE. Furthermore, this accounting guidance requires enterprises to provide additional disclosures about their involvement with VIEs and any significant changes in their risk exposure due to that involvement. For Duke Energy Kentucky, this accounting guidance is effective beginning on January 1, 2010, and is applicable to all entities in which Duke Energy Kentucky is involved with, including entities previously subject to existing accounting guidance for VIEs, as well as any QSPEs that exist as of the effective date. Duke Energy Kentucky's sales of accounts receivable and related financial statement presentation was not impacted by the adoption of ASC 810. See Note 8 for additional disclosures required by the revised accounting guidance in ASC 810.

14. Subsequent Events

No significant events have occurred subsequent to March 31, 2010. Management has evaluated these Unaudited Financial Statements and Notes for subsequent events up through May 19th, 2010.