COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF THE UNION LIGHT, HEAT AND POWER COMPANY D/B/A DUKE ENERGY KENTUCKY FOR AN ADJUSTMENT OF ELECTRIC RATES	))))	CASE NO. 2006-00172

ORDER

The Union Light, Heat and Power Company d/b/a Duke Energy Kentucky, Inc. ("Duke Kentucky"), a wholly owned subsidiary of The Cincinnati Gas and Electric Company d/b/a Duke Energy Ohio, Inc. ("Duke Ohio"),[1] is an electric and gas utility that generates, transmits, distributes, and sells electricity to approximately 131,973 customers[2] in all or portions of five counties in northern Kentucky.[3]

BACKGROUND

On April 27, 2006, Duke Kentucky filed a notice of its intent to file an application for approval of an increase in its electric rates, utilizing a forward-looking test period ending December 31, 2007. On May 31, 2006, Duke Kentucky tendered for filing its

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[1] Duke Kentucky is a Kentucky corporation and the primary utility subsidiary of Duke Ohio. Duke Ohio is an Ohio corporation and a public utility subsidiary of Cinergy Corp. ("Cinergy"), a public utility holding company that was created in October 1994. Effective April 3, 2006, Cinergy consummated a merger with Duke Energy Corporation.

[2] Duke Kentucky had 131,973 retail electric customers and 92,720 retail gas customers as of August 31, 2006; See Duke Kentucky's Filing of Actual Results for Estimated Months of Base Period, filed October 16, 2006, WPB-5.1f.

[3] The five counties are Boone, Campbell, Grant, Kenton, and Pendleton. Duke Kentucky purchases, sells, stores, and transports natural gas in Boone, Campbell, Gallatin, Grant, Kenton, and Pendleton counties in Kentucky.

application seeking an increase in electric revenues of $66,560,174, an increase of 27.8 percent. Duke Kentucky's application included new rates to be effective July 1, 2006 and proposals to revise, add, and delete several tariffs applicable to its electric service.

A review of the application revealed that it did not meet the minimum filing requirements set forth in 807 KAR 5:001, Section 10, and a notice of the filing deficiencies was issued. Duke Kentucky subsequently tendered an amended application on June 16, 2006 to cure the filing deficiencies. The Commission's June 27, 2006 Order determined that the amended application satisfied the minimum filing requirements as of June 16, 2006, and that, based on a showing of good cause, the earliest date that Duke Kentucky's proposed rates could be effective was July 6, 2006. That Order also found that an investigation would be necessary to determine the reasonableness of Duke Kentucky's request and the proposed rates were suspended for 6 months from their effective date, pursuant to KRS 278.190(2), up to and including January 5, 2007.

Duke Kentucky's last increase in electric rates was authorized in May 5, 1992 in Case No. 1991-00370.[4]

The following parties requested and were granted full intervention: the Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention ("AG"), The Kroger Company ("Kroger"), and the St. Elizabeth Medical Center ("St. Elizabeth").

[4] Case No. 1991-00370, Application of The Union Light, Heat and Power Company to Adjust Electric Rates.

On June 27, 2006, the Commission issued a procedural schedule to investigate Duke Kentucky's rate application. The schedule provided for discovery, intervenor testimony, rebuttal testimony by Duke Kentucky, a public hearing, and an opportunity for the parties to file post-hearing briefs.

On October 25, 2006, Duke Kentucky, the AG, Kroger, and St. Elizabeth entered into a unanimous Settlement Agreement, which addressed and resolved all issues pending in the rate case. The Settlement Agreement was filed with the Commission on October 26, 2006. At the October 30, 2006 public hearing the parties presented testimony in support of the reasonableness of the Settlement Agreement. Duke Kentucky filed responses to hearing data requests on November 7, 2006 and the case now stands submitted for a decision.

SETTLEMENT AGREEMENT

The Settlement Agreement, attached as Appendix B to this Order, reflects a unanimous resolution of all issues raised in this case. The major provisions of the Settlement Agreement are as follows:

- Effective for service rendered on and after January 1, 2007, Duke Kentucky's annual revenues should be increased $49,000,000.
- The $49,000,000 increase includes $20,040,364 for fuel. Duke Kentucky's fuel adjustment clause ("FAC") will be reset to $0.00 per kWh and the base period fuel rate will be reset to $0.021619 per kWh.
- Within 10 days of the Commission Order on the Settlement Agreement, Duke Kentucky will file new tariffs effective for service rendered on and after January 1, 2007. The new tariffs will include rates designed to generate the additional $49,000,000 in revenues, using the revenue allocation reflected in Attachment 1 of the Settlement Agreement, and reflect other tariff changes addressed in the Settlement Agreement.

- Effective on and after January 1, 2007, Duke Kentucky will implement the depreciation rates reflected in Attachment 2 of the Settlement Agreement. Duke Kentucky will conduct a new depreciation study for its electric plant and will file the new study with the Commission by the earlier of the filing of an application to increase retail electric base rates or January 1, 2014. The rates contained in the new study will not impact Duke Kentucky's retail electric base rates unless submitted with the filing of an application for new retail electric base rates and approved by the Commission.

- Duke Kentucky will continue to use its best efforts to procure back-up power supply and obtain Federal Energy Regulatory Commission approval, if necessary, as soon as possible. The $49,000,000 increase in revenues will recover all demand charges for back-up power, while energy charges for back-up power will be recovered consistent with the Commission's FAC regulations. Duke Kentucky shall file, and request Commission approval of, a least-cost back-up supply plan no later than its March 2007 FAC filing.

- Duke Kentucky will write-off expenses it deferred relating to its 1992 Voluntary Employee Retirement Program.

- Duke Kentucky will amortize for financial accounting purposes over a 3-year period the rate case expense for this proceeding and the transaction costs approved for recovery in Case No. 2003-00252.[5] The transaction costs will not exceed $1,490,000.

- Duke Kentucky will credit through its FAC make-whole revenues received from the Midwest Independent System Operators, Inc. ("MISO"), as well as corresponding expenses, which relate to Duke Kentucky's dispatching of its generating units out-of-merit at MISO's request.

- Duke Kentucky will not file an application to implement an environmental surcharge mechanism prior to January 1, 2009.

- Rider PSM – Off-System Sales Profit Sharing Mechanism will remain in effect until modified in a future proceeding and will continue to be allocated based on kWh sales. The first $1,000,000 in net margins from off-system power sales will be flowed 100 percent to customers,

[5] Case No. 2003-00252, The Application of The Union Light, Heat and Power Company for a Certificate of Public Convenience to Acquire Certain Generation Resources and Related Property; for Approval of Certain Purchase Power Agreements; for Approval of Certain Accounting Treatment; and for Approval of Deviation from Requirements of KRS 278.2207 and 278.2213(6).

with all net margins above $1,000,000 shared 50 percent to customers and 50 percent to Duke Kentucky. In addition, all margins relating to the net sales of emission allowances will be flowed to customers through Rider PSM. The margins from net sales of emission allowances will not count toward the first $1,000,000 in off-system sales and will not be subject to the 50/50 sharing provisions of Rider PSM.

- The rates for Rate DT – Time-of-Day Rate for Service at Distribution Voltage will be as reflected in Attachment 4 of the Settlement Agreement. Attachment 4 provides for a one-year pilot program for customers served under Rate DT that have load factors of 45 percent or lower. Under the pilot program, the demand charge on peak kW rates are lower and the energy charges are higher than the regular Rate DT. The pilot program will remain in effect until December 31, 2007 and Duke Kentucky may apply to continue the pilot beyond this date, subject to Commission approval.

- Duke Kentucky will withdraw its proposed Rider TCRM – Transaction Cost Recovery Mechanism and withdraw its proposed changes to Rider GP – Green Power.

- Duke Kentucky will use avoided cost pricing for its PowerShare® program, which will now be incorporated into the demand side management program, and amend its application in Case No. 2006-00426[6] to recover as part of its non-residential demand-side management rates any resulting incremental costs.

- The proposed changes to numerous lighting tariffs will be modified to reflect Duke Kentucky's responses to the Commission Staff's Second Data Request dated July 12, 2006, Item 35 and the Commission Staff's Third Data Request dated August 9, 2006, Item 24.

- The proposed changes to Paragraph F of the reconnection tariff will be modified to reflect that: (1) a notice for same day reinstatement of service and reconnection must be received by Duke Kentucky by 2:30 p.m.; (2) the after-hours reconnection at the meter charge will be $25 and the after-hours reconnection at the pole charge will be $65; and (3) customers requesting same day reconnection will be notified at the time of request of the after-hours charge if the reconnection cannot be performed during normal hours. The proposed changes to Paragraph

[6] Case No. 2006-00426, The Annual Cost Recovery Filing for Demand Side Management by The Union Light, Heat and Power Company d/b/a Duke Energy Kentucky.

G of the reconnection tariff will be modified to state that a collection charge of $15 will only be collected if a company employee actually makes a field visit to the customer's premises.

ANALYSIS OF THE SETTLEMENT AGREEMENT

Duke Kentucky proposed an annual increase in its electric revenues of $66,560,174, an annual increase of 27.8 percent. The AG proposed an annual increase in Duke Kentucky's electric revenues of $21,081,675,[7] while Kroger and St. Elizabeth did not propose a specific amount for an annual increase in total electric revenues. The Settlement Agreement contains the parties' unanimous recommendation that an annual increase in electric revenues of $49,000,000 is reasonable.[8]

Based upon a review of each provision in the Settlement Agreement, an examination of the record, and being otherwise sufficiently advised, the Commission finds that the provisions of the Settlement Agreement are in the public interest and should be approved. The Commission's approval of the provisions of the Settlement Agreement is based solely on their reasonableness in toto and does not constitute precedent on any issue. Allowing the new rates to be effective on and after January 1, 2007 is reasonable considering Duke Kentucky's use of a monthly billing cycle.

The Settlement Agreement also contains requests that the Commission issue rulings on certain matters, which are discussed below.

Advanced Metering Infrastructure ("AMI") Program

Duke Kentucky plans to deploy over a 3-year period an AMI program based on Power Line Communications technology. AMI has the objectives to measure energy in

[7] Henkes Direct Testimony, Schedule RJH-1.

[8] Settlement Agreement at 7.

real-time or other time-measured increments, record voltage and reactive measurements, accept commands such as turning on service or polling for data for outage confirmation, and provide a centralized system to validate, edit and estimate the data. Duke Kentucky plans to install 40,500 electric meters during 2007. The estimated electric capital investment in AMI for Duke Kentucky is $14,000,000.[9]

The Settlement Agreement provides that the agreed revenue increase includes recovery of costs and reflects net savings relating to Duke Kentucky's implementation of AMI for its electric operations. Duke Kentucky requests that the final Order on the Settlement Agreement include approval of the AMI program and that the Commission issue a Certificate of Public Convenience and Necessity ("CPCN") for the AMI program if the Commission determines a CPCN is required.

The Commission has reviewed the information Duke Kentucky provided in testimony and data responses concerning the AMI program in general and the analysis of costs and benefits in particular. Based on the projected benefits, as well as a comparison of Duke Kentucky's total investment in utility plant, the estimated capital investment does not represent a significant investment. Therefore, the Commission finds that Duke Kentucky dos not need a CPCN for this AMI program.

Confirmation of Accounting and Rate-Making Treatments

In the December 5, 2003 Order in Case No. 2003-00252, the Commission indicated that it knew of no reason why certain accounting and rate-making treatments detailed in that proceeding could not be used for future rate-making purposes. The

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[9] Stanley Direct Testimony at 16 and 19 and Attachment JLS-2, page 1 of 3. Duke Kentucky also plans to install 28,100 gas meters during 2007 at an estimated gas capital investment of $10,000,000.

parties to the Settlement Agreement request that the Commission confirm in this proceeding the accounting and rate-making treatments conditionally approved in Case No. 2003-00252, subject to the change in the amortization period to 3 years and $1,490,000 limit on transaction costs.

The referenced accounting and rate-making treatments generally reflect the approaches the Commission has followed in previous rate cases. The Commission finds that the accounting and rate-making treatments conditionally approved in Case No. 2003-00252 are reasonable and should be confirmed, subject to the revisions in the Settlement Agreement concerning the transaction costs.

OTHER ISSUES

Rate Design

On November 7, 2006, Duke Kentucky filed its proof of revenues showing the allocation of the $49,000,000 revenue increase among the various rate classes and schedules. The proof of revenues also included the rates for each class and schedule necessary to generate the required revenues.[10] Neither the AG, Kroger, nor St. Elizabeth have expressed an opinion on the rates contained in the proof of revenues. The Commission has reviewed these rates and finds them reasonable based on the terms of the Settlement Agreement. The rates contained in the proof of revenues are attached to this Order as Appendix A and those rates should be approved.

Electric Weather Normalization

Duke Kentucky's forward-looking test period was based upon weather normalized data. While weather normalized data is commonly used in natural gas base

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[10] Proof of Revenues filed November 7, 2006, Schedules M-2.1 and M-2.2.

rate cases, the Commission has never approved the use of weather normalized data in an electric base rate case.[11] Duke Kentucky previously proposed a weather normalization adjustment in its last electric base rate case and the Commission rejected that adjustment. In the current proceeding, Duke Kentucky stated that the basic structure of the models and methodology used for the forward-looking test period were the same as used in Case No. 1991-00370.[12] The Settlement Agreement does not specifically address the subject of electric weather normalization, but the billing determinants contained in the proof of revenues do reflect 25-year weather normalized data.

While the Commission is approving the Settlement Agreement and accepting the rates calculated in the proof of revenues, these actions do not constitute Commission acceptance, approval, or endorsement of Duke Kentucky's weather normalization methodology, models, or assumptions. The Commission is accepting as reasonable a unanimous Settlement Agreement without making any findings or establishing any precedents on the issue of electric weather normalization.

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[11] Case No. 1991-00370, May 5, 1992 Order at 11-14; Case No. 10064, Adjustment of Gas and Electric Rates of Louisville Gas and Electric Company, final Order dated July 1, 1988, at 35-45; Case No. 8924, General Adjustment in Electric and Gas Rates of Louisville Gas and Electric Company, final Order dated May 16, 1984, at 10-11; Case No. 8616, General Adjustment in Electric and Gas Rates of Louisville Gas and Electric Company, final Order dated March 2, 1983, at 12-16; and Case No. 8284, General Adjustment in Electric and Gas Rates of Louisville Gas and Electric Company, final Order dated January 4, 1982, at 7-9.

[12] Response to the Commission Staff's Second Data Request dated July 12, 2006, Item 50.

IT IS THEREFORE ORDERED that:

1. The rates and charges proposed by Duke Kentucky in its application are denied.

2. The Settlement Agreement, attached hereto as Appendix B, is approved in its entirety.

3. The rates and charges set forth in Appendix A hereto, are the fair, just, and reasonable rates for Duke Kentucky to charge for electric service, and these rates are approved for service rendered on and after January 1, 2007.

Done at Frankfort, Kentucky, this 21st day of December, 2006.

By the Commission

ATTEST:

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2006-00172 DATED December 21, 2006.

The following rates and charges are prescribed for the customers in the area served by Duke Energy Kentucky. All other rates and charges not specifically mentioned in this Order shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

RATE RS
RESIDENTIAL SERVICE

Customer Charge per month	$	4.50
Energy Charge:		
All kWh per kWh	$	.073238

RATE DS
SERVICE AT SECONDARY DISTRIBUTION VOLTAGE

Customer Charge:		
Single Phase Service per month	$	7.50
Three Phase Service per month	$	15.00
Load Management Rider	$	100.00
Demand Charge:		
First 15 kilowatts per kW	$	0.00
Additional kilowatts per kW	$	7.75
Energy Charge:		
First 6,000 kWh per kWh	$	.079427
Next 300 kWh/kW per kWh	$	.047901
Additional kWh per kWh	$	.038825
Non-Church “Cap” Rate	$	.229043
Church “Cap” Rate	$	.135924

RATE DT-PRI
TIME-OF-DAY RATE PRIMARY

Customer Charge:		
Single Phase Service per month	$	7.50
Three Phase Service per month	$	15.00
Primary Voltage Service per month	$	100.00

Demand Charge:		
Summer		
On-Peak kW per kW	$	12.75
Off-Peak kW per kW	$	1.15
Winter		
On-Peak kW per kW	$	12.07
Off-Peak kW per kW	$	1.15
Primary Service Dis.		
First 1,000 kW per kW	$	(.65)
Additional kW per kW	$	(.50)
Energy Charge:		
Summer		
On-Peak kWh per kWh	$	.041977
Off-Peak kWh per kWh	$	.033977
Winter		
On-Peak kWh per kWh	$	.039977
Off-Peak kWh per kWh	$	.033977

RATE DT-SEC
TIME-OF-DAY RATE SECONDARY

Customer Charge:		
Single Phase Service per month	$	7.50
Three Phase Service per month	$	15.00
Primary Voltage Service per month	$	100.00
Demand Charge:		
Summer		
On-Peak kW per kW	$	12.75
Off-Peak kW per kW	$	1.15
Winter		
On-Peak kW per kW	$	12.07
Off-Peak kW per kW	$	1.15
Primary Service Dis.		
First 1,000 kW per kW	$	(.65)
Additional kW per kW	$	(.50)
Energy Charge:		
Summer		
On-Peak kWh per kWh	$	.041977
Off-Peak kWh per kWh	$	.033977
Winter		
On-Peak kWh per kWh	$	.039977
Off-Peak kWh per kWh	$	.033977

RATE EH
OPTIONAL RATE FOR ELECTRIC SPACE HEATING

Customer Charge (Winter Period):		
Single Phase Service per month	$	7.50
Three Phase Service per month	$	15.00
Primary Voltage Service per month	$	100.00
Energy Charge:		
All kWh per kWh	$	.059306

RATE SP
SPORTS SERVICE

Customer Charge per month:	$	7.50
Energy Charge per kWh:	$	.098380

RATE GSFL
GENERAL SERVICE RATE FOR SMALL FIXED LOADS

Minimum Bill:	$	3.00
Energy Charge:		
Load Range 540 to 720 hours per kWh	$	.078505
Load Range less than 540 hours per kWh	$	.090729

RATE DP
SERVICE AT PRIMARY DISTRIBUTION VOLTAGE

Customer Charge:		
Load Management Rider	$	100.00
Primary Voltage	$	100.00
Demand Charge:		
All kW per kW	$	7.08
Energy Charge:		
First 300 kWh/kW	$	.048850
Additional kWh per kWh	$	.040980

RATE TT
TIME-OF-DAY RATE FOR SERVICE AT TRANSMISSION VOLTAGE

Customer Charge per month:	$	500.00
Demand Charge:		
Summer		
On-Peak kW per kW	$	7.60
Off-Peak kW per kW	$	1.15

Winter		
On-Peak kW per kW	$	6.24
Off-Peak kW per kW	$	1.15
Energy Charge:		
All kWh per kWh	$	.040430

RATE DT RTP

TIME-OF-DAY SERVICE AT PRIMARY DISTRIBUTION VOLTAGE

Customer Charge:	$	183.00
Energy Charge:		
All kWh per kWh	$	.005540
Ancillary Services per kWh	$	.000740
Commodity Charges per kWh	$	.050457

RATE DT RTP

TIME-OF-DAY SERVICE AT SECONDARY DISTRIBUTION VOLTAGE

Customer Charge:	$	183.00
Energy Charge:		
All kWh per kWh	$	.006053
Ancillary Services per kWh	$	.000760
Commodity Charges per kWh	$	.053219

RATE DS RTP

TIME-OF-DAY SERVICE AT SECONDARY DISTRIBUTION VOLTAGE

Customer Charge:	$	183.00
Energy Charge:		
All kWh per kWh	$	.006053
Ancillary Services per kWh	$	.000760
Commodity Charges per kWh	$	.075384

RATE DS RTP

TIME-OF-DAY SERVICE AT SECONDARY DISTRIBUTION VOLTAGE

Customer Charge:	$	183.00
Energy Charge:		
All kWh per kWh	$	.006053
Ancillary Services per kWh	$	.000760
Commodity Charges per kWh	$	.075384

RATE TT RTP
TIME-OF-DAY SERVICE AT TRANSMISSION VOLTAGE

Customer Charge:	$	183.00
Energy Charge:		
All kWh per kWh	$	.002008
Ancillary Services per kWh	$	.000721
Commodity Charges per kWh	$	.049086

RATE SL
STREET LIGHTING – CO-OWNED & MAINTAINED

Overhead Distribution:		
Mercury Vapor		
7,000 Lumen (Open)	$	5.79
7,000 Lumen (Open) with 35' wood pole	$	10.19
7,000 Lumen	$	6.96
7,000 Lumen with 30' wood pole	$	11.30
7,000 Lumen with 35' wood pole	$	11.35
7,000 Lumen with 40' wood pole	$	12.23
7,000 Lumen with 28' alum pole heavy gauge	$	13.97
10,000 Lumen	$	8.00
10,000 Lumen with 35' wood pole	$	12.39
21,000 Lumen	$	10.66
21,000 Lumen with 35' wood pole	$	15.05
Metal Halide		
14,000 Lumen	$	6.96
20,500 Lumen	$	8.00
36,000 Lumen	$	10.66
Sodium Vapor		
9,500 Lumen (Open)	$	5.82
9,500 Lumen	$	7.78
9,500 Lumen with 30' wood pole	$	12.12
9,500 Lumen with 35' wood pole	$	12.18
9,500 Lumen with 40' wood pole	$	13.05
16,000 Lumen	$	8.45
16,000 Lumen with 35' wood pole	$	12.87
22,000 Lumen	$	10.95
22,000 Lumen with 30' wood pole	$	15.29
22,000 Lumen with 35' wood pole	$	15.34
22,000 Lumen with 40' wood pole	$	16.22
22,000 Lumen with 28' alum pole	$	17.89
27,500 Lumen	$	10.95
50,000 Lumen	$	14.59
50,000 Lumen with 30' wood pole	$	18.93
50,000 Lumen with 35' wood pole	$	18.98

50,000 Lumen with 40' wood pole	$	19.86
Decorative Sodium Vapor		
9,500 Lumen Fixture Type Rectilinear	$	9.69
22,000 Lumen Fixture Type Rectilinear	$	11.90
50,000 Lumen Fixture Type Rectilinear	$	15.64
50,000 Lumen Fixture Type Rectilinear-35' wood pole	$	20.03
50,000 Lumen Fixture Type Rectilinear-40' wood pole	$	20.90
50,000 Lumen Fixture Type-Setback	$	23.43
50,000 Lumen Fixture Type-Setback-40' wood pole	$	28.70
Underground Distribution:		
Mercury Vapor		
7,000 Lumen	$	7.08
7,000 Lumen with 30' wood pole	$	11.42
7,000 Lumen with 35' wood pole	$	11.47
7,000 Lumen with 28' alum pole	$	14.02
10,000 Lumen	$	8.13
10,000 Lumen with 30' wood pole	$	12.47
10,000 Lumen with 28' alum pole	$	15.07
21,000 Lumen	$	10.89
21,000 Lumen with 28' alum pole	$	17.83
Metal Halide		
14,000 Lumen	$	7.08
20,500 Lumen	$	8.13
36,000 Lumen	$	10.89
Sodium Vapor		
9,500 Lumen with 28' alum pole	$	14.71
9,500 Lumen (Open)	$	5.90
16,000 Lumen	$	8.42
22,000 Lumen	$	10.95
22,000 Lumen with 35' wood pole	$	15.34
22,000 Lumen with 28' alum pole	$	17.89
22,000 Lumen with 28' alum pole heavy gauge	$	22.36
50,000 Lumen	$	14.59
50,000 Lumen with 28' alum pole	$	21.53
50,000 Lumen with 30' alum pole	$	28.45
Decorative Mercury Vapor		
7,000 Lumen Town & Country	$	7.33
7,000 Lumen Town & Country with 17' wd lam pole	$	11.73
7,000 Lumen Town & Country with 17' fibergls pole	$	11.73
7,000 Lumen Holophane	$	9.24
7,000 Lumen Holophane with 17' fiberglass pole	$	13.64
7,000 Lumen Gas Replica	$	21.32
7,000 Lumen Granville with 12' alum pole	$	19.38
7,000 Lumen Aspen	$	13.45
Decorative Metal Halide		
14,000 Lumen Traditionaire with 17' fiberglass pole	$	11.73

14,000 Lumen Gas Replica with 12' alum pole	$ 33.38
14,000 Lumen Granville	$ 13.45
Decorative Sodium Vapor	
9,500 Lumen Town & Country	$ 10.84
9,500 Lumen Town & Country with 17' fiberglass pole	$ 15.24
9,500 Lumen Holophane	$ 11.74
9,500 Lumen Holophane with 17' fiberglass pole	$ 16.14
9,500 Lumen Gas Replica	$ 22.16
9,500 Lumen Granville with 12' alum pole	$ 25.66
9,500 Lumen Aspen with 12' alum pole	$ 25.66
9,500 LumenTraditionaire with 17' fiberglass pole	$ 15.24
22,000 Lumen Rectilinear with 30' fiberglass pole	$ 20.34
50,000 Lumen Rectilinear with 30' fiberglass pole	$ 24.08
50,000 Lumen Rectilinear with 35' fiberglass pole	$ 24.30
50,000 Lumen Fixture Type - Setback	$ 23.43
Additional Facilities Charge:	
Overhead per unit	$ .51
Underground per unit	$ .74

RATE TL
TRAFFIC LIGHTING

Company Supplies Energy Only – per kWh	$.035848
Company Supplies Energy From Separately Metered Source and Provides Limited Maintenance	$.021078
Company Supplies Energy and Provides Limited Maintenance	$.056927

RATE UOLS
UNMETERED OUTDOOR LIGHTING SERVICE

All kWh per kWh	$.035263

RATE OL
OUTDOOR LIGHTING

Private Outdoor Lighting Units:	
Mercury Vapor	
7,000 Lumen (Open)	$ 8.58
7,000 Lumen	$ 11.01
10,000 Lumen	$ 12.81
21,000 Lumen	$ 16.39
Sodium Vapor (OH)	
9,500 Lumen (Open)	$ 7.59
9,500 Lumen	$ 9.90

16,000 Lumen	$ 11.14
22,000 Lumen	$ 12.29
27,500 Lumen	$ 12.29
50,000 Lumen	$ 14.17
Metal Halide	
14,000 Lumen	$ 11.01
20,500 Lumen	$ 12.83
36,000 Lumen	$ 16.39
Decorative MV -7,000 Lumen	
Town & Country	$ 13.23
Holophane	$ 17.08
Gas Replica	$ 41.50
Aspen	$ 25.61
Decorative SV – 9,500 Lumen	
Town & Country	$ 21.01
Holophane	$ 22.76
Rectilinear	$ 18.70
Gas Replica	$ 43.84
Aspen	$ 26.53
Decorative SV – 22,000 Lumen Rectilinear	$ 22.18
Decorative SV – 50,000 Lumen Rectilinear	$ 28.02
Decorative SV – 50,000 Lumen Setback	$ 43.79
Floodlighting Units:	
Metal Halide	
20,500 Lumen	$ 12.81
36,000 Lumen	$ 16.40
Mercury Vapor	
21,000 Lumen	$ 16.40
Sodium Vapor	
22,000 Lumen	$ 12.19
30,000 Lumen	$ 12.19
50,000 Lumen	$ 14.98

RATE NSU
NON-STANDARD STREET LIGHT UNITS

Company Owned:	
Boulevard Incandescent (UG)	
2,500 Lumen series	$ 9.11
2,500 Lumen multiple	$ 7.01
Holophane Decorative	
10,000 Lumen MV with 17' fiberglass pole	$ 16.56
Street Light Units (OH)	
2,500 Lumen Incandescent	$ 6.95
2,500 Lumen MV	$ 6.63

21,000 Lumen MV	$ 10.30
Customer Owned with limited maintenance:	
Boulevard Incandescent (UG)	
2,500 Lumen Series	$ 5.33
2,500 Lumen Multiple	$ 6.77

RATE NSP
NON-STANDARD PRIVATE OUTDOOR LIGHTING

Private Outdoor Light Units:	
2,500 Lumen Mercury (Open)	$ 7.71
2,500 Lumen Mercury (Enclosed)	$ 10.58

RATE URD
OUTDOOR LIGHTING UNITS

Mercury Vapor	
7,000 Lumen with 17' fiberglass pole	$ 14.39
7,000 Lumen with 17' wood lam pole	$ 14.39
7,000 Lumen with 30' wood pole	$ 13.29
Sodium Vapor	
9,500 LumenTC 100 R	$ 11.13

RATE FL
FLOOD LIGHT

Mercury Vapor	
52,000 Lumen with 35' wood pole	$ 27.70
52,000 Lumen with 50' wood pole	$ 31.31
Sodium Vapor	
50,000 Lumen	$ 19.43

RATE SC
STREET LIGHTING SERVICE – CUSTOMER OWNED/LTD MAINT

Standard Fixture – Cobra Head	
Mercury Vapor	
7,000 Lumen	$ 4.04
10,000 Lumen	$ 5.12
21,000 Lumen	$ 7.07
Metal Halide	
14,000 Lumen	$ 4.04
20,500 Lumen	$ 5.12
36,000 Lumen	$ 7.07
Sodium Vapor	

9,500 Lumen	$ 4.95
16,000 Lumen	$ 5.49
22,000 Lumen	$ 5.99
27,500 Lumen	$ 5.99
50,000 Lumen	$ 8.00
Decorative Units	
7,000 Lumen MV:	
Holophane	$ 5.16
Town & Country	$ 5.12
Gas Replica	$ 5.16
Aspen	$ 5.16
Metal Halide	
14,000 Lumen Traditionaire	$ 5.12
14,000 Lumen Gas Replica	$ 5.16
14,000 Lumen Granville Acorn	$ 5.16
Sodium Vapor	
9,500 Lumen Town & Country	$ 4.87
9,500 Lumen Rectilinear	$ 4.87
9,500 Lumen Aspen	$ 5.08
9,500 Lumen Holophane	$ 5.08
9,500 Lumen Gas Replica	$ 5.08
9,500 Lumen Traditionaire	$ 4.87
9,500 Lumen Granville Acorn	$ 5.08
22,000 Lumen Rectilinear	$ 6.35
50,000 Lumen Rectilinear	$ 8.29
Customer Owned/Customer Maintained	
Energy only per kWh	$.035263

RATE SE
STREET LIGHTING SERVICE – OVERHEAD EQUIVALENT

Mercury Vapor	
7,000 Lumen Town & Country	$ 7.13
7,000 Lumen Holophane	$ 7.16
7,000 Lumen Gas Replica	$ 7.16
7,000 Lumen Aspen	$ 7.16
Sodium Vapor	
9,500 Lumen Town & Country	$ 7.86
9,500 Lumen Traditionaire	$ 7.86
9,500 Lumen Holophane	$ 7.95
9,500 Lumen Rectilinear	$ 7.86
9,500 Lumen Gas Replica	$ 7.94
9,500 Lumen Granville	$ 7.94
9,500 Lumen Aspen	$ 7.94
22,000 Lumen Rectilinear	$ 11.23
50,000 Lumen Rectilinear	$ 14.75

50,000 Lumen Setback	$	14.75
Metal Halide		
14,000 Lumen Traditionaire	$	7.13
14,000 Lumen Granville	$	7.16
14,000 Lumen Gas Replica	$	7.16

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2006-00172 DATED December 21, 2006.

SETTLEMENT AGREEMENT

Dated October 26, 2006

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE ADJUSTMENT OF ELECTRIC RATES OF THE UNION LIGHT, HEAT AND POWER COMPANY D/B/A DUKE ENERGY KENTUCKY	) CASE NO. 2006-00172

SETTLEMENT AGREEMENT

This Settlement Agreement, made and entered into effect this 25th day of October, 2006, by and among Duke Energy Kentucky, Inc. (formerly known as "The Union Light, Heat and Power Company" and hereinafter "Duke Energy Kentucky"), the Attorney General, Commonwealth of Kentucky ("Attorney General"), The Kroger Company ("Kroger") and St. Elizabeth Medical Center ("St. Elizabeth") (individually "Party" and collectively "Parties").

WHEREAS, on May 31, 2006, Duke Energy Kentucky filed an application with the Kentucky Public Service Commission ("Commission"), pursuant to KRS 278.190, for an increase in retail rates, to implement new tariffs and revised charges, in the above-captioned proceeding; and

WHEREAS, the Attorney General, Kroger and St. Elizabeth filed motions to intervene, which the Commission granted; and

WHEREAS, the Parties have filed testimony supporting their respective positions relating to Duke Energy Kentucky's application; and

WHEREAS, the Parties and Commission Staff have engaged in substantial investigation of the Parties' respective positions by issuing and responding to numerous information requests; and

WHEREAS, the Parties have reached a complete settlement of all the issues raised in this proceeding; and

WHEREAS, the Parties have executed this Settlement Agreement for purposes of submitting their Settlement Agreement to the Commission for approval; and

WHEREAS, the Parties request that the Commission issue an Order approving this Settlement Agreement in its entirety pursuant to KRS 278.190, including the rate increase, rate structure and tariffs as described herein.

NOW, THEREFORE, for and in consideration of the mutual premises set forth above, and the agreements set forth herein, the Parties agree as follows:

1. **Revenue Increase.** Effective for service rendered on and after January 1, 2007, Duke Energy Kentucky shall implement an increase in its retail electric base rates sufficient to generate additional annual retail electric revenues of $49 million, based on the forecasted test period for the twelve months ending December 31, 2007.

2. **VERP Deferred Expense Write-Off.** Duke Energy Kentucky shall write-off the deferred expense related to the 1992 Voluntary Employee Retirement Program ("VERP").

3. **Fuel Costs.** The revenue increase referred to in Paragraph 1, above, shall include $20,040,364 for fuel. Duke Energy Kentucky's Fuel Adjustment Clause Rider ("Rider FAC") will be reset to 0.0000 ¢/kWh and the new base period fuel rate (*i.e.*, F(b)/S(b)) for Rider FAC shall be re-set at 2.1619 ¢/kWh, effective for service rendered in January 2007. Duke Energy Kentucky will track fuel costs beginning January 1, 2007,

and will commence regular Rider FAC filings effective for the March 2007 billing cycle, when eligible fuel costs for January 2007 will be available to calculate the Rider FAC rate for March 2007.

4. **Tariff Filing and New Rate Design.** Within ten days of the Commission's Order on the Settlement Agreement, Duke Energy Kentucky will file new tariffs, effective for service rendered on and after January 1, 2007, in the same form as originally filed with Duke Energy Kentucky's May 31, 2006 Application, except for certain tariff changes as noted in this Settlement Agreement. Duke Energy Kentucky will design new rates to generate the additional $49 million in revenues, using the revenue allocation reflected in Attachment 1.

5. **Depreciation Rates.** Effective on and after January 1, 2007, Duke Energy Kentucky shall implement the depreciation rates reflected in Attachment 2. Duke Energy Kentucky shall conduct a new depreciation study for its electric plant and shall file the new study with the Commission by the earlier of the filing of an application for new retail electric base rates increase or January 1, 2014. Such new study shall be an information filing to assess the reasonableness of Duke Energy Kentucky's depreciation rates and will not impact Duke Energy Kentucky's retail electric base rates, unless submitted by Duke Energy Kentucky with the filing of an application for new retail electric base rates, and approved by the Commission.

6. **Back-up Power Supply and Recovery of Back-up Power Costs.** Duke Energy Kentucky will continue to use its best efforts to procure back-up power supply and to obtain Federal Energy Regulatory Commission approval, if necessary, as soon as possible. The revenue increase stated in Paragraph 1, above, will recover all demand charges for back-up power. Effective on and after January 1, 2007, Duke Energy Kentucky shall recover energy charges for back-up power consistent with the Commission's FAC regulations. Duke Energy Kentucky shall file, subject to Commission approval, a least cost back-up supply plan with the Commission when such plan is completed but in no event later than its March 2007 FAC filing.

7. **MISO Make-Whole Revenues.** Effective on and after January 1, 2007, Duke Energy Kentucky shall credit through the FAC make-whole revenues from the Midwest Independent System Operators, Inc. ("MISO"), as well as corresponding expenses, which relate to Duke Energy Kentucky's dispatching of its generating units out-of-merit at MISO's request.

8. **Emission Allowances.** The agreed revenue increase assumes no margins from sales of emission allowances. All margins relating to net sales of emission allowances will be flowed back to customers through Rider PSM – Off-System Sales Profit Sharing Mechanism. The margins from net sales of emission allowances will be flowed 100% to customers, and will not count toward the first $1,000,000 in off-system sales, and will not be subject to the 50/50 sharing provisions of Rider PSM.

9. **Rider PSM.** Rider PSM shall remain in effect until modified in any future proceeding, and Rider PSM will continue to be allocated on the basis of kWh sales. Rider PSM shall be modified to reflect the sharing provisions approved in the Commission's Order in Case No. 2003-00252 and in this Settlement Agreement, as reflected in Attachment 3. Consistent with this Settlement Agreement and the Commission's Orders in Case Nos. 2003-00252 and 2005-00228, the following sharing formula shall apply:

Description	Sharing Percentage
All net margins from net sales of EAs	100% to customers
All net margins from off-system power sales	First $1 million to customers. All additional margins shared 50/50 between customers and shareholders.

10. **Rate RS Customer Charge.** The customer charge for Rate RS shall be $4.50 per month.

11. **Rate DT Changes**. The rates for Rate DT shall be as reflected in Attachment 4.

12. **Return on Equity.** Although the Parties filed various positions relating to the appropriate return on equity for this proceeding, this Settlement Agreement does not reflect or assume any specific return on equity.

13. **Environmental Surcharge Mechanism Stay-out Period.** Duke Energy Kentucky agrees not to file an application to implement an environmental surcharge mechanism prior to January 1, 2009.

14. **AMI Program.** The revenue increase referred to in Paragraph 1, above, includes recovery of costs, net of cost savings, relating to Duke Energy Kentucky's implementation of its Advanced Metering Infrastructure ("AMI") program, as discussed in the testimony of Mr. Jim L. Stanley. Duke Energy Kentucky requests that the Commission's Order on the Settlement Agreement include approval of the AMI program and that the Commission issue a Certificate of Public Convenience and Necessity ("CPCN") for the AMI program, as described in Mr. Stanley's testimony, to the extent that the Commission determines that a CPCN is required.

15. **Amortization Period.** For financial accounting purposes, Duke Energy Kentucky will amortize over a three-year period the rate case expense from this proceeding, and the transaction costs approved for recovery in Case No. 2003-00252, except that such transaction costs from Case No. 2003-00252 shall not exceed $1.49 million.

16. **Withdrawal of Rider TCRM.** Duke Energy Kentucky withdraws its request for approval of Rider TCRM – Transaction Cost Recovery Mechanism.

17. **Elimination of Thermal Energy Storage Rider.** If the Commission approves Duke Energy Kentucky's proposal to eliminate Rider TES – Thermal Energy

Storage, all customers receiving service under Rider TES will be transferred to Rider LM – Load Management; however, at the present time, there are no customers on Rider TES.

18. **Re-Ordering of Tariff.** Duke Energy Kentucky will re-order its tariff by removing Rider BDP – Backup Delivery Point Capacity Rider from the "Fuel Riders" section of its tariff and placing it in the "Tariff Riders" or "Miscellaneous" section of its tariff.

19. **Withdrawal of Changes to Rider GP.** Duke Energy Kentucky withdraws its request for approval of changes to Rider GP – Green Power.

20. **PowerShare® Program.** Duke Energy Kentucky will use avoided cost pricing for its PowerShare® program, as proposed in Mr. Bailey's testimony. Duke Energy Kentucky will amend its application in Case No. 2006-00426, its pending DSM case, to recover as part of its non-residential DSM rates any resulting incremental costs.

21. **Reconnection Tariff.** Duke Energy Kentucky modifies its request for approval of changes to its "Charge for Reconnection of Service" as follows: (1) in Paragraph F the time is changed from "12:30 p.m." to "2:30 p.m."; (2) a new sentence is added at the end of Paragraph F as follows: "Customers will be notified of the additional $25.00 charge for reconnection at the meter and $65.00 for reconnection at the pole at the time they request same day service."; and (3) a new phrase is added at the end of Paragraph G as follows: "but only if a Company employee actually makes a field visit to the customer's premises." The charge for after-hours reconnection of service in Paragraph F is revised to $25.00 for reconnection at the meter and $65.00 for reconnection at the pole.

22. **Lighting Tariffs.** Duke Energy Kentucky's proposal relating to lighting tariffs is modified per Duke Energy Kentucky's responses to KyPSC-DR-02-035 and KyPSC-DR-03-024.

23. **No Waiver of Appeal.** The Attorney General's agreement to this Settlement Agreement shall not be construed as any waiver or release of the Attorney General's pending court appeal relating to Duke Energy Kentucky's economic development tariffs.

24. **Confirmation of Prior Order.** The Parties request that the Commission confirm in this proceeding the accounting and ratemaking treatments that the Commission conditionally approved (subject to final approval in this proceeding) in its December 5, 2003 Order in Case No. 2003-00252, subject to the $1.49 million cap on transaction costs, as set forth in Paragraph 15, above.

25. **Availability of New Tariff Rates.** Duke Energy Kentucky agrees to timely provide Kroger and St. Elizabeth with sufficient information on their expected energy costs under the new tariff rates, such that Kroger and/or St. Elizabeth can elect whether to receive service under any different rate schedules effective January 1, 2007.

26. **Filing of Settlement Agreement.** Following the execution of this Settlement Agreement, the Parties shall cause the Settlement Agreement to be filed with the Commission with a request to the Commission for consideration and approval of this Settlement Agreement so that Duke Energy Kentucky may begin billing under the approved adjusted rates for service rendered on and after January 1, 2007.

27. **Commission Approval.** Parties to this Settlement Agreement shall act in good faith and use their best efforts to recommend to the Commission that this Settlement Agreement be accepted and approved. The Parties further agree and intend to support the reasonableness of this Settlement Agreement before the Commission, and to cause their counsel to do the same, and in any appeal from the Commission's adoption and/or enforcement of this Settlement Agreement.

28. **Effect of Non-Approval.** If the Commission does not accept and approve this Settlement Agreement in its entirety, then: (a) any Party may elect, in writing, within

five days of such Commission Order that this Settlement Agreement shall be void and withdrawn by the Parties hereto from further consideration by the Commission and none of the Parties shall be bound by any of the provisions herein; and (b) neither the terms of this Settlement Agreement nor any matters raised during the settlement negotiations shall be binding on any of the signatories to this Settlement Agreement or be construed against any of the signatories. Should the Settlement Agreement be voided or vacated for any reason after the Commission has approved the Settlement Agreement and thereafter any implementation of the terms of the Settlement Agreement has been made, then the Parties shall be returned to the *status quo* existing at the time immediately prior to the execution of this Settlement Agreement.

29. **Commission Jurisdiction.** This Settlement Agreement shall in no way be deemed to divest the Commission of jurisdiction under Chapter 278 of the Kentucky Revised Statutes.

30. **Successors and Assigns.** This Settlement Agreement shall inure to the benefit of and be binding upon the Parties hereto, their successors and assigns.

31. **Complete Agreement.** This Settlement Agreement constitutes the complete agreement and understanding among the Parties hereto, and any and all oral statements, representations or agreements made prior hereto or contained contemporaneously herewith shall be null and void and shall be deemed to have been merged into this Settlement Agreement.

32. **Implementation of Settlement Agreement.** For the purpose of this Settlement Agreement only, the terms are based upon the independent analysis of the parties to reflect a just and reasonable resolution of the issues herein and are the product of compromise and negotiation. Notwithstanding anything contained in the Settlement Agreement, the Parties recognize and agree that the effects, if any, of any future events upon the operating income of Duke Energy Kentucky are unknown and this Settlement Agreement shall be implemented as written.

33. **<u>Admissibility and Non-Precedential Effect.</u>** Neither the Settlement Agreement nor any of the terms shall be admissible in any court or Commission except insofar as such court or Commission is addressing litigation arising out of the implementation of the terms herein or the approval of this Settlement Agreement. This Settlement Agreement shall not have any precedential value in this or any other jurisdiction.

34. **<u>No Admissions.</u>** Making this Settlement Agreement shall not be deemed in any respect to constitute an admission by any Party hereto that any computation, formula, allegation, assertion or contention made by any other Party in these proceedings is true or valid. Nothing in this Settlement Agreement shall be used or construed for any purpose to imply, suggest or otherwise indicate that the results produced through the compromise reflected herein represent fully the objectives of a Party.

35. **<u>Authorizations.</u>** The signatories hereto warrant that they have informed, advised, and consulted with the respective Parties hereto in regard to the contents and significance of this agreement and based upon the foregoing are authorized to execute this Settlement Agreement on behalf of the Parties hereto.

36. **<u>Commission Approval.</u>** This Settlement Agreement is subject to the acceptance of and approval by the Public Service Commission.

37. **<u>Interpretation of Settlement Agreement.</u>** This Settlement Agreement is a product of negotiation among all Parties hereto, and no provision of this Settlement Agreement shall be strictly construed in favor of or against any Party.

38. **<u>Counterparts.</u>** This Settlement Agreement may be executed in multiple counterparts.

39. **<u>Future Proceedings.</u>** Nothing in this Settlement Agreement shall preclude, prevent or prejudice any Party hereto from raising any argument/issue or challenging any adjustment in any future rate case proceeding of Duke Energy Kentucky.

IN WITNESS WHEREOF, this Settlement Agreement has been agreed to effective this 25th day of October 2006. By affixing their signatures below, the undersigned Parties respectfully request the Commission to issue its Order approving and adopting this Stipulation Agreement the Parties hereto have hereunto affixed their signatures.

DUKE ENERGY KENTUCKY

By: John J. Finnigan Jr.
Title: Attorney

ATTORNEY GENERAL OF THE COMMONWEALTH OF KENTUCKY

By:
Title:

THE KROGER CO.

By:
Title:

THE ST. ELIZABETH MEDICAL CENTER

By:
Title:

DUKE ENERGY KENTUCKY

COMPUTATION OF PRESENT AND PROPOSED REVENUE BY RATE CLASS

		Present Revenues		Settlement Rate Increase			Settlement Proposed Revenues		
Line No.	Rate Class	As Filed Present Revenues With Fuel	As Filed Present Revenues Excluding Fuel	Settlement Rate Increase Excl Fuel	Incremental Fuel Revenue	Settlement Rate Increase With Fuel	Revenues With Fuel	Rate Increase Excluding Fuel	Rate Increase With Fuel
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
1	Rate RS	$ 97,639,085	$ 72,578,521	$ 12,206,102	7,644,032	$ 19,850,134	$ 117,489,219	12.50%	20.33%
2	Rate DS	66,709,383	49,552,855	8,333,695	5,233,124	13,566,819	80,276,202	12.49%	20.34%
3	Rate DS-RTP	70,100	70,100	11,789		11,789	81,889	16.82%	16.82%
4	Rate GS-FL	471,911	368,904	62,042	31,420	93,462	565,373	13.15%	19.81%
5	Rate EH	694,501	462,097	77,715	70,889	148,604	843,105	11.19%	21.40%
6	Rate SP	35,117	28,457	4,786	2,031	6,817	41,934	13.63%	19.41%
7	Rate DT - Secondary	38,378,456	26,367,930	4,434,503	3,663,479	8,097,982	46,476,438	11.55%	21.10%
8	Rate DT RTP-Sec.	343,715	343,715	57,805		57,805	401,520	16.82%	16.82%
9	Rate DT-Primary	19,862,321	12,697,785	2,135,487	2,185,344	4,320,831	24,183,152	10.75%	21.75%
10	Rate DT RTP-Primary	782,491	782,491	131,598		131,598	914,089	16.82%	16.82%
11	Rate DP	1,764,802	1,200,928	201,970	171,994	373,964	2,138,766	11.44%	21.19%
12	Rate TT	8,534,952	5,550,040	933,394	910,465	1,843,859	10,378,811	10.94%	21.60%
13	Rate TT-RTP	404,272	404,272	67,990		67,990	472,262	16.82%	16.82%
14	Lighting	2,194,212	1,781,255	299,568	125,961	425,529	2,619,741	13.65%	19.39%
15	Other	12,408	7,074	1,190	1,627	2,817	15,225	9.59%	22.70%
16	Total Retail Electric Sales	237,897,726	$ 172,196,424	$ 28,959,634	$ 20,040,366	$ 49,000,000	286,897,726	12.17%	20.60%
17	Other Operating Revenue	1,978,260					3,232,930		
18	Total Revenue	$ 239,875,986					$ 290,130,656		

DUKE ENERGY KENTUCKY
CASE NO. 2006-00172
DEPRECIATION AND AMORTIZATION ACCRUAL RATES AND
JURISDICTIONAL ACCUMULATED BALANCES BY ACCOUNTS,
THIRTEEN MONTH AVERAGE AS OF DECEMBER 31, 2007

STEAM PRODUCTION PLANT
($000 Omitted)

DATA: BASE PERIOD "X" FORECASTED PERIOD
TYPE OF FILING: ORIGINAL UPDATED "X" REVISED
WORK PAPER REFERENCE NOS.: SCHEDULE B-2.1, SCHEDULE B-3

SCHEDULE B-3.2
PAGE 1 OF 6
WITNESS RESPONSIBLE:
C. J. COUNCIL

Line No. (A)	FERC Acct. No. (B-1)	Company Acct. No. (B-2)	Account Title or Major Property Grouping (C)	Adjusted Jurisdiction 13-Month Average Plant Investment (1) (D)	Adjusted Jurisdiction 13-Month Average Accumulated Balance (E)	Current Accrual Rate (F)	Calculated Depr. Expense (G=DxF)	% Net Salvage (H)	Average Service Life (I)	Curve Form (J)
1	310	3100	Land and Land Rights - East Bend	1,687	-	0.00%	-	Perpetual Life		
2	311	3110	Structures & Improvements -East Bend	35,093	21,268	1.28%	449	-3.00%	100	R2.5
3	311	3110	Structures & Improvements -MF 6	3,211	3,060	0.28%	9	-4.00%	100	R2.5
4	312	3120	Boiler Plant Equipment - East Bend	284,533	147,437 (1)	2.32%	6,601	-11.00%	55	S1
5	312	3120	Boiler Plant Equipment - MF 6	44,978	27,503 (1)	5.35%	2,406	-13.00%	55	S1
6	312	3122	Boiler Plant Equip - Precipitator - MF 6	11,773	11,211	1.24%	146	-12.00%	50	S1.5
7	312	3123	Boiler Plant Equip - SCR Catalyst - East Bend	2,230	914	15.28%	341	0.00%	8	S2.5
8	314	3140	Turbogenerator Equipment - East Bend	66,996	31,056	2.26%	1,514	-8.00%	55	R2.5
9	314	3140	Turbogenerator Equipment - MF 6	11,501	10,724	1.16%	133	-9.00%	55	R2.5
10	315	3150	Accessory Electric Equipment - East Bend	25,358	14,157	1.72%	436	-4.00%	60	R2.5
11	315	3150	Accessory Electric Equipment - MF 6	4,075	3,597	1.13%	46	-4.00%	60	R2.5
12	316	3160	Miscellaneous Powerplant Equipment - East Bend	8,262	3,719	2.15%	178	0.00%	55	S0.5
13	316	3160	Miscellaneous Powerplant Equipment - MF 6	769	185	5.53%	43	0.00%	55	S0.5
14	317	3170	AROs - East Bend	533	299	Various		Depr charged to reg asset account		
15	317	3170	AROs - MF 6	177	57	Various		Depr charged to reg asset account		
16										
17										
18										
19			Total Steam Production Plant	501,176	275,187		12,302			

(1) Plant Investment includes Completed Construction Not Classified (Account 106) and applicable accumulated balance.

DUKE ENERGY KENTUCKY
CASE NO. 2006-00172
DEPRECIATION AND AMORTIZATION ACCRUAL RATES AND
JURISIDICTIONAL ACCUMULATED BALANCES BY ACCOUNTS,
THIRTEEN MONTH AVERAGE AS OF DECEMBER 31, 2007

OTHER PRODUCTION PLANT
($000 Omitted)

DATA: BASE PERIOD "X" FORECASTED PERIOD
TYPE OF FILING: ORIGINAL UPDATED "X" REVISED
WORK PAPER REFERENCE NOS.: SCHEDULE B-2.1, SCHEDULE B-3

SCHEDULE B-3.2
PAGE 2 OF 6
WITNESS RESPONSIBLE:
C. J. COUNCIL

Line No. (A)	FERC Acct. No. (B-1)	Company Acct. No. (B-2)	Account Title or Major Property Grouping (C)	Adjusted Jurisdiction 13-Month Average Plant Investment (1) (D)	Adjusted Jurisdiction 13-Month Average Accumulated Balance (E)		Current Accrual Rate (F)	Calculated Depr. Expense (G=DxF)	% Net Salvage (H)	Average Service Life (I)	Curve Form (J)
1	340	3400	Land and Land Rights	2,258	0		0.00%	-	Perpetual Life		
2	340	3401	Rights of Way	652	27		3.63%	24	0.00%	40	SQ
3	341	3410	Structures & Improvements	33,726	16,597		2.04%	688	-3.00%		SQ
4	342	3420	Fuel Holders, Producers, Accessories	15,508	8,835		1.75%	271	-3.00%		SQ
5	343	3430	Prime Movers	1,362	1		3.96%	54	-5.00%		SQ
6	344	3440	Generators	203,784	89,552	(1)	2.38%	4,850	-4.00%	75	R2.5
7	345	3450	Accessory Electric Equipment	16,867	9,659		1.80%	304	0.00%	55	S2
8	346	3460	Miscellaneous Plant Equipment	3,677	2,046		2.00%	74	0.00%	50	R2.5
9											
10											
11			Total Other Production Plant	277,834	126,717			6,265			

(1) Plant Investment includes Completed Construction Not Classified (Account 106) and applicable accumulated balance.

197490 v2

DUKE ENERGY KENTUCKY
CASE NO. 2006-00172
DEPRECIATION AND AMORTIZATION ACCRUAL RATES AND
JURISIDICTIONAL ACCUMULATED BALANCES BY ACCOUNTS,
FUNCTIONAL CLASS OR MAJOR PROPERTY GROUP
THIRTEEN MONTH AVERAGE AS OF DECEMBER 31, 2007

TRANSMISSION PLANT
($000 Omitted)

DATA: BASE PERIOD "X" FORECASTED PERIOD
TYPE OF FILING: ORIGINAL UPDATED "X" REVISED
WORK PAPER REFERENCE NOS.: SCHEDULE B-2.1, SCHEDULE B-3

SCHEDULE B-3.2
PAGE 3 OF 6
WITNESS RESPONSIBLE:
C. J. COUNCIL

Line No. (A)	FERC Acct. No. (B-1)	Company Acct. No. (B-2)	Account Title or Major Property Grouping (C)	Adjusted Jurisdiction 13-Month Average Plant Investment (1) (D)	Adjusted Jurisdiction 13-Month Average Accumulated Balance (E)	Current Accrual Rate (F)	Calculated Depr. Expense (G=DxF)	% Net Salvage (H)	Average Service Life (I)	Curve Form (J)
1	350	3500	Land	191	0	0.00%	-	Perpetual Life		
2	350	3501	Rights of Way	906	468	1.48%	13	0.00%	65	R4
3	352	3520	Structures & Improvements	381	358	0.41%	2	-5.00%	55	R3
4	353	3530	Station Equipment	9,398	3,013 (1)	2.25%	211	-5.00%	50	R1.5
5	353	3532	Major Equipment	3,373	997	2.27%	77	-10.00%	50	R3
6	353	3535	Station Equipment Electronics	14	0	9.55%	1	0.00%	15	R2.5
7	354	3540	Towers & Equipment	0	0	0.00%	-	NA	NA	N\A
8	355	3550	Poles & Fixtures	5,133	2,956	2.10%	108	-25.00%	50	R1.5
9	356	3560	Overhead Conductors & Devices	4,370	2,411	2.31%	101	-10.00%	44	R0.5
10										
11										
12			Total Transmission Plant	23,766	10,203		513			

(1) Plant Investment includes Completed Construction Not Classified (Account 106) and applicable accumulated balance.

197490 v2

DUKE ENERGY KENTUCKY
CASE NO. 2006-00172
DEPRECIATION AND AMORTIZATION ACCRUAL RATES AND
JURISIDICTIONAL ACCUMULATED BALANCES BY ACCOUNTS,
THIRTEEN MONTH AVERAGE AS OF DECEMBER 31, 2007

DISTRIBUTION PLANT
($000 Omitted)

DATA: BASE PERIOD "X" FORECASTED PERIOD
TYPE OF FILING: ORIGINAL UPDATED "X" REVISED
WORK PAPER REFERENCE NOS.: SCHEDULE B-2.1, SCHEDULE B-3

SCHEDULE B-3.2
PAGE 4 OF 6
WITNESS RESPONSIBLE:
C. J. COUNCIL

Line No. (A)	FERC Acct. No. (B-1)	Company Acct. No. (B-2)	Account Title or Major Property Grouping (C)	Adjusted Jurisdiction 13-Month Average Plant Investment (1) (D)	Adjusted Jurisdiction 13-Month Average Accumulated Balance (E)		Current Accrual Rate (F)	Calculated Depr. Expense (G=DxF)	% Net Salvage (H)	Average Service Life (I)	Curve Form (J)
1	360	3600	Land	3,094	-				Perpetual Life		
2	360	3601	Rights of Way	4,460	2,322		1.07%	48	0.00%	70	R3
3	361	3610	Structures & Improvements	309	224		0.94%	3	-5.00%	55	R3
4	362	3620	Station Equipment	18,831	4,929		2.91%	548	-10.00%	50	R2
5	362	3622	*Major Equipment*	15,248	3,283		2.77%	422	-10.00%	50	R3
6	362	3635	Station Equipment Electronics	123	-		9.65%	12	0.00%	15	R2
7	364	3640	Poles, Towers, & Fixtures	44,360	16,672		3.29%	1,459	-15.00%	44	R0.5
8	365	3650	Overhead Conductors & Devices	80,123	38,867	(1)	2.46%	1,971	-20.00%	46	R1.5
9	366	3660	Underground Conduit	14,371	2,791		2.00%	287	-15.00%	65	R3
10	367	3670	Underground Conductors & Devices	33,388	6,965		2.29%	765	-25.00%	65	R3
11	368	3680	Line Transformers	47,561	23,055		2.42%	1,153	0.00%	38	R1.5
12	368	3682	Customers Transformer Installation	1,716	274		2.00% (2)	34	0.00%	50	R1.5
13	369	3691	Services - Underground	515	141		2.73%	14	-25.00%	55	R2
14	369	3692	Services - Overhead	10,256	8,055		2.45%	251	-50.00%	50	R1
15	369	3693	Services - Multiple Occupancy Buildings	-	-		NA	NA	NA	NA	NA
16	370	3700	Meters	10,122	2,552		5.82%	589	0.00%	28	S0
17	370	3701	Leased Meters	3,730	229		5.61%	209	0.00%	28	S0
18	372	3720	Leased Prop on Cust Prem	10	10		NA	NA	0.00%	25	L2
19	373	3731	Street Lighting - Overhead	2,861	2,467		0.92%	26	-5.00%	30	L1
20	373	3732	Street Lighting - Boulevard	2,819	1,280		3.62%	102	-5.00%	30	L1
21	373	3733	Street Lighting - Cust. Private Outdoor Lighting	1,617	1,386		1.47%	24	-15.00%	33	R1.5
22											
23											
24			Total Distribution Plant	295,514	115,502			7,917			

(1) *Plant Investment includes Completed* Construction Not Classified (Account 106) and applicable accumulated balance.
(2) Estimated rate for additions after 2005.

197490 v2

DUKE ENERGY KENTUCKY
CASE NO. 2006-00172
DEPRECIATION AND AMORTIZATION ACCRUAL RATES AND
JURISIDICTIONAL ACCUMULATED BALANCES BY ACCOUNTS,
THIRTEEN MONTH AVERAGE AS OF DECEMBER 31, 2007

GENERAL PLANT
($000 Omitted)

DATA: BASE PERIOD "X" FORECASTED PERIOD
TYPE OF FILING: ORIGINAL UPDATED "X" REVISED
WORK PAPER REFERENCE NOS.: SCHEDULE B-2.1, SCHEDULE B-3

SCHEDULE B-3.2
PAGE 5 OF 6
WITNESS RESPONSIBLE:
C. J. COUNCIL

Line No. (A)	FERC Acct. No. (B-1)	Company Acct. No. (B-2)	Account Title or Major Property Grouping (C)	Adjusted Jurisdiction 13-Month Average: Plant Investment (1) (D)	Adjusted Jurisdiction 13-Month Average: Accumulated Balance (E)	Current Accrual Rate (F)	Calculated Depr. Expense (G=DxF)	% Net Salvage (H)	Average Service Life (I)	Curve Form (J)
1	303	3030	Misc Intangible Plant	2,130	1,059	Various	36	Amortized over 60 months		
2	390	3900	Structures & Equipment	16	19	1.77%	-	5.00%	35	R2.5
3	391	3910	Office Furniture & Equipment	36	19	18.56%	7	0.00%	20	SQ
4	392	3920	Auto & Trucks	0	0	NA	NA	Depr.Charge to Trans. Exp.		
5	392	3921	Trailers	100	31	6.53%	7	Depr.Charge to Trans. Exp.		
6	394	3940	Tools, Shop & Garage Equipment	1,057	612 (1)	4.14%	44	0.00%	25	SQ
7	396	3960	Power Operated Power Equipment	12	12	NA	NA	Depr.Charge to Trans. Exp.		
8	397	3970	Communication Equipment	84	71	6.93%	6	0.00%	15	SQ
9										
10										
11			Total General Plant	3,435	1,823		100			
12			Total Electric Plant	1,101,725	529,432		27,097			

(1) Plant Investment includes Completed Construction Not Classified (Account 106) and applicable accumulated balance.

197490 v2

DUKE ENERGY KENTUCKY
CASE NO. 2006-00172
DEPRECIATION AND AMORTIZATION ACCRUAL RATES AND
JURISIDICTIONAL ACCUMULATED BALANCES BY ACCOUNTS,
THIRTEEN MONTH AVERAGE AS OF DECEMBER 31, 2007

COMMON PLANT
($000 Omitted)

DATA: BASE PERIOD "X" FORECASTED PERIOD
TYPE OF FILING: ORIGINAL UPDATED "X" REVISED
WORK PAPER REFERENCE NOS.: SCHEDULE B-2.1, SCHEDULE B-3

SCHEDULE B-3.2
PAGE 6 OF 6
WITNESS RESPONSIBLE:
C. J. COUNCIL

Line No. (A)	FERC Acct. No. (B-1)	Company Acct. No. (B-2)	Account Title or Major Property Grouping (C)	Adjusted Jurisdiction 13-Month Average Plant Investment (1) (D)	Adjusted Jurisdiction 13-Month Average Accumulated Balance (E)	Current Accrual Rate (F)		Calculated Depr. Expense (G=DxF)	% Net Salvage (H)	Average Service Life (I)	Curve Form (J)
1		1030	Misc Intangible Plant	20,524	10,966	Various		342	Amortized over 60 months		
2		1890	Land	154	0	0.00%		-	Perpetual Life		
3		1900	Structures & Improvements	6,488	2,177 (1)	4.34%	(2)	403	0.00%	100.0	R1
4		1910	Office Furniture & Equipment	398	158	12.36%		49	0.00%	20.0	SQ
5		1930	Stores Equipment	6	(17)	48.47%		3	0.00%	20.0	SQ
6		1940	Tools, Shop & Garage Equipment	186	78	6.27%		12	0.00%	25.0	SQ
7		1970	Communication Equipment	39	(6)	13.62%		5	0.00%	15.0	SQ
8		1980	Miscellaneous Equipment	11	1	6.65%		1	0.00%	15.0	SQ
9								-			
10											
11			Total Common Plant	27,806	13,357			815			
			Common Plant Allocated to Electric								
13		75.87%	Original Cost	21,096							
14		75.87%	Reserve		10,134						
15		75.87%	Annual Provision					618			
16			Total Electric including allocated Common	1,122,821	539,566			27,715			

(1) Plant Investment includes Completed Construction Not Classified (Account 106) and applicable accumulated balance.
(2) Includes Capital Lease on Erlanger Operations Center of $2.1M and applicable amortization.

RIDER PSM
OFF-SYSTEM POWER SALES AND EMISSION ALLOWANCE SALES
PROFIT SHARING MECHANISM

APPLICABILITY

Applicable to all retail sales in the Company's electric service area, excluding *interdepartmental sales, beginning with the billing month January 2007.*

PROFIT SHARING RIDER FACTORS

The Applicable energy charges for electric service shall be increased or decreased to the nearest $0.000001 per kWh to reflect the sharing of profits on off-system power sales and the net margins on sales of emission allowances.

The Company will compute its profits on off-system power sales and margins on emission allowance sales in the following manner:

Rider PSM Factor = (P + E + R)/S

where:

P = Eligible profits from off-system power sales for applicable month subject to sharing provisions established by the Commission in its Order in Case No. 2003-00252, dated December 5, 2003. The first 100% of profits up to $1 million during the current year are credited 100% to customers. Cumulative profits for the current year in excess of $1 million are shared between customers and shareholders on a 50%/50% basis. After December 31st of each year, the sharing mechanism will be reset.

E = All net margins on sales of emission allowances are credited to customers per the Commission's Order in Case No. 2006-00172, dated ________, *2006.*

R = Reconciliation of prior period Rider PSM actual revenue to amount calculated for the period.

S = Current month sales in kWh used in the current month Rider FAC calculation.

SERVICE REGULATIONS

The supplying of, and billing for, service and all conditions applying thereto are subject to the jurisdiction of the Kentucky Public Service Commission, and to the Company's Service Regulations currently in effect, as filed with the Kentucky Public Service Commission as provided by law.

Duke Energy Kentucky
1697-A Monmouth Street
Newport, Kentucky 41071

RATE DT

TIME-OF-DAY RATE FOR SERVICE AT DISTRIBUTION VOLTAGE

APPLICABILITY

Applicable to electric service for customers with an average monthly demand of 500 kilowatts or greater where the Company specifies service at a nominal distribution system voltage of 34,500 volts or lower, and the Company determines that facilities of adequate capacity are available and adjacent to the premises to be served. Electric service must be supplied at one point of delivery and is not applicable for resale service.

TYPE OF SERVICE

Alternating current 60 Hz, single phase or three phase at Company's standard distribution voltage of 34,500 volts or lower.

NET MONTHLY BILL

Computed in accordance with the following charges (kilowatt of demand abbreviated as kW and kilowatt-hours are abbreviated as kWh):

1. Base Rate

(a) Customer Charge		
Single Phase	$ 7.50 per month	(I)
Three Phase	$ 15.00 per month	
Primary Voltage Service	$100.00 per month	
(b) Demand Charge		
Summer		
On Peak kW	$ 12.75 per kW	(I)
Off Peak kW	$ 1.15 per kW	
Winter		
On Peak kW	$ 12.07 per kW	(I)
Off Peak kW	$ 1.15 per kW	
(c) Energy Charge		
Summer On Peak kWh	$0.041968 per kWh	(I)
Winter On Peak kWh	$0.039968 per kWh	
Off Peak kWh	$0.033968 per kWh	

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Low Load Factor Optional Rate – Pilot Program

Customers with annual load factors of 45% or lower are eligible to receive service at the following rates. Annual load factor is defined as the sum of the kWh during the prior year divided by the sum of the kW during the prior year divided by 730. This pilot program low load factor optional rate will remain in effect through December 31, 2007. The Company may apply to continue this pilot program beyond December 31, 2007, subject to Commission approval.

Base Rate

(a) Customer Charge		
Single Phase	$ 7.50 per month	(I)
Three Phase	$ 15.00 per month	
Primary Voltage Service	$100.00 per month	
(b) Demand Charge		
Summer		
On Peak kW	$ 11.90 per kW	(I)
Off Peak kW	$ 1.15 per kW	
Winter		
On Peak kW	$ 10.54 per kW	(I)
Off Peak kW	$ 1.15 per kW	
(c) Energy Charge		
Summer On Peak kWh	$0.044619 per kWh	(I)
Winter On Peak kWh	$0.042619 per kWh	
Off Peak kWh	$0.036619 per kWh	

2. Applicable Riders
   The following riders are applicable pursuant to the specific terms contained within each rider: (C)
   Sheet No. 78, Rider DSMR, Demand Side Management Rider (D)
   Sheet No. 80, Rider FAC, Fuel Adjustment Clause
   Sheet No. 81, Rider MSR-E, Merger Savings Credit Rider – Electric

The minimum charge shall be the Customer Charge, as stated above.

When both single and three phase secondary voltage services are required by a customer, the monthly kilowatt-hour usage and kilowatt demands shall be the respective arithmetical sums of both services.

For purposes of administration of the above Base Rate charges, the summer period is defined as that period represented by the Company's billing for the four (4) revenue months of June through September. The winter period is defined as that period represented by the Company's billing for the eight (8) revenue months of January through May and October through December.

RATING PERIODS

The rating periods applicable to the demand charge shall be as follows:

a) On Peak Period
Summer - 11 a.m. to 8 p.m. Monday through Friday, excluding holidays.
Winter - 9 a.m. to 2 p.m. and 5 p.m. to 9 p.m., Monday through Friday, excluding holidays.

b) Off Peak Period - All hours Monday through Friday not included above plus all day Saturday and Sunday, as well as New Year's Day, President's Day, Good Friday, Memorial Day, Independence Day, Labor Day, Columbus Day, Veterans Day, Thanksgiving Day and Christmas Day on the day nationally designated to be celebrated as such.

METERING

The company may meter at secondary or primary voltage as circumstances warrant. If the Company elects to meter at primary voltage, kilowatt hours registered on the Company's meter will be reduced one and one-half percent (1.5%) for billing purposes.

If the customer furnishes primary voltage transformers and appurtenances, in accordance with the Company's specified design and maintenance criteria, the Demand Charge, as stated above, shall be reduced as follows:

First 1,000 kW of On Peak billing demand at $0.65 per kW.
Additional kW of On Peak billing demand at $0.50 per kW. (I)

DEMAND

The On Peak billing demand shall be the kilowatts derived from the Company's demand meter for the fifteen minute period of greatest use in the on peak rating period adjusted for power factor as provided herein. The Off Peak billing demand shall be the kilowatts derived from the Company's demand meter for the fifteen minute period of greatest use in the off peak rating period adjusted for power factor minus the On Peak billing demand. In no case shall the Off Peak billing demand be less than zero.

POWER FACTOR ADJUSTMENT

The power factor to be maintained shall be not less than 90% lagging. If the Company determines the customer's power factor to be less than 90%, the on peak and off peak billing demands will be the number of kilowatts equal to the respective on peak and off peak kilovolt amperes multiplied by 0.90.

The power factor, as determined by continuous measurement, will be derived from the intervals in which the maximum on peak and off peak kW demands are established.

LATE PAYMENT CHARGE

Payment of the Net Monthly Bill must be received in the Company's office within twenty-one (21) days from the date the bill is mailed by the Company. When not so paid, the Gross Monthly Bill, which is the Net Monthly Bill plus 5%, is due and payable.

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TERMS AND CONDITIONS

The initial term of contract shall be for a period of three (3) years for secondary voltage service and five (5) years for primary voltage service terminable thereafter by a minimum notice of either the customer or the Company as follows:

(1) For secondary voltage service customers, as prescribed by the Company's Service Regulations.

(2) For primary voltage service customers with a most recent twelve month average demand of less than 10,000 kVA or greater than 10,000 kVA, written notice of thirty (30) days or twelve (12) months respectively, after receipt of the written notice.

The Company is not obligated to extend, expand or rearrange its transmission system if it determines that existing distribution and/or transmission facilities are of adequate capacity to serve the customer's load.

If the Company offers to provide the necessary facilities for transmission service, in accordance with its Service Regulations, an annual facilities charge, applicable to such additional facilities, is established at twenty (20) percent of actual cost. The annual facilities charge shall be billed in twelve monthly installments to be added to the demand charge.

For purposes of the administration of this rate, the Company will determine the customer's average monthly demand based upon the twelve months ending December of each year after the applicable term of service has been fulfilled by the customer. If the customer's demand is less than 500 kilowatts and the Company expects the customer's demand to remain below 500 kilowatts, then the Company will notify the customer prior to May of the succeeding year that the provisions of Rate DS, Service at Secondary Distribution Voltage or Rate DP, Service at Primary Distribution Voltage shall be applicable initiating with the June revenue month billing and shall continue until the term of service of that rate is fulfilled. In the case where a customer's average demand is estimated by the Company to be significantly greater than 500 kilowatts, the Company may, at its discretion, waive the twelve month demand history requirement in the determination of the applicability of this rate.

The supplying of, and billing for, service and all conditions applying thereto, are subject to the jurisdiction of the Kentucky Public Service Commission, and to Company's Service Regulations currently in effect, as filed with the Kentucky Public Service Commission, as provided by law.