

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF DUKE ENERGY)	
KENTUCKY, INC. FOR AN ORDER)	
AMENDING ITS FINANCING)	
AUTHORITY TO AUTHORIZE LOAN)	CASE NO. 2008-00118
AGREEMENTS, THE ISSUANCE OF)	
UNSECURED DEBT AND LONG-TERM)	
NOTES, EXECUTION AND DELIVERY)	
OF LONG-TERM LOAN AGREEMENTS,)	
AND USE OF INTEREST RATE)	
MANAGEMENT INSTRUMENTS)	

O R D E R

On April 2, 2008, Duke Energy Kentucky, Inc. (“Duke Kentucky”) filed an application for authority to amend its existing financing authority as approved in Case No. 2006-00563.¹ Duke Kentucky proposes to borrow from Boone County, Kentucky, or another authorized issuer of tax exempt bonds in the State of Kentucky (“Authority”), for a term not to exceed 40 years, the proceeds of up to a maximum of \$76.72 million aggregate principal amount of Authority Tax Exempt Revenue Bonds (“Authority Bonds”) that may be issued in one or more series.

The proceeds from the issuance of the securities will be used to refund existing obligations on currently outstanding tax exempt bonds. In particular, the proceeds will be used to refund the \$76.72 million County of Boone, Kentucky Pollution Control Revenue Refunding Bonds (“Boone County Bonds”), which were issued in two series on

¹ Case No. 2006-00563, The Application of Duke Energy Kentucky, Inc. for An Order Authorizing the Issuance of Unsecured Debt and Long-Term Notes, Execution and Delivery of Long-Term Loan Agreements, and Use of Interest Rate Management Instruments (Ky. PSC April 17, 2007).

June 26, 2006 and are due August 1, 2027. Upon issuance of the securities, the existing Boone County Bonds will be called for redemption with proceeds from the sale of the refunding bonds.

In 2006, Duke Kentucky issued the Boone County Bonds as insured auction-rate securities. Due to difficulties in the auction market as a result of the recent downgrade of the credit ratings of the bond insurers, the interest rates on the auction-rate bonds have increased significantly. Duke Kentucky believes that it is prudent financial management to refund the bonds into tax-exempt securities of a different structure.

Obligations associated with the Boone County Bonds total \$76,720,000. The refinancing requested by Duke Kentucky will not result in any increase to Duke Kentucky's long-term debt. Duke Kentucky requests the authority to engage in transactions through the period ending December 31, 2008. While Duke Kentucky requests the authority as soon as practical, approval before April 30, 2008 will allow the refund of the Boone County Bonds while reducing interest costs.

Duke Kentucky requests that it be granted authority to continue to utilize interest rate management techniques and to enter into management agreements to manage its interest costs. Such authority was granted in Case No. 2006-00563 as referenced previously. As market opportunities for interest rate management alternatives are transitory, Duke Kentucky requests authority to enter into agreements as opportunities arise to obtain the most competitive pricing. Duke Kentucky requests authority to enter into such transactions prior to the time Duke Kentucky reaches agreement with respect to the terms of such transactions. This authority does not relieve Duke Kentucky of its responsibility to obtain the best terms available for the product selected.

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that the proposed issuance of securities and the assumption of obligations in connection therewith as set out in Duke Kentucky's application should be approved. The Commission also finds that the proposed financing is for lawful objects within the corporate purposes of Duke Kentucky's utility operations, is necessary and appropriate for and consistent with the proper performance of its service to the public, will not impair its ability to perform that service, is reasonably necessary and appropriate for such purposes, and should therefore be approved.

IT IS THEREFORE ORDERED that:

1. Duke Kentucky is authorized to amend its existing financing authority as approved in Case No. 2006-00563 to include the ability to borrow the proceeds of tax-exempt bonds from the Authority, to enter into one or more loan agreements with the Authority to evidence and secure its obligations to repay such loan or loans, and to account for such transactions in the manner as set forth herein.

2. The proceeds from the transactions authorized herein shall be used only for the lawful purposes set out in the application.

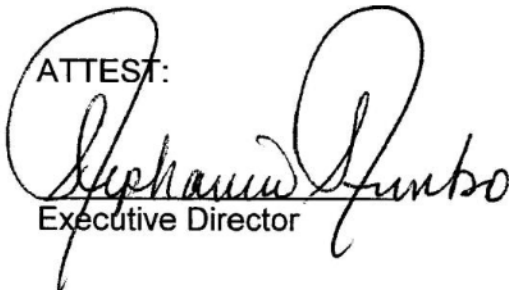
3. Duke Kentucky shall agree to only such terms and prices that are consistent with this Order.

4. Duke Kentucky shall, within 30 days from the date of issuance, file with this Commission a statement setting forth the date or dates of issuance of the securities authorized herein, the price paid, the interest rate, and all fees and expenses, including underwriting discounts or commissions or other compensation, involved in the issuance and distribution.

Nothing contained herein shall be construed as a finding of value for any purpose or as a warranty on the part of the Commonwealth of Kentucky or any agency thereof as to the securities authorized herein.

Done at Frankfort, Kentucky, this 29th day of April, 2008.

By the Commission

ATTEST:

Executive Director