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RECEIVED

OCT 31 2008
PUBLIC SERVICE
COMMISSION

Lisa Steinkuhl
Rates Coordinator

VIA OVERNIGHT DELIVERY

October 31, 2008

Ms. Stephanie Stumbo, Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
P.O. Box 615
Frankfort, Kentucky 40602-0615

Dear Ms. Stumbo:

Pursuant to the Stipulation approved by the Commission in Case No. 2006-00172, Duke Energy Kentucky hereby submits its updated Off-System Sales and Emission Allowance Sales Profit Sharing Mechanism Rider ("Rider PSM"), to be effective with the first billing cycle in December 2008, along with backup schedules.

Please time-stamp the extra copy that I have enclosed and return for our file. Thank you for your timely assistance in this regard.

Please contact me if you have any questions.

Sincerely,

Lisa D. Steinkuhl

Enclosure

**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 December 2008

(T)

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:

$$\text{Rider PSM Factor} = (P + E + R)/S$$

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 December 21, 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.

Issued by authority of an Order of the Kentucky Public Service Commission dated December 21, 2006 in Case No. 2006-00172

Issued:

Effective: December 1, 2008

Issued by: Sandra P. Meyer, President

<u>Rate Group</u>	<u>Rate</u> (\$/ kWh)	
Rate RS, Residential Service	0 000928	(I)
Rate DS, Service at Secondary Distribution Voltage	0 000928	(I)
Rate DP, Service at Primary Distribution Voltage	0 000928	(I)
Rate DT, Time-of-Day Rate for Service at Distribution Voltage	0 000928	(I)
Rate EH, Optional Rate for Electric Space Heating	0 000928	(I)
Rate GS-FL, General Service Rate for Small Fixed Loads	0.000928	(I)
Rate SP, Seasonal Sports Service	0 000928	(I)
Rate SL, Street Lighting Service	0 000928	(I)
Rate TL, Traffic Lighting Service	0 000928	(I)
Rate UOLS, Unmetered Outdoor Lighting	0 000928	(I)
Rate OL, Outdoor Lighting Service	0 000928	(I)
Rate NSU, Street Lighting Service for Non-Standard Units	0 000928	(I)
Rate NSP, Private Outdoor Lighting Service for Non-Standard Units	0.000928	(I)
Rate SC, Street Lighting Service – Customer Owned	0 000928	(I)
Rate SE, Street Lighting Service – Overhead Equivalent	0 000928	(I)
Rate TT, Time-of-Day Rate for Service at Transmission Voltage	0 000928	(I)
Other	0 000928	(I)

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

Issued by authority of an Order of the Kentucky Public Service Commission dated December 21, 2006 in Case No. 2006-00172.

Issued:

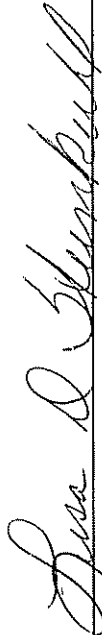
Effective: December 1, 2008

Issued by: Sandra P. Meyer, President

DUKE ENERGY KENTUCKY
CALCULATION OF RIDER PSM CREDIT FOR DECEMBER 2008- FEBRUARY 2009 BILLING

Line No.	Description	Billing Month												Total	
		Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08					
1	Off-System Sales Margin Allocated to Customers from 2008 (Schedule 2, Line 21)														(+) \$ 3,898,731
2	Net Margins on Sales of Emission Allowances (Schedule 4, Line 9)														(+) 148,946
3	Prior Period Carryforward (Schedule 3, Line 25)														(+) <u>(599,372)</u>
4	Total Amount of Credits Owed to Customers														\$ 3,448,305
5	Actual Amount Credited to Customers	(314,158)	(290,835)	(215,945)	(194,681)	(179,916)	694,508	791,174	808,852	1,311,184	(-)				2,410,183
6	Net Refund due to (from) Customers														\$ 1,038,122
7	Sales (kWh) from FAC Filing July, August, September 2008 (FAC Schedule 3, Line C)														** 1,118,597,407
8	Profit Sharing Mechanism Credit Rate (\$/kWh)														<u>0.000928</u>

Effective Date for Billing: December 1, 2008

Submitted by: 

Title: Lead Rates Analyst

Date Submitted: October 31, 2008

DUKE ENERGY KENTUCKY
OFF-SYSTEM SALES SCHEDULE
PERIOD: YEAR TO DATE - DECEMBER 31 2008

Line No.	Description	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Total
1	Off-System Sales Revenue										
2	Asset Energy	(+) \$1,148,304	\$1,231,557	\$2,942,244	\$251,431	\$2,568,481	\$1,186,848	\$437,391	\$346,577	\$1,418,061	\$11,530,894
3	Non-Asset Energy	(+) 0	0	0	0	0	0	0	0	0	0
4	Bilateral Sales	(+) 2,183	1,554	3,725	2,058	4,027	4,498	3,350	8,816	0	30,211
5	Hedges	(+) (408)	(84)	(380,140)	0	195,248	(55)	0	0	0	(185,439)
6	MISO RSG Make Whole Payments ^(a)	(+) 727,957	626,914	1,204,629	197,322	790,195	990,058	459,819	231,218	838,909	6,067,021
7	Sub-Total Revenues	\$1,878,036	\$1,859,941	\$3,770,458	\$450,811	\$3,557,951	\$2,181,349	\$900,560	\$586,611	\$2,256,970	\$17,442,687
8	Variable Costs Allocable to Off-System Sales										
9	Bilateral Purchases	(+) \$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
10	Non-Native Fuel Cost ^(b)	(+) 1,082,590	888,455	1,995,318	239,808	1,703,131	1,302,380	612,314	370,271	1,561,602	9,755,869
11	Variable O&M Cost	(+) 59,132	53,559	113,924	9,906	124,249	53,608	26,353	18,657	77,404	536,792
12	SO ₂ Cost	(+) 72,011	36,083	109,790	16,103	42,557	19,591	4,916	6,257	20,187	327,495
13	NO _x Cost	(+) 0	0	0	0	0	0	0	0	0	0
14	MISO and Other Costs	(+) 2,955	4,067	5,095	491	5,205	2,622	1,069	674	2,891	25,069
15	Sub-Total Expenses	\$1,216,688	\$982,164	\$2,224,127	\$266,308	\$1,875,142	\$1,378,201	\$644,652	\$395,859	\$1,662,084	\$10,645,225
16	Off-System Sales Margin (Line 7 - Line 15)	\$661,348	\$877,777	\$1,546,331	\$184,503	\$1,682,809	\$803,148	\$255,908	\$190,752	\$594,886	\$6,797,462
17	Allocated to Customers (up to 100% of first \$1.00 million) ^(b)										1,000,000
18	Sub-Total (Line 16 - Line 17)										\$5,797,462
19	Percentage Allocated to Customers (50% of margins > \$1.00 million) ^(b)										50.00%
20	Remainder of Off-System Sales Margin Allocated to Customers (Line 18 x Line 19)										2,898,731
21	Off-System Sales Margin Allocated to Customers (Line 17 + Line 20)										\$3,898,731

Note: ^(a) Line 10 - Line 6 ties to the Duke Energy Kentucky's FAC Filing Schedule 4, Line C.

^(b) Per the Commission's Order dated December 5, 2003, in Case No. 2003-00252.

DUKE ENERGY KENTUCKY
OFF-SYSTEM SALES SCHEDULE
PERIOD: TWELVE MONTHS ENDED DECEMBER 31, 2007

Line No.	Description	Total
1	Off-System Sales Revenue	
2	Asset Energy	(+) \$13,066,247
3	Non-Asset Energy	(+) 0
4	Bilateral Sales	(+) 27,930
5	Hedges	(+) 15,067
6	MISO RSG Make Whole Payments	(+) <u>5,103,681</u>
7	Sub-Total Revenues	<u>\$18,212,925</u>
8	Variable Costs Allocable to Off-System Sales	
9	Bilateral Purchases	(+) 0
10	Fuel Cost	(+) 10,714,546
11	Variable O&M Cost	(+) 698,254
12	SO ₂ Cost	(+) 888,849
13	NO _x Cost	(+) 9,965
14	MISO Costs	(+) <u>32,417</u>
15	Sub-Total Expenses	<u>\$12,344,031</u>
16	Total Off-System Sales Margin (Line 6 - Line 13)	(+) \$5,868,894
17	Allocated to Customers (guaranteed 100% of first \$1.0 million) ^(a)	(-) <u>1,000,000</u>
18	Sub-Total	(+) \$4,868,894
19	Percentage Allocated to Customers (50% of margins > \$1.0 million) ^(a)	50.00%
20	Remainder Allocated to Customers (Line 18 x Line 19)	<u>\$2,434,447</u>
21	Total Allocated to Customers (Line 17 + Line 20) ^(b)	(+) \$3,434,447
22	Net Margins on Sales of Emission Allowances	(+) 1,202,927
23	Prior Period Carryforward ^(b)	(+) 1,013,995
24	Amount Credited to Customers in 2007	(-) <u>6,250,741</u>
25	Remaining PSM Credit Due to Customers at 12/31/07	<u><u>(\$599,372)</u></u>

Note: ^(a) Per provisions included in the Commission's Order dated December 5, 2003, in Case No. 2003-00252.

^(b) Incremental change from prior filing is due to MISO resettlements

DUKE ENERGY KENTUCKY
EMISSION ALLOWANCE SALES MARGIN
PERIOD: YEAR TO DATE - SEPTEMBER 30, 2008

Line No.	Description	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Total
1	SO2 Sales Margin										
2	Proceeds	(+) \$0	\$0	\$0	\$0	\$153,817	\$36,496	(\$41,367)	\$0	\$0	\$148,946
3	Cost of Sale	(-) 0	0	0	0	0	0	0	0	0	0
4	Margin	0	0	0	0	153,817	36,496	(41,367)	0	0	148,946
5	NOx Sales Margin										
6	Proceeds	(+) \$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
7	Cost of Sale	(-) 0	0	0	0	0	0	0	0	0	0
8	Margin	0	0	0	0	0	0	0	0	0	0
9	Total EA Sales Margin (Line 4 + Line 8)	0	0	0	0	153,817	36,496	(41,367)	0	0	148,946