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John J. Finnigan, Jr.
Senior Counsel

VIA HAND DELIVERY

May 31, 2006

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

RECEIVED

MAY 31 2006

**PUBLIC SERVICE
COMMISSION**

Re: In the Matter of an Adjustment of the Electric Rates of The Union Light, Heat and Power Company d/b/a Duke Energy Kentucky, Inc.
Case No. 2006-00172

Dear Ms. O'Donnell:

Enclosed is an original and ten copies of Duke Energy Kentucky's Application in the above-referenced case. Please note that the filing is composed of seventeen volumes.

Also enclosed is a Petition for Confidential Treatment for volume seventeen of the Application. The redacted version of volume seventeen is included in the filing and the un-redacted version is included in the sealed envelope stamped "Confidential."

Please date stamp and return the extra copies of the Application, Petition and cover sheets for the seventeen volumes of the filing in the enclosed self-addressed envelope.

Thank you for your consideration in this matter.

Very truly yours,

John J. Finnigan, Jr.
Senior Counsel

JJF/sew

cc: Hon. Dennis G. Howard (w/encl.)
Hon. Elizabeth E. Blackford (w/encl.)
Hon. David G. Boehm (w/encl.)
Hon. Michael L. Kurtz (w/encl.)
Hon. Carl J. Melcher (w/encl.)
Hon. Anthony G. Martin (w/encl.)

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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MAY 31 2006

**PUBLIC SERVICE
COMMISSION**

In the Matter of:

**AN ADJUSTMENT OF THE ELECTRIC)
RATES OF THE UNION LIGHT, HEAT)
AND POWER COMPANY D/B/A DUKE)
ENERGY KENTUCKY, INC.)**

CASE NO. 2006-00172

APPLICATION, NOTICE AND STATEMENT

Pursuant to KRS 278.180, 807 KAR 5:001 Section 10, and 807 KAR 5:056, The Union Light, Heat and Power Company d/b/a Duke Energy Kentucky, Inc. (“Duke Energy Kentucky”) respectfully states as follows:

1. Duke Energy Kentucky is a corporation organized and existing under the laws of the Commonwealth of Kentucky. Duke Energy Kentucky’s principal office and principal place of business is 1697 A Monmouth Street, Newport Shopping Center, Newport, Kentucky 41071, and its mailing address is P.O. Box 960, Cincinnati, Ohio 45201. Pursuant to 807 KAR 5:001 Section 10(1)(b)(3), a certified copy of Duke Energy Kentucky’s articles of incorporation is on file with the Commission in Case No. 2005-00042 and is incorporated by reference.

2. Duke Energy Kentucky purchases, sells, stores and transports natural gas in Boone, Campbell, Gallatin, Grant, Kenton and Pendleton Counties, Kentucky. Duke Energy Kentucky also generates electricity, which it distributes and sells in Boone, Campbell, Grant, Kenton and Pendleton Counties, Kentucky. Duke Energy Kentucky is a “utility” as defined in KRS 278.010(3) and is subject to the Commission’s jurisdiction pursuant to KRS 278.040.

3. Duke Energy Kentucky's present electric rates and charges, which are based on costs incurred during the twelve months ended July 31, 1991, were authorized by this Commission by Order dated May 5, 1992, and subsequent orders, in Case No. 91-370. Duke Energy Kentucky's fuel rate was frozen in 2001 pursuant to the Commission's Orders dated May 11, 2001 and June 1, 2001 in Case No. 2001-00058.

4. Duke Energy Kentucky seeks to adjust its electric rates to a new total of \$306,436,160, which reflects an increase from its current rates of approximately \$66.6 million. The amounts of the proposed new total rates is at Volume 11, Schedule A of this filing, and is incorporated by reference. The proposed new charges and the impact of the proposed adjustment on each customer class is provided at Volume 12, Schedule M and at Volume 1, Tab 11 of this filing, and is incorporated by reference. Duke Energy Kentucky states that it will implement this adjustment effective July 1, 2006.

5. The primary reason for this requested adjustment is that Duke Energy Kentucky's earned rate of return on capitalization obtained from its electric operations is projected to earn a return on capitalization for the forward-looking test period of 3.68% (3.47% return on rate base), which is insufficient to ensure the continued reliable and safe delivery of electric service to Duke Energy Kentucky's customers. A more detailed statement of the reasons for the adjustment is provided in Volume 1, Tab 4 of this filing, pursuant to 807 KAR 5:001 Section 10(1)(b)(1), and is incorporated by reference.

6. Duke Energy Kentucky requests approval to adjust its Fuel Adjustment Clause ("FAC") pursuant to 807 KAR 5:001 as follows: Duke Energy Kentucky will recover its fuel costs through its retail electric base rates through December 31, 2007, the end of the forward-looking test period. Duke Energy Kentucky will therefore set its FAC

rate at zero as of January 1, 2007. Duke Energy Kentucky proposes to make new FAC filings beginning in March 2007 to adjust the FAC to reflect costs incurred on and after January 1, 2007, as compared to the amount reflected in rates for the end of the forward-looking test period.

Duke Energy Kentucky also proposes to cancel Rider PSM-Off-System Sales Sharing Mechanism, effective December 31, 2006, and to use the FAC to pass on to customers their portion of the net profits from off-system sales. The Commission conditionally approved an off-system sales sharing mechanism (subject to approval in this proceeding) in its December 5, 2003 Order in Case No. 2003-00252. In its November 29, 2005 Order in Case No. 2005-00228, the Commission approved a certain formula and a minimum amount of sharing of profits from off-system sales, to be effective only for calendar year 2006. The sharing mechanism for 2006 is reflected in Rider PSM and it must be terminated or revised at the end of 2006, such that the sharing mechanism formula conditionally approved in Case No. 2003-00252 can take effect. The Company's coal contracts related to its FAC are at Volume 17 of this filing, and are incorporated by reference. Duke Energy Kentucky's proposed adjustment to its FAC and proposal to cancel Rider PSM is discussed in more detail in the testimony of Mr. William Don Wathen, Jr. at Volume 15 of this filing, which is incorporated by reference.

7. Duke Energy Kentucky also requests approval to implement the following new riders: Rider TCRM – Transmission Cost Recovery Mechanism; Rider GP – Green Power; and Rider BDP – Backup Delivery Point. Rider TCRM will track and recover incremental changes in transmission costs not reflected in base rates and is described in more detail in Mr. Wathen's testimony and the testimony of Mr. John D. Swez at Volume

14 of this filing, which are incorporated by reference. Rider GP is a voluntary service that will enable the Company to recover from participating customers the costs for purchasing power from environmentally friendly sources or to pay for the development of new sources of environmentally friendly power. Rider GP is described in the testimony of Mr. Jeffrey R. Bailey at Volume 15 of this filing, which is incorporated by reference. Rider BDP is a voluntary service that will allow participating customers to obtain back-up capacity from the Company's transmission and/or distribution system. Rider BDP is described in the testimony of Mr. Bailey, which is incorporated by reference.

8. Duke Energy Kentucky also proposes certain revisions to the following tariffs and charges: Net Metering Tariff; Cogeneration and Small Power Production Sale and Purchase – 100 kW or Less; Cogeneration and Small Power Production Sale and Purchase – Greater than 100 kW; and PowerShare® Program, all as described in the testimony of Mr. Bailey, which is incorporated by reference.

9. Duke Energy Kentucky proposes to cancel the following tariffs: Rider IS – Interruptible Service Rider; Rider TES – Thermal Energy Storage Rider; Rider SES – Standby or Emergency Service at Distribution Voltage Rider; and to eliminate the Energy Call Option Program currently contained in Rider EOP-RTP – Energy Call Option applicable to Real-Time Pricing customers. The reasons for these cancellations and revisions are described in the testimony of Mr. Bailey, which is incorporated by reference.

10. Duke Energy Kentucky proposes to revise the following miscellaneous charges: reconnections at the pole where the Company was unable to gain access – \$65;

after-hours reconnection charge - \$90; field collection fee - \$15, as described in the testimony of Mr. Bailey, which is incorporated by reference.

11. Duke Energy Kentucky also proposes various changes to its service regulations as described in the testimony of Mr. Bailey, which is incorporated by reference.

12. Duke Energy Kentucky also requests that the Commission approve the following ratemaking treatments that the Commission conditionally approved (subject to approval in this proceeding) in its December 5, 2003 Order in Case No. 2003-00252:

- in Finding No. 7 of such Order, the Commission stated that it could see no reason why the East Bend Generating Station , the Miami Fort Generating Station Unit 6 and the Woodsdale Generating Station (collectively, “the Plants”) should not be valued at original cost less accumulated depreciation in future ratemaking proceedings. The Company requests such treatment in this case, as supported by Mr. Dwight L. Jacobs, whose testimony is at Volume 14 of this filing and is incorporated by reference;
- in Finding No. 8 of such Order, the Commission authorized the Company to create an accounting deferral for its actual transaction costs related to the transfer of the Plants, up to \$2.45 million. The Commission stated that it could see no reason why the Company, in its next general electric rate case, should not be permitted to recover such transaction costs, to be amortized over five years, without carrying charges. The Company requests such treatment in this case, and Mr. Wathen supports this request;

- in Finding No. 9 of such Order, the Commission authorized the Company to record below-the-line the accumulated deferred investment tax credits and accumulated deferred income tax balances related to the Plants, and stated that it could see no reason why the Company should not be accorded such below-the-line treatment in future rate proceedings. The Company requests below-the-line treatment for these balances, as supported by Mr. Keith G. Butler, whose testimony is at Volume 14 of this filing and is incorporated by reference;
- in Finding No. 10 of such Order, the Commission stated that it could see no reason why the Company should not be permitted to recover in base rates the monthly capacity charges in the Back-up PSA. The Company requests an increase in these capacity charges to reflect current market pricing, for the reasons explained in detail in the testimony of Mr. Douglas F Esamann at Volume 14 of this filing, which is incorporated by reference. The Company requests approval to recover such increased capacity charges in base rates;
- in Finding No. 11 of the Order, the Commission approved recovery of the energy charges under the Back-up PSA in accordance with 807 KAR 5:056. The Company requests that the Commission confirm in this proceeding that the Back-up PSA energy charges will be recovered in this manner, as supported by Mr. Wathen; and
- in Finding No. 13 of the Order, the Commission stated that the Company's proposed mechanism for sharing profits from off-system sales appeared

reasonable, and the Commission stated that it could see no reason why such mechanism should not be approved in the present proceeding, as the Company now requests and as supported in the testimony of Mr. Paul G. Smith at Volume 14 of this filing, which is incorporated by reference.

13. Pursuant to KRS 278.192(1) and 807 KAR 5:001 Section 10(1)(b), Duke Energy Kentucky has utilized a forward-looking test period for the twelve months ending December 31, 2007. This test period corresponds to the first twelve calendar month period the proposed rates will be in effect following the six-month suspension of the proposed rates.

14. Pursuant to 807 KAR 5:001, Section 10(1)(b)(2), Duke Energy Kentucky certifies that its annual reports, including the annual report for year ending 2005, are on file with this Commission as required by 807 KAR 5:006, Section 3(1). Duke Energy Kentucky's formal certification to this effect is at Volume 1, Tab 5 of this filing, and is incorporated by reference.

15. Pursuant to 807 KAR 5:001, Section 10(1)(b)(3), Duke Energy Kentucky states that a certified copy of its Articles of Incorporation, as amended, is on file with the Commission in Case No. 2005-00042, as stated at Volume 1, Tab 6 of this filing.

16. Pursuant to 807 KAR 5:001, Section 10(1)(b)(5), Duke Energy Kentucky states that it is a corporation in good standing with the Secretary of State of the Commonwealth of Kentucky. A certificate to that effect, dated within sixty (60) days of the date of filing this application, is attached at Volume 1, Tab 6 of this filing, and is incorporated by reference.

17. Pursuant to 807 KAR 5:001, Section 10(1)(b)(6), Duke Energy Kentucky states that its legal name is The Union Light, Heat and Power Company. It has an assumed name of “Duke Energy” and “Duke Energy Kentucky, Inc.” Pursuant to KRS 365.015, Duke Energy Kentucky has filed Certificates of Assumed Name with the Secretary of State. A certified copy of these Certificates of Assumed Name is attached at Volume 1, Tab 8 of this filing, and are incorporated by reference.

18. The aggregate total revenue from Duke Energy Kentucky’s non-regulated incidental activities exceeds the lesser of 2% of Duke Energy Kentucky’s total revenue or \$1 million dollars annually; therefore, Duke Energy Kentucky is required under KRS 278.2203 and 278.2205 to submit a cost allocation manual with this filing. A copy of the cost allocation manual is attached at Volume 16 of this filing, and is incorporated by reference.

19. Pursuant to 807 KAR 5:001, Section 10(1)(b)(8), Duke Energy Kentucky states that its proposed tariffs and proposed tariff changes are provided at Volume 12, Schedule L through L 2.2 of this filing, and are incorporated by reference. The effective date of the proposed tariffs and proposed tariff changes is July 1, 2006.

20. Pursuant to 807 KAR 5:001, Section 10(1)(b)(9), Duke Energy Kentucky states that it has complied with 807 KAR 5:011, Section 9(2) and 807 KAR 5:001, Section 10(3) and (4) by delivering to the newspapers of general circulation in its service territory area a copy of a Legal Notice for publishing once a week for three consecutive weeks in a prominent manner, the first of said publications to be made within seven (7) days of the date of this application. A copy of the Legal Notice is attached at Volume 1,

Tabs 11 and Tab 15 of this filing, and is incorporated by reference. Duke Energy Kentucky states that it will implement this adjustment effective July 1, 2006.

21. Pursuant to 807 KAR 5:001, Section 10(2), Duke Energy Kentucky states that it has filed with the Executive Director of this Commission a written notice of its intention to file this application, and mailed a copy to the intervenors in Duke Energy Kentucky's last electric rate case. A copy of the written notice is attached at Volume 1, Tabs 1 and 11 of this filing, and is incorporated by reference.

22. Pursuant to 807 KAR 5:001, Section 10(4)(f), Duke Energy Kentucky states that it will post a copy of this filing at its place of business on the date on which this application is filed and it will remain posted until this Commission has finally determined Duke Energy Kentucky's electric rates.

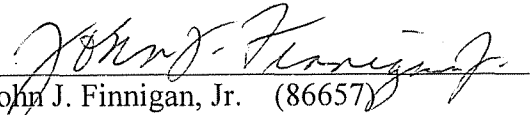
23. Pursuant to 807 KAR 5:001, Section 6, Duke Energy Kentucky states that its financial exhibit is provided at Volume 10, Tabs 65 through 73 of this filing, and is incorporated by reference.

24. In further support of its application, Duke Energy Kentucky has provided 17 volumes of information, the contents of which are described in the table of contents attached at the beginning of each volume.

WHEREFORE, Duke Energy Kentucky respectfully prays that its proposed adjustment of electric rates and changes to existing tariffs and service regulations, be approved as requested herein.

Respectfully submitted,

DUKE ENERGY KENTUCKY



John J. Finnigan, Jr. (86657)

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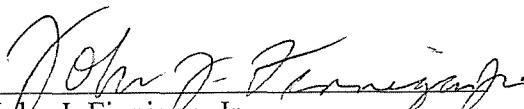
CERTIFICATE OF SERVICE

This is to certify that a copy of the foregoing Application, Notice and Statement has been served by hand delivery to the following parties on this 31st day of May, 2006:

Hon. Dennis G. Howard
Hon. Elizabeth E. Blackford
Office of Attorney General
Utility Intervention and Rate Division
1024 Capital Center Drive
Frankfort, Kentucky 40601

Hon. Carl J. Melcher
Hon. Anthony G. Martin
302 Greenup Street
Covington, Kentucky 41011-1740

Hon. David G. Boehm
Hon. Michael L. Kurtz
Boehm, Kurtz & Lowry
Suite 1510
36 East Seventh Street
Cincinnati, Ohio 45202-4434



John J. Finnigan, Jr.

COMMONWEALTH OF KENTUCKY

BEFORE THE KENTUCKY PUBLIC SERVICE COMMISSION

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MAY 31 2006

PUBLIC SERVICE
COMMISSION

In the Matter of:

AN ADJUSTMENT OF THE ELECTRIC)
RATES OF THE UNION LIGHT, HEAT)
AND POWER COMPANY D/B/A DUKE)
ENERGY KENTUCKY, INC.)

CASE NO. 2006-00172

PETITION OF THE UNION LIGHT, HEAT AND POWER COMPANY
D/B/A DUKE ENERGY KENTUCKY, INC.
FOR CONFIDENTIAL TREATMENT OF INFORMATION
CONTAINED IN THE COAL SUPPLY CONTRACTS

The Union Light, Heat and Power Company d/b/a Duke Energy Kentucky, Inc. (“Duke Energy Kentucky”), pursuant to 807 KAR 5:001, Section 7, respectfully requests the Commission to classify and protect as confidential the pricing, quantity and budget information that is contained in its coal supply contracts and related documents filed in this proceeding. The Company is filing the contracts in redacted form in the present proceeding, and is also filing the contracts in unredacted form under seal with this petition. In support thereof, Duke Energy Kentucky states:

1. Duke Energy Kentucky has filed today coal supply contract documents containing a description of costs and quantities solicited by Duke Energy Kentucky and contracted by Duke Energy Kentucky for its coal supply requirements, and its budget for future coal costs. The filing contains the coal tonnage, coal prices, cost and budget information, the public disclosure of which would damage Duke Energy Kentucky because this information was developed pursuant to a confidential budgeting and

contracting process. If the information is publicly disclosed, this would likely make it more difficult to obtain competitive prices on future coal purchases. As required by 807 KAR 5:001, Section 7(2)(b), Duke Energy Kentucky is providing one copy of the information under seal. Ten sets of the redacted information are contained in Volume 17 of this filing, which is incorporated by reference.

2. The Kentucky Open Records Act exempts from disclosure certain commercial information. KRS § 61.878(1)(c). To qualify for this exemption and, therefore, maintain the confidentiality of the information, a party must establish that disclosure of the commercial information would permit an unfair advantage to competitors of that party. Disclosure of this information would allow future coal suppliers to know the cost and amounts of coal that Duke Energy Kentucky purchases, and as discussed in more detail below, this could tend to raise Duke Energy Kentucky's fuel costs, and would tend to give an unfair commercial advantage to future coal suppliers.

3. This coal supply information contains sensitive pricing and quantity information, the disclosure of which would injure Duke Energy Kentucky and its competitive position and business interests. Duke Energy Kentucky's contracting process involves coal suppliers submitting confidential bids. Public release of this information could make coal suppliers less likely to bid on Duke Energy Kentucky's projects in the future to avoid having their bid prices publicly disclosed. This would produce less competition by coal suppliers for Duke Energy Kentucky's coal supply contracts and could result in higher prices. Additionally, if this information is publicly disclosed, suppliers could use this information to bid higher amounts for future contracts than they otherwise would bid absent public disclosure of this information.

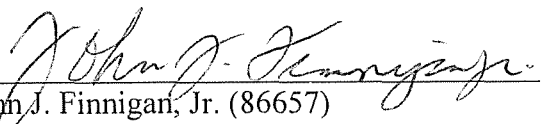
4. The information for which Duke Energy Kentucky is seeking confidential treatment is not known outside of Duke Energy Kentucky and its coal suppliers and it is not disseminated within Duke Energy Kentucky except to those employees with a legitimate business need to know and act upon the information.

5. The public interest will be served by granting this petition, in that competition among Duke Energy Kentucky's prospective coal suppliers will be fostered and this will help enable Duke Energy Kentucky to obtain lower fuel costs.

WHEREFORE, Duke Energy Kentucky respectfully requests that the Commission classify and protect as confidential the specific information described herein.

Respectfully submitted,

DUKE ENERGY KENTUCKY


John J. Finnigan, Jr. (86657)

Senior Counsel

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Room 2500, Atrium II

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The undersigned hereby certifies that a copy of the foregoing petition was served on the following, by hand delivery, this 31st day of May 2006.


John J. Finnigan, Jr.

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Office of Attorney General
Utility Intervention and Rate Division
1024 Capital Center Drive
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