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Lisa Steinkuhl  
Rates Coordinator

**VIA OVERNIGHT DELIVERY**

January 30, 2008

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

**RECEIVED**

**JAN 30 2008**

**PUBLIC SERVICE  
COMMISSION**

Dear Executive Director:

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 March 2008, along with backup schedules.

This filing applies the sharing formula for margins on off-system sales during 2006 established in the Order in Case No. 2005-00228, approving the merger between Cinergy Corp. and Duke Energy, and the sharing formula for both off-system sales and sales of emission allowances per the Order in Case No. 2006-00172.

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 March 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 31<sup>st</sup> 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 \_\_\_\_\_  
in Case No. \_\_\_\_\_

Issued:

Effective: February 29, 2008

Issued by: Sandra P. Meyer, President

<u>Rate Group</u>	<u>Rate</u> <u>(\$/ kWh)</u>	
Rate RS, Residential Service	(0.000646)	(R)
Rate DS, Service at Secondary Distribution Voltage	(0.000646)	(R)
Rate DP, Service at Primary Distribution Voltage	(0.000646)	(R)
Rate DT, Time-of-Day Rate for Service at Distribution Voltage	(0.000646)	(R)
Rate EH, Optional Rate for Electric Space Heating	(0.000646)	(R)
Rate GS-FL, General Service Rate for Small Fixed Loads	(0.000646)	(R)
Rate SP, Seasonal Sports Service	(0.000646)	(R)
Rate SL, Street Lighting Service	(0.000646)	(R)
Rate TL, Traffic Lighting Service	(0.000646)	(R)
Rate UOLS, Unmetered Outdoor Lighting	(0.000646)	(R)
Rate OL, Outdoor Lighting Service	(0.000646)	(R)
Rate NSU, Street Lighting Service for Non-Standard Units	(0.000646)	(R)
Rate NSP, Private Outdoor Lighting Service for Non-Standard Units	(0.000646)	(R)
Rate SC, Street Lighting Service – Customer Owned	(0.000646)	(R)
Rate SE, Street Lighting Service – Overhead Equivalent	(0.000646)	(R)
Rate TT, Time-of-Day Rate for Service at Transmission Voltage	(0.000646)	(R)
Other	(0.000646)	(R)

### **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 \_\_\_\_\_  
in Case No. \_\_\_\_\_.

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Issued:

Effective: February 29, 2008

Issued by: Sandra P. Meyer, President

**DUKE ENERGY KENTUCKY  
CALCULATION OF RIDER PSM CREDIT FOR MARCH 2008-MAY 2008 BILLING**

Schedule 1

Line No.	Description	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	Total
		Billing Month												
1	Off-System Sales Margin Allocated to Customers from 2007 (Schedule 2, Line 21)													(+) \$ 3,418,249
2	Net Margins on Sales of Emission Allowances (Schedule 4, Line 9)													(+) 1,202,927
3	Prior Period Carryforward (Schedule 3, Line 25)													(+) 1,009,146
4	Total Amount of Credits Owed to Customers													\$ 5,630,322
5	Actual Amount Credited to Customers	197,032	212,566	185,841	151,304	143,204	1,090,582	1,145,315	1,231,272	857,436	705,344	621,977	(291,122)	(-) 6,250,741
6	Net Refund due to (from) Customers													\$ (620,419)
7	Sales (kWh) from FAC Filing October, November and December 2007 (FAC Schedule 3, Line C)													+ 961,050,793
8	Profit Sharing Mechanism Credit Rate (\$/kWh)													(0.000646)

Effective Date for Billing: February 29, 2008

Submitted by: *Juan R. Stembuck*

Title: Lead Rates Analyst

Date Submitted: January 30, 2008

DUKE ENERGY KENTUCKY  
OFF-SYSTEM SALES SCHEDULE  
PERIOD: YEAR TO DATE - DECEMBER 31 2007

Line No.	Description	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	Total
1	Off-System Sales Revenue													
2	Asset Energy	(+) \$1,620,043	\$1,415,755	\$3,554,202	\$0	\$0	\$76,684	\$391,902	\$92,666	\$896,504	\$2,562,794	\$990,630	\$1,393,920	\$12,995,100
3	Non-Asset Energy	(+) 0	0	0	0	0	0	0	0	0	0	0	0	0
4	Bilateral Sales	(+) 843	1,537	1,932	1,274	2,271	2,767	2,435	677	737	4,312	4,878	57	23,720
5	Hedges	(+) 0	27,418	0	0	0	0	(209)	0	(14,606)	1,694	0	0	14,297
6	MISO RSG Make Whole Payments <sup>(a)</sup>	(+) 985,502	782,903	877,382	0	0	9,712	102,797	17,435	371,300	984,583	415,257	714,800	5,261,671
7	Sub-Total Revenues	\$2,606,388	\$2,227,613	\$4,433,516	\$1,274	\$2,271	\$89,163	\$496,925	\$110,778	\$1,253,935	\$3,553,383	\$1,410,765	\$2,108,777	\$18,294,788
8	Variable Costs Allocable to Off-System Sales													
9	Bilateral Purchases	(+) \$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
10	Non-Native Fuel Cost <sup>(a)</sup>	(+) 1,662,873	1,599,521	2,242,823	0	0	71,482	410,002	85,850	843,972	1,942,958	891,825	1,092,626	10,843,932
11	Variable O&M Cost	(+) 100,414	63,261	167,236	0	0	6,916	35,406	7,391	64,612	123,459	53,400	76,145	693,240
12	SO <sub>2</sub> Cost	(+) 117,705	82,071	232,871	0	0	7,231	26,168	9,296	70,240	175,593	66,794	87,572	875,541
13	NO <sub>x</sub> Cost	(+) 0	0	0	0	0	127	828	191	8,819	0	0	0	9,965
14	MISO and Other Costs	(+) 4,900	2,297	4,472	2	1	407	1,665	(16)	2,328	6,133	2,705	5,719	30,613
15	Sub-Total Expenses	\$1,885,892	\$1,747,150	\$2,647,402	\$2	\$1	\$86,163	\$474,069	\$102,712	\$989,971	\$2,248,143	\$1,014,724	\$1,262,062	\$12,459,291
16	Off-System Sales Margin (Line 7 - Line 15)	\$720,496	\$480,463	\$1,786,114	\$1,272	\$2,270	\$3,000	\$22,856	\$8,066	\$263,964	\$1,305,240	\$396,041	\$846,715	\$5,836,497
17	Allocated to Customers (up to 100% of first \$1.00 million) <sup>(b)</sup>													1,000,000
18	Sub-Total (Line 16 - Line 17)													\$4,836,497
19	Percentage Allocated to Customers (50% of margins > \$1.00 million) <sup>(b)</sup>													50.00%
20	Remainder of Off-System Sales Margin Allocated to Customers (Line 18 x Line 19)													2,418,249
21	Off-System Sales Margin Allocated to Customers (Line 17 + Line 20)													\$3,418,249

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

<sup>(b)</sup> 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, 2006**

Line No.	Description	Total
1	<b>Off-System Sales Revenue</b>	
2	Asset Energy	(+) \$22,982,632
3	Non-Asset Energy	(+) (25,880)
4	Bilateral Sales	(+) 47,808
5	Hedges	(+) 7,376
6	MISO RSG Make Whole Payments	(+) <u>2,136,158</u>
7	Sub-Total Revenues	<u>\$25,148,094</u>
8	<b>Variable Costs Allocable to Off-System Sales</b>	
9	Bilateral Purchases	(+) 3,826
10	Fuel Cost	(+) 15,522,250
11	Variable O&M Cost	(+) 1,261,949
12	SO <sub>2</sub> Cost	(+) 4,408,093
13	NO <sub>x</sub> Cost	(+) 172,898
14	MISO Costs	(+) <u>50,719</u>
15	Sub-Total Expenses	<u>\$21,419,735</u>
16	Total Off-System Sales Margin (Line 6 - Line 13)	(+) \$3,728,359
17	Allocated to Customers (guaranteed 100% of first \$1.45 million) <sup>(a)</sup>	(-) <u>1,450,000</u>
18	Sub-Total	(+) \$2,278,359
19	Allocated to Duke Energy Kentucky (100% of next \$400,000) <sup>(a)</sup>	(-) <u>400,000</u>
20	Sub-Total (2006 Sharing of Margins on Off-System Sales)	\$1,878,359
21	Percentage Allocated to Customers (50% of margins > \$1.85 million) <sup>(a)</sup>	50.00%
22	Remainder Allocated to Customers (Line 20 x Line 21)	<u>\$939,180</u>
23	Total Allocated to Customers (Line 17 + Line 22)	(+) \$2,389,180
24	Amount Credited to Customers in 2006	(-) <u>1,380,034</u>
25	Remaining PSM Credit Due to Customers at 12/31/06 <sup>(b)</sup>	<u>\$1,009,146</u>

Note: <sup>(a)</sup> Per provisions included in the Commission's Order November 29, 2005, in Case No. 2005-00228.

DUKE ENERGY KENTUCKY  
EMISSION ALLOWANCE SALES MARGIN  
PERIOD: YEAR TO DATE - DECEMBER 31, 2007

Line No.	Description	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	Total
1	SO2 Sales Margin													
2	Proceeds	(+)	\$0	\$1,209,989	\$0	\$180,548	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$1,390,537
3	Cost of Sale	(-)	0	846,078	0	0	0	0	0	0	0	0	0	846,078
4	Margin	0	0	363,911	0	180,548	0	0	0	0	0	0	0	544,459
5	NOx Sales Margin													
6	Proceeds	(+)	\$0	\$555,800	\$490,250	\$0	\$0	\$0	\$134,999	\$0	\$0	\$57,600	\$0	\$1,238,649
7	Cost of Sale	(-)	0	483,303	22,319	0	0	0	(1)	0	0	74,560	0	580,181
8	Margin	0	0	72,497	467,931	0	0	0	135,000	0	0	(16,960)	0	658,468
9	Total EA Sales Margin (Line 4 + Line 8)	0	0	436,408	467,931	180,548	0	0	135,000	0	0	(16,960)	0	1,202,927