Duke Energy®

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Dianne B. Kuhnell
Senior Paralegal

VIA OVERNIGHT DELIVERY

August 14, 2009

Mr. Jeff Derouen
Executive Director
Kentucky Public Service Commission
211 Sower Blvd
Frankfort, KY 40601

Re: Case No. 2008-00495

Dear Mr. Derouen:

Enclosed please find an original and twelve copies each of *Motion to Amend and Substitute Testimony of Donald L. Storck* and *Direct Testimony of Donald L. Storck* to be filed in the above captioned case.

Please date-stamp the extra two copies of each filing and return to me in the enclosed envelope.

Sincerely,

Dianne Kuhnell

Dianne B. Kuhnell
Senior Paralegal

cc: Parties of Record

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of the Application of Duke Energy Kentucky, Inc. For Approval of Energy Efficiency Plan, Including an Energy Efficiency Rider and Portfolio of Energy Efficiency Programs	))))	Case No. 2008-00495

MOTION TO AMEND AND SUBSTITUTE TESTIMONY OF DONALD L. STORCK

Duke Energy Kentucky, Inc. (Duke Energy Kentucky or Company) moves the Commission for leave to substitute and file instanter the Direct Testimony of Donald L. Storck in place of the Direct Testimony of Paul G. Smith. Mr. Smith's testimony was submitted on December 1, 2008 and since that time he has taken another position within the Company and outside of the Rates department. Mr. Storck is currently the Director of Rates Services for Duke Energy Ohio and Kentucky. Through his testimony, Mr. Storck will adopt the testimony of Mr. Smith, correct errors in Mr. Smith's testimony and attachments. Mr. Storck will testify in place of Mr. Smith at the hearing of this matter.

This substitute testimony includes four attachments, DLS-1, DLS-2, DLS-3 and DLS-4. DLS-1 corrects typographical errors recently discovered in Attachment PGS-1 and shows the corrections in a tracked form. DLS-2 is simply a "clean version" of the DLS-1. DLS-3 is a proposed gas tariff for the new energy efficiency rider as discussed in Mr. Smith's Direct Testimony that was inadvertently omitted in the initial filing. DLS-4 is

simply a complete copy of Mr. Smith's testimony as originally filed and as adopted my Mr. Storck.

In the interests of efficiency, full disclosure, and expediting the forthcoming hearing, Duke Energy Kentucky is providing intervening parties advance notice of Mr. Storck's substitution. Pre-filing Mr. Storck's testimony allows intervening Parties have his background information available for cross-examination prior to the hearing.

In addition the pre-filing provides the Parties with advance notification of the corrections Mr. Storck will make to the Attachment PGS-1 to correct typographical errors and correct an omission error regarding the gas tariff inadvertently omitted from the initial filing. Mr. Smith's direct testimony discusses the natural gas allocation of programs in the Company's energy efficiency plan. However, the tariff in PGS-1 did not include the natural gas allocation calculation. Mr. Storck;'s attachment DLS-3 provides this calculation.

Wherefore, Duke Energy Kentucky respectfully requests that it be granted leave to file and substitute Donald L. Stock's testimony for the December 1, 2008 pre-filed testimony of Paul G. Smith, and to substitute the amended pages in Attachment DLS-1, DLS-2 and DLS-3 for the tendered Attachment PGS-1 in the previously filed testimony of Mr. Smith. Mr. Storck's testimony is being served upon all parties of record to the proceeding in order to expedite any cross-examination of the witness at the scheduled hearing.

Respectfully submitted,

DUKE ENERGY KENTUCKY, INC.

Rocco O. D'Ascenzo (92796)
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Amy B. Spiller (85309)
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CERTIFICATE OF SERVICE

The undersigned hereby certifies that a copy of Duke Energy Kentucky, Inc.'s Motion to Amend Testimony of Donald L. Storck was served on the following by overnight mail, this 14th day of August 2009.

Dennis G. Howard II
Paul Adams
Assistant Attorneys General
1024 Capital Center Drive, Suite 200
Frankfort, Kentucky 40601-8204

Michael L. Kurtz, Esq,
Kurt J. Boehm, Esq
BOEHM, KURTZ & LOWRY
36 East Seventh Street, Suite 1510
Cincinnati, Ohio 45202

Rocco D'Ascenzo

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of the Application of Duke Energy Kentucky, Inc. For Approval of Energy Efficiency Plan, Including an Energy Efficiency Rider and Portfolio of Energy Efficiency Programs	)))))	Case No. 2008-00495

DIRECT TESTIMONY OF

DONALD L. STORCK

ON BEHALF OF

DUKE ENERGY KENTUCKY, INC.

August 17, 2009

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I. INTRODUCTION AND PURPOSE

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Donald L. Storck. My business address is 139 East Fourth Street, Cincinnati, Ohio 45202.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by Duke Energy Business Services, Inc., an affiliate service company of Duke Energy Kentucky, Inc. (Duke Energy Kentucky or the Company), as a Director, Rates Services.

Q. PLEASE SUMMARIZE YOUR EDUCATION.

A. I have a Bachelor of Science Degree in Accounting from Ball State University. I completed an executive education program at the University of Michigan.

Q. PLEASE SUMMARIZE YOUR WORK EXPERIENCE.

A. I began my employment with PSI Energy, Inc. (PSI), in 1976, as a Staff Accountant in the Corporate Accounting Department. From 1976 through 1994, I held several financial positions at PSI and at various times was responsible for Corporate Accounting, Cash Management, and Corporate Budgeting and auditing of long-term fuel supply contracts. Following the 1994 merger between PSI and The Cincinnati Gas & Electric Company to form Cinergy Corp. (Cinergy), I held positions with the Cinergy affiliated companies, supporting the Gas Business Unit and Cinergy Resources, Inc., a non-regulated retail gas marketing company.

I became the Financial Reporting Manager for Cinergy's Regulated Business Unit from 1999 until April 2006. I was promoted to my current position in April 2006.

Q. PLEASE DESCRIBE YOUR DUTIES AS DIRECTOR, RATE SERVICES.

A. My responsibilities include developing cost-of-service studies and tariff administration.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE KENTUCKY PUBLIC SERVICE COMMISSION?

A. No.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to adopt the testimony of Paul G. Smith filed in this case on December 1, 2008, which explains Duke Energy Kentucky's proposed rate-making treatment related to its Energy Efficiency Plan. I also support corrections to Attachment PGS-1, proposed energy efficiency rider ("Rider SAW" or the "Rider"), which is attached hereto as Attachment DLS-1 and DLS-2. I support the mechanics and calculations that are incorporated within the Rider. This revision corrects typographical errors recently discovered. I also sponsor Attachment DLS-3, which is a copy of the Rider SAW tariff showing the gas calculation. Finally, my testimony in this proceeding will incorporate Mr. Smith's filed testimony attached hereto as Attachment DLS-4.

II. DISCUSSION

Q. HAVE YOU REVIEWED THE DIRECT TESTIMONY OF PAUL G.

SMITH, INCLUDING ATTACHMENTS THAT WAS FILED IN THIS PROCEEDING?

A. Yes.

Q. DO YOU AGREE WITH MR. SMITH'S TESTIMONY INCLUDING ATTACHMENTS?

A. I do, with the exception of PGS-1, which I have revised and attached as Attachment DLS-1 to my testimony.

Q. DO YOU ADOPT MR. SMITH'S TESTIMONY, INCLUDING ATTACHMENTS AS YOUR OWN FOR THIS PROCEEDING?

A. Yes, with the exception of PGS-1.

Q. PLEASE EXPLAIN ATTACHMENT DLS-1.

A. DLS-1 is a revision to PGS-1 to correct typographical errors. Upon reviewing Mr. Smith's testimony, I discovered that Attachment PGS-1 was a draft version of the Company's proposed Rider SAW based upon the Ohio tariff. When Duke Energy Kentucky filed its Application and testimony, the Company inadvertently included the draft tariff that still had references to the Ohio tariff, rather than the final Kentucky tariff. Duke Energy Kentucky apologizes for any confusion this has caused. DLS-1 is a redlined version of PGS-1 showing the corrections, which remove the references to Ohio and market prices. A clean version of the proposed Rider SAW for Duke Energy Kentucky is attached as DLS-2. None of the corrections I have made affect the calculation of the rider as initially proposed in Mr. Smith's testimony.

Q. PLEASE BRIEFLY DESCRIBE THE NATURE OF THE CORRECTIONS MADE IN ATTACHMENT DLS-1.

A. As I just mentioned the errors are typographical in nature. First, in the Applicability section, as initially filed, the rate schedules that the Rider SAW will be applied to is incomplete. Rider SAW will apply to the same rate schedules that the current Rider DSMR does. Second, the Applicability section as initially filed also states that "[a] non-residential customer, whose total aggregate load in the Company's certified service territory exceeds 25 MW, may opt out of the tariff." This inclusion was an error and reflects the status of opt out negotiations at the time of filing in another jurisdiction. In Kentucky, industrial customers with an energy intensive process may opt out of utility sponsored energy efficiency. Duke Energy Kentucky intends to abide by that statute and that its tariff comply with it as well. DLS-1 corrects this error by incorporating the language from Kentucky Revised Statute 278.285(4).

There are five deletions and one correction that should be made to the "Charges" section of the tariff. First, in the definition of "S" in the formula, the reference to Ohio should be replaced with Kentucky. Also, there are four instances where the tariff refers to "Market-Based" rates. The reference to market-based should be deleted. That is a carryover from the Ohio tariff where rates are market-based. In addition, the definition of LMR should be clarified to also exclude variable O&M. Finally, in the Demand ratchet section, Rate TT should be added.

Q. PLEASE DESCRIBE DLS-2.

A. DLS-2 is a clean version of DLS-1.

Q. PLEASE DESCRIBE DLS-3

A. DLS-3 is a copy of the proposed gas tariff sheet for Duke Energy Kentucky. In his direct testimony, Mr. Smith describes how gas customers will be allocated a portion of costs for energy efficiency programs that provide gas benefits. Although Duke Energy Kentucky supported this allocation in testimony, the Company inadvertently did not include a copy of the proposed gas tariff. Attachment DLS-3 is simply a copy of the Rider SAW tariff calculation as it pertains to natural gas customer allocations. The Company recently discovered the fact that the gas tariff was not included in Mr. Smith's initial testimony.

Q. PLEASE DESCRIBT DLS-4.

A. DLS-4 is simply a copy of the pre-filed testimony of Paul G. Smith which I am adopting for this proceeding.

Q. WERE ATTACHMENTS DLS-1, DLS-2 AND DLS-3 PREPARED BY YOU OR UNDER YOUR DIRECTION AND SUPERVISION?

A. Yes.

Q. IS ATTACHMENT DLS-4 A TRUE AND ACCURATE COPY OF THE DIRECT TESTIMONY OF PAUL G. SMITH AS FILED IN THIS PROCEEDING?

A. Yes.

III. CONCLUSION

Q. DOES THIS CONCLUDE YOUR PRE-FILED DIRECT TESTIMONY?

A. Yes.

VERIFICATION

State of Ohio)
) SS:
County of Hamilton)

The undersigned, Donald L. Storck, being duly sworn, deposes and says that he has personal knowledge of the matters set forth in the foregoing testimony, and that the answers contained therein are true and correct to the best of his knowledge, information and belief.

Donald L. Storck, Affiant

Subscribed and sworn to before me by Donald L. Storck on this 12th day of August, 2009.

NOTARY PUBLIC

My Commission Expires:

ANITA M. SCHAFER
Notary Public, State of Ohio
My Commission Expires
November 4, 2009

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

KY.P.S.C. Electric No. 2
Original Sheet No. 83
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RIDER SAW

ENERGY EFFICIENCY RIDER

APPLICABILITY

Applicable to service rendered under the provisions of Rate RS, DS, DT, EH, SP, GS-FL, DP and ~~Rate~~ TT. Industrial customers, with an energy intensive load, located in the Company's certified service territory, may opt of the tariff. ~~A non-residential customer, whose total aggregate load in the Company's certified service territory exceeds 25 MW, may opt out of the tariff.~~ The customer must provide written notification which will list all of their accounts to be "opted-out" of this tariff. Customers electing to opt-out of the program will not be credited for any periods previously billed. The written notification can be e-mailed to the Business Service Center at BSCteam@duke-energy.com or sent to Business Service Center c/o Duke Energy, P.O. Box 960, Suite EY575, Cincinnati, OH 45202. (C) (D)

If the customer later decides to participate in an energy efficiency program, they must pay the Rider DR-SAW for the entire period they "opted-out" of.

CHARGES

The monthly amount computed under each of the rate schedules to which this rider is applicable shall be increased or decreased by the energy Rider SAW Charge at a rate per kilowatt-hour of monthly consumption and, where applicable, a rate per kilowatt of monthly billing demand, in accordance with the following formula:

$$\text{Rider SAW (residential)} = \frac{\text{ACDRC + ACCOE + ACCOC + LM + TUA, as assigned to the residential class of customers}}{S_{residential}}$$

$$\text{Rider SAW (nonresidential)} = \frac{\text{ACDRC + ACCOE + ACCOC + LM + TUA, as assigned to the nonresidential class of customers}}{S_{nonresidential}}$$

Where,

Rider SAW = Energy Efficiency Adjustment Amount
ACDRC = Avoided Cost of Capacity for Demand Response Revenue Requirement
ACCOE = Avoided Cost of Energy for Conservation Revenue Requirement
ACCOC = Avoided Cost of Capacity for Conservation Revenue Requirement
LM = Lost Margins
TUA = True-up Adjustment to be included in the fourth year of the rider only
S = Projected kWh Sales for the Rider Period for the class (residential or nonresidential) of ~~Ohio~~ Kentucky retail customers, excluding the sales of those customers that opt out of the Rider. (T)

Rider SAW is calculated for a 12 month period, referred to as the Rider Period.
Rider SAW will be grossed-up for applicable revenue related taxes.

ACDRC = PDRC x ACC x X%

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

CHARGES (Cont'd)

Where,
PDRC = Projected Demand impacts for the measure/program for the vintage applicable to the Rider Period
ACC = Annual Avoided Capacity ~~Market-Based~~ Rate, in $/year for the year of the Rider Period (D)
X% = Percentage of avoided costs for demand response to be collected through the rider

ACCOE = (NPV at the after-tax weighted average cost of capital of (PCOE x ACE) for each year for the life of the measure/program) x Y%

Where,
PCOE = Projected Energy impacts for the measure/program by year for the life of the measure/program for the vintage applicable to the Rider Period
ACE = Marginal energy cost rate by year for the life of the measure/program from the IRP analysis
Y% = Percentage of avoided costs for conservation to be collected through the rider

ACCOC = (NPV at the after-tax weighted average cost of capital of (PCOC x ACC) for each year for the life of the measure/program) x Y%

Where,
PCOC = Projected Demand impacts for the measure/program by year for the life of the measure/program for the vintage applicable to the Rider Period
ACC = Annual Avoided Capacity ~~Market-Based~~ Rate, in $/year by year for the life of the measure/program (D)
Y% = Percentage of avoided costs for conservation to be collected through the rider

LM = PLME x LMR
Where,
PLME = Projected Energy impacts for all measures/programs for the vintage applicable to the Rider Period
LMR = Average Retail tail block $/kWh excluding fuel and variable O&M (T)

In the fifth Rider Period, a true-up amount will be included in the Rider SAW rate as follows:

TUA = ACT + LMT + ECT

Where,
ACT = Avoided Cost True-up
LMT = Lost Margins True-up
ECT = Earnings Cap True-up

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

CHARGES (Cont'd)

ACT = ADRCT + ACOET + ACOCT

Where,
ADRCT = Avoided Demand Response Capacity True-up
ACOET = Avoided Conservation Energy True-up
ACOCT = Avoided Conservation Capacity True-up

ADRCT = (Year 1((ADRC – PDRC) x ACC) + Year 2((ADRC – PDRC) x ACC) + Year 3((ADRC – PDRC) x ACC) + Year 4((ADRC – PDRC) x ACC)) x X%

Where,
ADRC = Actual Demand impacts for the measure/program for each vintage year
PDRC = Projected Demand impacts for the measure/program for each vintage year as used in the Rider SAW calculation for each year
ACC = Annual Avoided Capacity ~~Market Based~~ Rate, in $/year for the each vintage year as used in the Rider SAW calculation each year (D)
X% = Percentage of avoided costs for demand response collected through the rider

ACOET = (NPV at the after-tax weighted average cost of capital of (Year 1((ACOE – PCOE) x ACE) for each year for the life of the measure/program) + (NPV at the after-tax weighted average cost of capital of (Year 2((ACOE – PCOE) x ACE) for each year for the life of the measure/program) + (NPV at the after-tax weighted average cost of capital of (Year 3((ACOE – PCOE) x ACE) for each year for the life of the measure/program + (NPV at the after-tax weighted average cost of capital of (Year 4((ACOE – PCOE) x ACE) for each year for the life of the measure/program) x Y%

Where,
ACOE = Actual Energy impacts for the measure/program by year for the life of the measure/program for years 1-4 and projected Energy impacts for the measure/program for the remaining years of the life of the measure/program by vintage year
PCOE = Projected Energy impacts for the measure/program by year for the life of the measure/program for each vintage as used in the Rider SAW calculation each year
ACE = Marginal energy cost rate by year for the life of the measure/program from the IRP analysis as used in the Rider SAW calculation each year
Y% = Percentage of avoided costs for conservation collected through the rider

ACOCT = (NPV at the after-tax weighted average cost of capital of (Year 1((ACOC – PCOC) x ACC) for each year for the life of the measure/program) + (NPV at the after-tax weighted average cost of capital of (Year 2((ACOC – PCOC) x ACC) for each year for the life of the measure/program) + (NPV at the after-tax weighted average cost of capital of (Year 3((ACOC – PCOC) x ACC) for each year for the life of the measure/program) + (NPV at the after-tax weighted average cost of capital of (Year 4((ACOC – PCOC) x ACC) for each year for the life of the measure/program) x Y%

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CHARGES (Cont'd)

Where,

ACOC = Actual Demand impacts for the measure/program by year for the life of the measure/program for years 1-4 and projected Demand impacts for the measure/program for the remaining years in the life of the measure/program by vintage year

PCOC = Projected Demand impacts for the measure/program by year for the life of the measure/program for the vintage as used in the Rider SAW calculation each year

ACC = Annual Avoided Capacity ~~Market-Based~~ Rate, in $/year by year for the life of the measure/program as used in the Rider SAW calculation each year (D)

Y% = Percentage of avoided costs for conservation to be collected through the rider

LMT = Year 1(ALME – PLME) x LMR + Year 2(ALME – PLME) x LMR + Year 3(ALME – PLME) + Year 4(ALME – PLME) x LMR

Where,

ALME = Actual Energy impacts for all measures/programs for the vintage

PLME = Projected Energy impacts for all measures/programs for the vintage as used in the Rider SAW calculation each year

LMR = Average Retail tail block $/kWh excluding fuel and variable O&M, as used in the Rider SAW calculation each year (T)

ECT = NIC minus (Greater of NIC or CNI) grossed-up for applicable income and revenue related taxes

Where,

NIC = Net Income Cap

CNI = Calculated Net Income

NIC = PTCP x APC

Where,

PTCP = Performance Target Cap Percentage

APC = Actual Program Costs for the Years 1-4

PTCP is derived from the following table:

Percentage Actual Target Achievement	ROI Cap on Program Costs Percentage
>=90%	15%
80% to 89%	12%
60% to 79%	9%
< 60%	5%

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Newport, Kentucky 41071

CHARGES (Cont'd)

PATA = AACS / TACS

Where,
AACS = Actual Avoided Cost Savings
TACS = Targeted Avoided Cost Savings

AACS = (Sum of Years 1-4 (ACDRC + ACCOE + ACCOC)) + ACT

CNI = AACS grossed-up for applicable revenue related taxes – Sum Years 1-4 APC – RRT – IT

Where,
RRT = Revenue related taxes calculated as the appropriate revenue related tax rate x AACS
IT = Income taxes calculated as the appropriate composite income tax rate x (AACS – Sum Years 1-4 APC – RRT)

HOME ENERGY ASSISTANCE PROGRAM

A Home Energy Assistance Program charge of $0.10 will be applied monthly to residential customer bills through September 2011.

DEMAND RATCHETS

Customer served under the provisions of Rate DS, DP or Rate ~~DP-TT~~ TT may be eligible to have their billing demand re-determined in recognition of a permanent change in load due to the installation of load control equipment or other measures taken by the customer to permanently reduce the customer's demand. (T)

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 Company's Service Regulations currently in effect, as filed with the Kentucky Public Service Commission, as provided by law.

RIDER SAW

ENERGY EFFICIENCY RIDER

APPLICABILITY

Applicable to service rendered under the provisions of Rate RS, DS, DT, EH, SP, GS-FL, DP and TT. Industrial customers, with an energy intensive load, located in the Company's certified service territory, may opt of the tariff. The customer must provide written notification which will list all of their accounts to be "opted-out" of this tariff. Customers electing to opt-out of the program will not be credited for any periods previously billed. The written notification can be e-mailed to the Business Service Center at BSCteam@duke-energy.com or sent to Business Service Center c/o Duke Energy, P.O. Box 960, Suite EY575, Cincinnati, OH 45202.

If the customer later decides to participate in an energy efficiency program, they must pay the Rider DR-SAW for the entire period they "opted-out" of.

CHARGES

The monthly amount computed under each of the rate schedules to which this rider is applicable shall be increased or decreased by the energy Rider SAW Charge at a rate per kilowatt-hour of monthly consumption and, where applicable, a rate per kilowatt of monthly billing demand, in accordance with the following formula:

Rider SAW (residential) =

$$\frac{\text{ACDRC + ACCOE + ACCOC + LM + TUA, as assigned to the residential class of customers}}{S_{residential}}$$

Rider SAW (nonresidential) =

$$\frac{\text{ACDRC + ACCOE + ACCOC + LM + TUA, as assigned to the nonresidential class of customers}}{S_{nonresidential}}$$

Where,

Rider SAW = Energy Efficiency Adjustment Amount
ACDRC = Avoided Cost of Capacity for Demand Response Revenue Requirement
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ACCOC = Avoided Cost of Capacity for Conservation Revenue Requirement
LM = Lost Margins
TUA = True-up Adjustment to be included in the fourth year of the rider only
S = Projected kWh Sales for the Rider Period for the class (residential or nonresidential) of Kentucky retail customers, excluding the sales of those customers that opt out of the Rider.

Rider SAW is calculated for a 12 month period, referred to as the Rider Period.
Rider SAW will be grossed-up for applicable revenue related taxes.

ACDRC = PDRC x ACC x X%

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Issued: Effective:

Issued by Julie Janson, President

CHARGES (Cont'd)

Where,
PDRC = Projected Demand impacts for the measure/program for the vintage applicable to the Rider Period
ACC = Annual Avoided Capacity Rate, in $/year for the year of the Rider Period
X% = Percentage of avoided costs for demand response to be collected through the rider

ACCOE = (NPV at the after-tax weighted average cost of capital of (PCOE x ACE) for each year for the life of the measure/program) x Y%

Where,
PCOE = Projected Energy impacts for the measure/program by year for the life of the measure/program for the vintage applicable to the Rider Period
ACE = Marginal energy cost rate by year for the life of the measure/program from the IRP analysis
Y% = Percentage of avoided costs for conservation to be collected through the rider

ACCOC = (NPV at the after-tax weighted average cost of capital of (PCOC x ACC) for each year for the life of the measure/program) x Y%

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PCOC = Projected Demand impacts for the measure/program by year for the life of the measure/program for the vintage applicable to the Rider Period
ACC = Annual Avoided Capacity Rate, in $/year by year for the life of the measure/program
Y% = Percentage of avoided costs for conservation to be collected through the rider

LM = PLME x LMR
Where,
PLME = Projected Energy impacts for all measures/programs for the vintage applicable to the Rider Period
LMR = Average Retail tail block $/kWh excluding fuel and variable O&M

In the fifth Rider Period, a true-up amount will be included in the Rider SAW rate as follows:

TUA = ACT + LMT + ECT

Where,
ACT = Avoided Cost True-up
LMT = Lost Margins True-up
ECT = Earnings Cap True-up

CHARGES (Cont'd)

ACT = ADRCT + ACOET + ACOCT

Where,
ADRCT = Avoided Demand Response Capacity True-up
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ACOCT = Avoided Conservation Capacity True-up

ADRCT = (Year 1((ADRC – PDRC) x ACC) + Year 2((ADRC – PDRC) x ACC) + Year 3((ADRC – PDRC) x ACC) + Year 4((ADRC – PDRC) x ACC)) x X%

Where,
ADRC = Actual Demand impacts for the measure/program for each vintage year
PDRC = Projected Demand impacts for the measure/program for each vintage year as used in the Rider SAW calculation for each year
ACC = Annual Avoided Capacity Rate, in $/year for the each vintage year as used in the Rider SAW calculation each year
X% = Percentage of avoided costs for demand response collected through the rider

ACOET = (NPV at the after-tax weighted average cost of capital of (Year 1((ACOE – PCOE) x ACE) for each year for the life of the measure/program) + (NPV at the after-tax weighted average cost of capital of (Year 2((ACOE – PCOE) x ACE) for each year for the life of the measure/program) + (NPV at the after-tax weighted average cost of capital of (Year 3((ACOE – PCOE) x ACE) for each year for the life of the measure/program + (NPV at the after-tax weighted average cost of capital of (Year 4((ACOE – PCOE) x ACE) for each year for the life of the measure/program) x Y%

Where,
ACOE = Actual Energy impacts for the measure/program by year for the life of the measure/program for years 1-4 and projected Energy impacts for the measure/program for the remaining years of the life of the measure/program by vintage year
PCOE = Projected Energy impacts for the measure/program by year for the life of the measure/program for each vintage as used in the Rider SAW calculation each year
ACE = Marginal energy cost rate by year for the life of the measure/program from the IRP analysis as used in the Rider SAW calculation each year
Y% = Percentage of avoided costs for conservation collected through the rider

ACOCT = (NPV at the after-tax weighted average cost of capital of (Year 1((ACOC – PCOC) x ACC) for each year for the life of the measure/program) + (NPV at the after-tax weighted average cost of capital of (Year 2((ACOC – PCOC) x ACC) for each year for the life of the measure/program) + (NPV at the after-tax weighted average cost of capital of (Year 3((ACOC – PCOC) x ACC) for each year for the life of the measure/program) + (NPV at the after-tax weighted average cost of capital of (Year 4((ACOC – PCOC) x ACC) for each year for the life of the measure/program) x Y%

Issued by authority of an Order of the Kentucky Public Service Commission dated _____ in Case No. _____

CHARGES (Cont'd)

Where,

ACOC = Actual Demand impacts for the measure/program by year for the life of the measure/program for years 1-4 and projected Demand impacts for the measure/program for the remaining years in the life of the measure/program by vintage year

PCOC = Projected Demand impacts for the measure/program by year for the life of the measure/program for the vintage as used in the Rider SAW calculation each year

ACC = Annual Avoided Capacity Rate, in $/year by year for the life of the measure/program as used in the Rider SAW calculation each year

Y% = Percentage of avoided costs for conservation to be collected through the rider

LMT = Year 1(ALME – PLME) x LMR + Year 2(ALME – PLME) x LMR + Year 3(ALME – PLME) + Year 4(ALME – PLME) x LMR

Where,

ALME = Actual Energy impacts for all measures/programs for the vintage

PLME = Projected Energy impacts for all measures/programs for the vintage as used in the Rider SAW calculation each year

LMR = Average Retail tail block $/kWh excluding fuel and variable O&M, as used in the Rider SAW calculation each year

ECT = NIC minus (Greater of NIC or CNI) grossed-up for applicable income and revenue related taxes

Where,

NIC = Net Income Cap

CNI = Calculated Net Income

NIC = PTCP x APC

Where,

PTCP = Performance Target Cap Percentage

APC = Actual Program Costs for the Years 1-4

PTCP is derived from the following table:

Percentage Actual Target Achievement	ROI Cap on Program Costs Percentage
>=90%	15%
80% to 89%	12%
60% to 79%	9%
< 60%	5%

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CHARGES (Cont'd)

PATA = AACS / TACS

Where,
AACS = Actual Avoided Cost Savings
TACS = Targeted Avoided Cost Savings

AACS = (Sum of Years 1-4 (ACDRC + ACCOE + ACCOC)) + ACT

CNI = AACS grossed-up for applicable revenue related taxes – Sum Years 1-4 APC – RRT – IT

Where,
RRT = Revenue related taxes calculated as the appropriate revenue related tax rate x AACS
IT = Income taxes calculated as the appropriate composite income tax rate x (AACS – Sum Years 1-4 APC – RRT)

HOME ENERGY ASSISTANCE PROGRAM

A Home Energy Assistance Program charge of $0.10 will be applied monthly to residential customer bills through September 2011.

DEMAND RATCHETS

Customer served under the provisions of Rate DS, DP or Rate TT may be eligible to have their billing demand re-determined in recognition of a permanent change in load due to the installation of load control equipment or other measures taken by the customer to permanently reduce the customer's demand.

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 Company's Service Regulations currently in effect, as filed with the Kentucky Public Service Commission, as provided by law.

RIDER SAW

ENERGY EFFICIENCY RIDER

APPLICABILITY

Applicable to service rendered under the provisions of Rate RS.

CHARGES

The proportionate gas share of the SAW programs that benefit gas and electric residential customers shall increase or decrease the Rider SAW Charge at a rate per hundred cubic feet (CCF) of monthly consumption. The SAW formula is as follows:

Rider SAW (residential) =

$$\frac{\text{ACDRC + ACCOE + ACCOC + LM + TUA, as assigned to the residential class of customers}}{S_{residential}}$$

Where,

Rider SAW = Energy Efficiency Adjustment Amount
ACDRC = Avoided Cost of Capacity for Demand Response Revenue Requirement
ACCOE = Avoided Cost of Energy for Conservation Revenue Requirement
ACCOC = Avoided Cost of Capacity for Conservation Revenue Requirement
LM = Lost Margins
TUA = True-up Adjustment to be included in the fourth year of the rider only
S = Projected CCF Sales for the Rider Period for the residential class of Kentucky retail customers

Rider SAW is calculated for a 12 month period, referred to as the Rider Period.
Rider SAW will be grossed-up for applicable revenue related taxes.

ACDRC = PDRC x ACC x X%

Where,

PDRC = Projected Demand impacts for the measure/program for the vintage applicable to the Rider Period
ACC = Annual Avoided Capacity Rate, in $/year for the year of the Rider Period
X% = Percentage of avoided costs for demand response to be collected through the rider

CHARGES (Cont'd)

ACCOE = (NPV at the after-tax weighted average cost of capital of (PCOE x ACE) for each year for the life of the measure/program) x Y%

Where,

PCOE = Projected Energy impacts for the measure/program by year for the life of the measure/program for the vintage applicable to the Rider Period

ACE = Marginal energy cost rate by year for the life of the measure/program from the IRP analysis

Y% = Percentage of avoided costs for conservation to be collected through the rider

ACCOC = (NPV at the after-tax weighted average cost of capital of (PCOC x ACC) for each year for the life of the measure/program) x Y%

Where,

PCOC = Projected Demand impacts for the measure/program by year for the life of the measure/program for the vintage applicable to the Rider Period

ACC = Annual Avoided Capacity Rate, in $/year by year for the life of the measure/program

Y% = Percentage of avoided costs for conservation to be collected through the rider

LM = PLME x LMR

Where,

PLME = Projected Energy impacts for all measures/programs for the vintage applicable to the Rider Period

LMR = Average Retail tail block $/kWh excluding fuel and variable O&M.

In the fifth Rider Period, a true-up amount will be included in the Rider SAW rate as follows:

TUA = ACT + LMT + ECT

Where,

ACT = Avoided Cost True-up

LMT = Lost Margins True-up

ECT = Earnings Cap True-up

ACT = ADRCT + ACOET + ACOCT

Where,

ADRCT = Avoided Demand Response Capacity True-up

ACOET = Avoided Conservation Energy True-up

ACOCT = Avoided Conservation Capacity True-up

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CHARGES (Cont'd)

ADRCT = (Year 1((ADRC – PDRC) x ACC) + Year 2((ADRC – PDRC) x ACC) + Year 3((ADRC – PDRC) x ACC) + Year 4((ADRC – PDRC) x ACC)) x X%

Where,

ADRC = Actual Demand impacts for the measure/program for each vintage year
PDRC = Projected Demand impacts for the measure/program for each vintage year as used in the Rider SAW calculation for each year
ACC = Annual Avoided Capacity Rate, in $/year for the each vintage year as used in the Rider SAW calculation each year
X% = Percentage of avoided costs for demand response collected through the rider

ACOET = (NPV at the after-tax weighted average cost of capital of (Year 1((ACOE – PCOE) x ACE) for each year for the life of the measure/program) + (NPV at the after-tax weighted average cost of capital of (Year 2((ACOE – PCOE) x ACE) for each year for the life of the measure/program) + (NPV at the after-tax weighted average cost of capital of (Year 3((ACOE – PCOE) x ACE) for each year for the life of the measure/program + (NPV at the after-tax weighted average cost of capital of (Year 4((ACOE – PCOE) x ACE) for each year for the life of the measure/program) x Y%

Where,

ACOE = Actual Energy impacts for the measure/program by year for the life of the measure/program for years 1-4 and projected Energy impacts for the measure/program for the remaining years of the life of the measure/program by vintage year
PCOE = Projected Energy impacts for the measure/program by year for the life of the measure/program for each vintage as used in the Rider SAW calculation each year
ACE = Marginal energy cost rate by year for the life of the measure/program from the IRP analysis as used in the Rider SAW calculation each year
Y% = Percentage of avoided costs for conservation collected through the rider

ACOCT = (NPV at the after-tax weighted average cost of capital of (Year 1((ACOC – PCOC) x ACC) for each year for the life of the measure/program) + (NPV at the after-tax weighted average cost of capital of (Year 2((ACOC – PCOC) x ACC) for each year for the life of the measure/program) + (NPV at the after-tax weighted average cost of capital of (Year 3((ACOC – PCOC) x ACC) for each year for the life of the measure/program) + (NPV at the after-tax weighted average cost of capital of (Year 4((ACOC – PCOC) x ACC) for each year for the life of the measure/program) x Y%

CHARGES (Cont'd)

Where,

ACOC = Actual Demand impacts for the measure/program by year for the life of the measure/program for years 1-4 and projected Demand impacts for the measure/program for the remaining years in the life of the measure/program by vintage year

PCOC = Projected Demand impacts for the measure/program by year for the life of the measure/program for the vintage as used in the Rider SAW calculation each year

ACC = Annual Avoided Capacity Rate, in $/year by year for the life of the measure/program as used in the Rider SAW calculation each year

Y% = Percentage of avoided costs for conservation to be collected through the rider

LMT = Year 1(ALME – PLME) x LMR + Year 2(ALME – PLME) x LMR + Year 3(ALME – PLME) + Year 4(ALME – PLME) x LMR

Where,

ALME = Actual Energy impacts for all measures/programs for the vintage

PLME = Projected Energy impacts for all measures/programs for the vintage as used in the Rider SAW calculation each year

LMR = Average Retail tail block $/kWh excluding fuel and variable O&M, as used in the Rider SAW calculation each year

ECT = NIC minus (Greater of NIC or CNI) grossed-up for applicable income and revenue related taxes

Where,

NIC = Net Income Cap

CNI = Calculated Net Income

NIC = PTCP x APC

Where,

PTCP = Performance Target Cap Percentage

APC = Actual Program Costs for the Years 1-4

PTCP is derived from the following table:

Percentage Actual Target Achievement	ROI Cap on Program Costs Percentage
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Where,
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COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of the Application of Duke Energy Kentucky, Inc. For Approval of Energy Efficiency Plan, Including an Energy Efficiency Rider and Portfolio of Energy Efficiency Programs	)))))	Case No. 2008-

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DIRECT TESTIMONY OF

PAUL G. SMITH

ON BEHALF OF

DUKE ENERGY KENTUCKY, INC.

December 1, 2008

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ATTACHMENTS

I. INTRODUCTION AND PURPOSE

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Paul G. Smith and my business address is 139 East Fourth Street, Cincinnati, Ohio 45202.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by the Duke Energy Corporation ("Duke Energy") affiliated companies as Vice President, Rates – Ohio and Kentucky.

Q. PLEASE SUMMARIZE YOUR EDUCATION AND PROFESSIONAL QUALIFICATIONS.

A. I received a Bachelor of Science in Industrial Management Degree from Purdue University and a Master of Business Administration Degree, with Honors, from the University of Chicago Graduate School of Business. I am a Certified Public Accountant ("CPA") in the State of Ohio and a member of the American Institute of Certified Public Accountants. I am also a member of the Edison Electric Institute's Economic Regulation and Competition, and Budgeting and Financial Forecasting Committees.

Q. PLEASE SUMMARIZE YOUR WORK EXPERIENCE.

A. Upon graduation from Purdue University in 1982, I began my career as a public accountant in the Chicago office of Deloitte and Touche (then Touche, Ross & Co.), and from 1984 to 1987 in the Indianapolis office of Crowe, Chizek & Co. Since 1987, I have held various positions with PSI Energy, Inc., Cinergy Services, Inc., and Duke Energy Business Services, LLC (formerly known as Duke Energy Shared Services, Inc.), including responsibilities in Rates and Regulation, Budgets

and Forecasts, Investor Relations, and Corporate Development as well as the International Business Unit.

Most recently, in 1998 and 1999, I was Distribution Price Control Program Manager at Midlands Electricity, the regional electric company in the United Kingdom of which Cinergy Corp. ("Cinergy") previously held a 50% equity ownership. In 1999, I was named Revenue Requirements Manager with responsibilities related to the implementation of Ohio's electric restructuring legislation. In 2001, I was appointed General Manager, Budgets and Forecasts with responsibility for Cinergy's financial planning and analysis activities, and from March 2005 to March 2006, I was responsible for strategic and financial planning related to the due diligence and integration of the Cinergy/Duke merger. I was appointed to my current position as Vice President, Rates in April 2006.

Q. PLEASE DESCRIBE YOUR DUTIES AS VICE PRESIDENT, RATES.

A. As Vice President, Rates, I am responsible for all state and federal regulated rate matters including revenue requirements, cost of service and rate design for Duke Energy Ohio, Inc. and Duke Energy Kentucky, Inc. ("Duke Energy Kentucky" or the "Company").

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY?

A. Yes. Most recently, I provided testimony in the Kentucky Public Service Commission's Energy Efficiency Administrative Proceeding, Case No. 2007-00477 and in support of Duke Energy Kentucky's electric rate case application in Case No. 2006-00172.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to explain Duke Energy Kentucky's proposed rate-making treatment related to its Energy Efficiency Plan. I will discuss the key concepts and attributes of the proposed energy efficiency rider ("Rider SAW" or the "Rider"), which is attached hereto as Attachment PGS-1, as well as the mechanics and calculations that are incorporated within the Rider. My testimony also will provide an estimate of the expected jurisdictional rate impacts that will result from the recovery of energy efficiency[1] costs through the Rider.

II. RATE ADJUSTMENT MECHANISM FOR ENERGY EFFICIENCY PLAN

Q. PLEASE DESCRIBE THE RIDER SAW RATE ADJUSTMENT MECHANISM THAT DUKE ENERGY KENTUCKY IS PROPOSING IN THIS PROCEEDING.

A. Duke Energy Kentucky is requesting that the Commission authorize the Company to implement Rider SAW. Rider SAW replaces the existing Rider DSMR cost recovery mechanism for the Company's energy efficiency programs. The Company proposes to be compensated for its new portfolio of energy efficiency programs, as further described in the testimony of Company Witness Theodore E. Schultz, under Rider SAW. The new compensation rider includes a rate formula designed to provide the Company with jurisdictional revenues that will provide for the recovery of costs and a financial incentive applicable to energy efficiency

[1] The term "energy efficiency," as used in my testimony, includes both energy efficiency/conservation and demand response measures.

programs administered by the Company. The jurisdictional revenue level recovered under Rider SAW will be determined based on a fixed percentage of verified capacity and energy costs avoided by these programs, which differs slightly from the sharing of the avoided cost savings currently received under Rider DSMR.

Jurisdictional revenues recovered via Rider SAW will be calculated under the Company's proposal by combining: (1) the sum of annual avoided capacity cost savings generated by demand response programs multiplied by the Demand Response Sharing Percentage and (2) the net present value ("NPV") of avoided energy and capacity costs applicable to conservation programs multiplied by the Conservation Sharing Percentage. The Demand Response Sharing Percentage is 75% and the Conservation Sharing Percentage is 50%. Rider SAW provides for the annual recovery of lost margins incurred for each year of each vintage as a result of the implementation of energy conservation measures for a period of three years. Rider SAW includes a reconciliation feature (*i.e.*, "True-up Adjustment") that captures the difference between amounts billed customers based on projected avoided cost savings and amounts ultimately due the Company based on actual avoided cost savings realized.

Rider SAW billing factors are calculated separately for residential and non-residential customers. I have set forth the derivation of the proposed billing factors in Attachment PGS-2 attached to my testimony. The residential charge is calculated based on avoided costs applicable to residential customers, plus the lost margins from residential conservation measures; the non-residential charge is

calculated based on the avoided costs of programs applicable to non-residential customers, plus the lost margins from non-residential conservation measures. Although not explicitly discussed in this testimony, all calculations of revenue requirements may require adjustment for revenue-related taxes.

Q. IS THE COMPANY'S PROPOSED RATE ADJUSTMENT MECHANISM CONSISTENT WITH THE COMMISSION'S RULES?

A. Yes. The structure of Rider SAW is consistent with Recommendation No. 26 of the Commission's report entitled, "Electric Utility Regulation and Energy Policy in Kentucky, A Report to the Kentucky General Assembly Prepared Pursuant to Section 50 of the 2007 Energy Act" (the "Commission Report"). Specifically, the Commission encouraged the Kentucky General Assembly to consider explicitly affirming its support for incentives for utilities that invest in energy efficiency.[2]

Q. WHAT IS THE SOURCE OF THE INPUTS USED TO CALCULATE THE AVOIDED COST COMPONENT OF THE RIDER?

A. The Company is proposing to use the rate used to quantify the value of avoided capacity and energy costs as described in detail in the testimony of Company Witness Richard G. Stevie. The energy efficiency demand (kW) and energy (kWh) load impacts or savings are determined based on the cost-effectiveness analyses discussed by Dr. Stevie. Load savings are accumulated on a vintage basis that also is explained in Dr. Stevie's testimony and is explained in more detail below.

[2] Commission Report, at 54.

Q. PLEASE EXPLAIN THE SIGNIFICANCE OF THE "VINTAGE" CONCEPT MENTIONED ABOVE.

A. First, a vintage year is defined as the initial year of participation in energy efficiency programs by a group of customers. For example, program offerings to a group of customers that participate in the Company's Energy Efficiency Plan in 2009 are considered to make up the 2009 "vintage year." Each year, customers can participate in demand response programs or conservation measures. Demand response programs are single-year programs that begin and end in each vintage year. As such, participants are assumed to make a decision each year on whether they will enroll (or re-enroll) in a demand response program for each successive vintage year.

Conservation measures, on the other hand, implemented in vintage year 2009 will begin to produce savings that year and will continue to produce savings over the assumed life of each measure. An example of such a program would be the installation of energy efficient heat pumps that are expected to generate savings over a fifteen-year period. When new customers install energy efficient heat pumps in the year following "Year 1," those participants will be considered to be "Year 2" vintage year participants.

The significance of the vintage year concept is that, under the Company's save-a-watt compensation model, the avoided energy and capacity rates for a particular vintage will be fixed based on the initial year of participation (*i.e.*, the vintage year). The pricing of avoided capacity costs will reflect the Demand Response Sharing Percentage for demand response programs and the

Conservation Sharing Percentage of the NPV of energy and capacity savings over the life of conservation programs for the specific vintage year. For example, the pricing used to calculate avoided cost savings for each year of savings for the initial vintage year 2009 Rider are the avoided capacity cost rates.

Q. PLEASE DESCRIBE THE CALCULATION OF THE REVENUE REQUIREMENT APPLICABLE TO DEMAND RESPONSE PROGRAMS.

A. The determination of annual avoided capacity savings and related revenue requirement applicable to demand response programs is based on a fairly straightforward calculation. Reductions in customer coincident peak loads stated in terms of kW savings that are projected to occur due to implementation of energy efficiency demand response programs are multiplied by the projected avoided capacity rate per kW, as more fully discussed in the testimony of Dr. Stevie. The resulting estimated demand response avoided capacity cost savings are then multiplied by the Demand Response Sharing Percentage in order to determine the amount of revenue requirement to be included in the Rider.

Q. PLEASE DISCUSS HOW THE REVENUE REQUIREMENT IS DERIVED FROM ESTIMATED CONSERVATION ENERGY SAVINGS.

A. The projected energy impacts (*i.e.*, kWh reductions) of each energy efficiency measure are obtained from the DSMore analyses described by Dr. Stevie. These impacts represent an estimate of load reductions that will occur on Duke Energy Kentucky's system for each hour of each day of the year. The total kWh reductions over the life of the conservation programs are multiplied by the hourly marginal energy costs taken from the production costing model used by Duke

Energy Kentucky in its Integrated Resource Plan analysis in order to estimate the savings that Duke Energy Kentucky customers will realize by the reduction in the consumption of power. Under the Company's proposal, the future stream of projected energy cost savings over the life of the conservation programs will be converted to a net present value amount by discounting the projected savings using the Company's after-tax overall weighted-average cost of capital. The net present value of the conservation energy savings will be multiplied by the Conservation Sharing Percentage to determine the amount of revenue requirement to be included in the Rider.

Q. PLEASE DESCRIBE HOW THE REVENUE REQUIREMENT IS DERIVED FROM THE CALCULATION OF CONSERVATION AVOIDED CAPACITY SAVINGS.

A. The initial calculation of revenue requirement is very similar to the process used when calculating the revenue requirement applicable to demand response programs. The projected reductions in coincident peak loads (*i.e.*, kW impacts) of each energy efficiency conservation measure are obtained from the DSMore analyses described by Dr. Stevie. The annual kW reductions over the life of each energy efficiency measure are multiplied by the annual estimated avoided cost capacity rates.

Under the Company's proposal, the future stream of projected capacity cost savings over the life of a measure will be converted to a net present value amount by discounting the projected savings using the Company's after-tax overall weighted-average cost of capital. The net present value of the

conservation capacity savings will be multiplied by the Conservation Sharing Percentage. The Company will use this methodology when calculating the revenue requirement applicable to each vintage included in the four-year cost recovery plan.

Q. PLEASE DESCRIBE THE CALCULATION OF THE LOST MARGIN COMPONENT OF THE COMPANY'S PROPOSED ENERGY EFFICIENCY RIDER.

A. Duke Energy Kentucky proposes to maintain the current method of calculating lost margins pursuant to the existing Rider DSMR, with a clarification that addresses demand reductions in addition to energy reductions. The applicable lost revenues will be computed by multiplying the estimated reduction in kilowatt and kilowatt-hour sales that will be lost for each twelve-month period rate schedule over a three-year period as a result of the implementation of approved conservation programs by the appropriate rate charge, excluding the variable costs included in the charge, for the applicable rate schedule. The resulting estimated lost margin value by rate schedule will be divided by the expected kilowatt and kilowatt-hour sales for each twelve-month period of the upcoming three-year period. The expected kilowatt and kilowatt hour sales will be reduced by the reduction in sales as a result of the energy efficiency plans for the upcoming three-year period. This projected lost margins amount will be included in the Rider SAW revenue requirement calculation for that year. The recovery of lost margins will be reduced to the extent they are recovered in base rates as part of a future general rate case proceeding.

Q. HOW WILL THE COSTS OF THE COMPANY'S ENERGY EFFICIENCY PROGRAMS BE ALLOCATED BETWEEN CUSTOMER CLASSES?

A. The Company has proposed to assign the cost of energy efficiency programs to the class of customers that benefit from the programs. Accordingly, residential customers will pay for programs available to residential customers and non-residential customers will pay for programs available to non-residential customers. As discussed in Company Witness Schultz's testimony, Duke Energy Kentucky also proposes to allocate the revenues (including lost margin revenues) associated with certain programs that are available to both electric and gas customers between the Company's residential gas and electric customers based on the percentage of total customers that each customer group represents. The affected energy efficiency measures that also can have gas impacts are Home Energy House Call, Home Performance, Personalized Energy Report, Reach and Teach Energy Conservation, the Duke Energy Kentucky website tool, and Low Income Weatherization.

Q. PLEASE DESCRIBE THE HOME ENERGY ASSISTANCE PROGRAM ("HEA") *CHARGE RECENTLY APPROVED BY THE COMMISSION IN* CASE NO. 2008-0010.

A. The HEA charge is a monthly $0.10 charge per residential electric and gas meter that is assessed to fund a program to assist low income customers in paying their energy bills. This charge is currently included in Rider DSMR and has been approved through September 2011. The Company proposes to continue to apply the $0.10 charge to residential customer bills under Rider SAW.

Q. WILL THERE BE AN ANNUAL TRUE-UP FOR ACTUAL KW AND KWH SAVINGS AND ACTUAL LOST MARGINS?

A. No. The Company proposes that there be a single true-up at the end of the four-year term.

Q. PLEASE DISCUSS THE TRUE-UP MECHANISM.

A. The Rider SAW true-up mechanism will include three components: (1) an avoided cost component that will adjust for the difference between verified actual avoided cost savings and projected avoided cost savings; (2) a lost margin component that will capture the difference between actual lost margins and the recovery of lost margins billed customers; and (3) an earnings cap component that will ensure that the after-tax incentive retained by the Company does not exceed preset levels. The testimony of Company Witness Stevie includes a further discussion of the specific items that will be trued up at the end of the four-year term.

The true-up process related to actual kW and kWh savings will capture the difference between amounts due the Company based on an "after-the-fact" calculation of recoverable costs and amounts billed customers. This component of the true-up calculation will be calculated as follows:

a. Actual kW and kWh savings will be determined at the end of the fourth year, using various measurement and verification methods as described by Company Witness Stevie.

b. The actual kW savings for demand response programs will be multiplied by the avoided capacity rates by year as determined at the time the Rider

was initially set for each vintage. The resulting avoided cost savings will be multiplied by the Demand Response Sharing Percentage in order to determine the Company's share of actual avoided capacity cost savings.

c. The actual kW savings for conservation programs will be multiplied by the avoided capacity rates by year as determined at the time the Rider was initially set for each vintage, present valued back to each vintage year and then multiplied by the Conservation Sharing Percentage to determine the Company's share of actual conservation-related avoided capacity savings.

d. The actual kWh savings will be present valued for each vintage year and then multiplied by the Conservation Sharing Percentage to determine the actual avoided energy costs the Company is entitled to collect as revenues over four years.

e. The amount subject to collection in the true-up will be the difference between the actual total four-year revenues collected under the avoided cost component of Rider SAW and the total four-year revenues the Company is entitled to collect for avoided capacity and energy costs calculated in b., c., and d.

The true-up process related to lost margins will compare the lost margins recoverable based on verified actual reductions in kWh sales and amounts recovered from customers. This component of the true-up calculation will be calculated as follows:

a. The actual kWh savings achieved as a result of the energy efficiency measures will be determined through the various measurement and verification processes at the end of the fourth year.

b. The actual kWh savings will be multiplied times the Company's average tariff rates, excluding the tariff's variable costs in order to determine the actual lost margins the Company is entitled to collect.

c. The difference between the actual total four year revenues collected under the lost margins component of Rider SAW and the total four year revenues the Company is entitled to collect for lost margins will determine the lost margins component of the true-up amount.

The true-up process related to the earnings cap will compare the level of after-tax net income calculated based on revenues that reflect actual verified kW and kWh savings versus the preset earnings limit. Any excess earnings as determined by this analysis will be refunded to customers as part of the final true-up process. This earnings cap adjustment will be calculated as follows:

a. The actual four year total avoided cost savings associated with the actual kW and kWh savings will be compared to the targeted four year total avoided cost savings to determine the percentage of targeted savings achieved.

b. The appropriate performance target cap percentage based on the percentage actual target achievement will be multiplied by the actual total four year program costs to determine the appropriate net income cap.

c. The cumulative net income the Company would earn over four years from the save-a-watt program must be calculated and compared to the earnings cap. This calculation equals total revenues the Company is entitled to collect for actual kW and kWh savings plus revenues for lost margins associated with actual kW and kWh savings minus actual program costs minus lost margins associated with actual kW and kWh savings minus revenue-related taxes and income taxes.

d. If net income calculated in "c." above exceeds the net income cap, the earnings cap adjustment will be the difference between the net income cap and the net income calculated in "c." grossed up to a revenue requirement. If the net income calculated in "c." is less than the net income cap, the earnings cap adjustment will be zero.

The avoided cost component of the true-up amount, the lost margins component of the true-up amount, and the earnings cap component of the true-up amount, if applicable, will be summed in order to determine the total true-up amount. Amounts owed customers or the Company will be refunded to customers or recovered from customers through Rider SAW in the fifth year.

Q. HOW DOES THE COMPANY PROPOSE TO TRANSITION FROM RIDER DSMR TO RIDER SAW?

A. In connection with the implementation of the proposed portfolio of energy efficiency programs, the Company has requested that Rider SAW be approved by April 1, 2009. Upon the implementation of Rider SAW effective April 1, 2009, Duke Energy Kentucky will eliminate the existing charge in customers' rates for

Rider DSMR. On or before July 1, 2009, Duke Energy Kentucky proposes to file a final report and reconciliation for the period July 1, 2008, through March 31, 2009, which represents the period that would not be covered by the November 17, 2008 Annual Report filing of programs under Rider DSMR. To finalize the true-up of Rider DSMR, Duke Energy Kentucky would seek the Commission's approval in its July 1, 2009 filing to add or subtract the resulting true-up from the July 2008 – March 2009 period to Rider SAW at that time. The resulting adjustment to Rider SAW would close-out Rider DSMR.

The energy efficiency programs approved under Rider DSMR shall continue in effect until Rider SAW is approved, subject to the same annual reporting and program approval requirements currently in effect under Rider DSMR. Further, the Company's proposed Energy Efficiency Plan includes six programs[3] that generate energy savings for electric and gas customers. Upon implementation of Rider SAW, the revenue requirements related to these gas/electric programs shall be recovered by allocating[4] the revenue requirements to customers through separate charges for electric and gas customers in Rider SAW.

Q. HOW IS THE REVENUE REQUIREMENT CONVERTED TO THE PROPOSED RATE?

A. Each year the projected avoided cost component and the projected lost margins component will be summed separately for residential and non-residential

[3] The six gas/electric programs are Personalized Energy Reports, Online Audit with Energy Efficiency Starter Kit, Home Energy House Call, and Low Income Weatherization, Home Performance, and Reach & Teach Energy Conservation.

[4] This allocation will be equal to the ratio of gas customers to total customers.

customers. The sums will be divided by the projected retail kWh sales less energy efficiency impacts for the classes to arrive at the Rider SAW value. In the fifth year of the Rider, the true-up amount will be included in the Rider calculation.

Q. PLEASE PROVIDE AN ESTIMATE OF THE EXPECTED JURISDICTIONAL RATE IMPACTS THAT WILL RESULT FROM THE RECOVERY OF ENERGY EFFICIENCY COSTS THROUGH THE RIDER.

A. Company Witness Schultz estimates the proposed initial Rider SAW billing factor is $0.001779/kWh for retail residential electric customers and $0.000912/kWh for non-residential customers. At $0.001779/kWh, the year 1 residential electric Rider SAW rate represents a 12% increase over the current adjusted Rider DSMR[5] billing factor of $0.001596/kWh.[6] When Rider SAW is adjusted to net out the effect of the adjusted Rider DSMR, the result is a slight 0.2% increase in total residential electric rates, which equates to a monthly increase of just $0.18 to a typical customer that consumes 1,000 kWh per month. At $0.000912/kWh, the year 1 non-residential Rider SAW billing factor represents an 8% increase over the current adjusted Rider DSMR rate of $0.000844/kWh.[7] When Rider SAW is adjusted to net out the effect of the adjusted Rider DSMR, the result is again a slight increase of 0.2% in total non-residential electric rates. For the Company's gas customers, the implementation of Rider SAW will result in a decrease in rates. The proposed year 1 residential gas Rider SAW billing factor is $0.004828/kWh,

[5] The true-up component was removed because that represents a reconciliation of past over- or under-collection, and the lost margins were reduced to 1/3 to account for the 36-month collection.
[6] The as filed residential electric rider is $0.001416/kWh.
[7] The as filed nonresidential rider is $0.001405/kWh.

which represents a 65% decrease over the current adjusted Rider DSMR of $0.014127/ccf.[8] When Rider SAW is adjusted to net out the effect of the adjusted Rider DSMR, the result is a modest 0.6% decrease in total residential gas rates.

III. CONCLUSION

Q. WERE ATTACHMENTS PGS-1, PGS-2, AND PGS-3 PREPARED BY YOU OR UNDER YOUR DIRECTION AND SUPERVISION?

A. Yes.

Q. DOES THIS CONCLUDE YOUR PRE-FILED DIRECT TESTIMONY?

A. Yes, it does.

[8] The as filed residential gas rider is $(0.0109294).

VERIFICATION

State of Ohio)
) SS:
County of Hamilton)

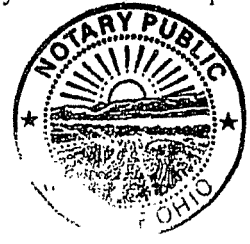
The undersigned, Paul G Smith, being duly sworn, deposes and says that I am employed by the Duke Energy Corporation affiliated companies as Vice-President, Rates; that on behalf of Duke Energy Kentucky, Inc.; says that I have personal knowledge of the matters set forth in the foregoing testimony, and that the answers contained therein are true and correct to the best of my knowledge, information and belief.

Paul G. Smith, Affiant

Subscribed and sworn to before me by Paul G. Smith on this 25th day of November, 2008.

NOTARY PUBLIC

My Commission Expires:



ANITA M. SCHAFER
Notary Public, State of Ohio
My Commission Expires
November 4, 2009

ATTACHMENT PGS-1

RIDER SAW
ENERGY EFFICIENCY RIDER

APPLICABILITY

Applicable to service rendered under the provisions of Rate RS and Rate TT, . A non-residential customer, whose total aggregate load in the Company's certified service territory exceeds 25 MW, may opt out of the tariff. The customer must provide written notification which will list all of their accounts to be "opted-out" of this tariff. Customers electing to opt-out of the program will not be credited for any periods previously billed. The written notification can be e-mailed to the Business Service Center at BSCteam@duke-energy.com or sent to Business Service Center c/o Duke Energy, P.O. Box 960, Suite EY575, Cincinnati, OH 45202.

If the customer later decides to participate in an energy efficiency program, they must pay the Rider DR-SAW for the entire period they "opted-out" of.

CHARGES

The monthly amount computed under each of the rate schedules to which this rider is applicable shall be increased or decreased by the energy Rider SAW Charge at a rate per kilowatt-hour of monthly consumption and, where applicable, a rate per kilowatt of monthly billing demand, in accordance with the following formula.

Rider SAW (residential) =

$$\frac{\text{ACDRC + ACCOE + ACCOC + LM + TUA, as assigned to the residential class of customers}}{S_{residential}}$$

Rider SAW (nonresidential) =

$$\frac{\text{ACDRC + ACCOE + ACCOC + LM + TUA, as assigned to the nonresidential class of customers}}{S_{nonresidential}}$$

Where,

Rider SAW = Energy Efficiency Adjustment Amount
ACDRC = Avoided Cost of Capacity for Demand Response Revenue Requirement
ACCOE = Avoided Cost of Energy for Conservation Revenue Requirement
ACCOC = Avoided Cost of Capacity for Conservation Revenue Requirement
LM = Lost Margins
TUA = True-up Adjustment to be included in the fourth year of the rider only
S = Projected kWh Sales for the Rider Period for the class (residential or nonresidential) of Ohio retail customers

Rider SAW is calculated for a 12 month period, referred to as the Rider Period.
Rider SAW will be grossed-up for applicable revenue related taxes.

ACDRC = PDRC x ACC x X%

Where,

PDRC = Projected Demand impacts for the measure/program for the vintage applicable to the Rider Period
ACC = Annual Avoided Capacity Market-Based Rate, in $/year for the year of the Rider Period
X% = Percentage of avoided costs for demand response to be collected through the rider

ACCOE = (NPV at the after-tax weighted average cost of capital of (PCOE x ACE) for each year for the life of the measure/program) x Y%

Where,

PCOE = Projected Energy impacts for the measure/program by year for the life of the measure/program for the vintage applicable to the Rider Period
ACE = Marginal energy cost rate by year for the life of the measure/program from the IRP analysis
Y% = Percentage of avoided costs for conservation to be collected through the rider

ACCOC = (NPV at the after-tax weighted average cost of capital of (PCOC x ACC) for each year for the life of the measure/program) x Y%
Where,

PCOC = Projected Demand impacts for the measure/program by year for the life of the measure/program

for the vintage applicable to the Rider Period
ACC = Annual Avoided Capacity Market-Based Rate, in $/year by year for the life of the measure/program
Y% = Percentage of avoided costs for conservation to be collected through the rider

LM = PLME x LMR
Where,
PLME = Projected Energy impacts for all measures/programs for the vintage applicable to the Rider Period
LMR = Average Retail $/kWh excluding fuel

In the fifth Rider Period, a true-up amount will be included in the Rider SAW rate as follows:

TUA = ACT + LMT + ECT
Where,
ACT = Avoided Cost True-up
LMT = Lost Margins True-up
ECT = Earnings Cap True-up

ACT = ADRCT + ACOET + ACOCT
Where,
ADRCT = Avoided Demand Response Capacity True-up
ACOET = Avoided Conservation Energy True-up
ACOCT = Avoided Conservation Capacity True-up

ADRCT = (Year 1((ADRC – PDRC) x ACC) + Year 2((ADRC – PDRC) x ACC) + Year 3((ADRC – PDRC) x ACC) + Year 4((ADRC – PDRC) x ACC)) x X%
Where,
ADRC = Actual Demand impacts for the measure/program for each vintage year
PDRC = Projected Demand impacts for the measure/program for each vintage year as used in the Rider SAW calculation for each year
ACC = Annual Avoided Capacity Market-Based Rate, in $/year for the each vintage year as used in the Rider SAW calculation each year
X% = Percentage of avoided costs for demand response collected through the rider

ACOET = (NPV at the after-tax weighted average cost of capital of (Year 1((ACOE – PCOE) x ACE) for each year for the life of the measure/program) + (NPV at the after-tax weighted average cost of capital of (Year 2((ACOE – PCOE) x ACE) for each year for the life of the measure/program) + (NPV at the after-tax weighted average cost of capital of (Year 3((ACOE – PCOE) x ACE) for each year for the life of the measure/program + (NPV at the after-tax weighted average cost of capital of (Year 4((ACOE – PCOE) x ACE) for each year for the life of the measure/program) x Y%
Where,
ACOE = Actual Energy impacts for the measure/program by year for the life of the measure/program for years 1-4 and projected Energy impacts for the measure/program for the remaining years of the life of the measure/program by vintage year
PCOE = Projected Energy impacts for the measure/program by year for the life of the measure/program for each vintage as used in the Rider SAW calculation each year
ACE = Marginal energy cost rate by year for the life of the measure/program from the IRP analysis as used in the Rider SAW calculation each year
Y% = Percentage of avoided costs for conservation collected through the rider

ACOCT = (NPV at the after-tax weighted average cost of capital of (Year 1((ACOC – PCOC) x ACC) for each year for the life of the measure/program) + (NPV at the after-tax weighted average cost of capital of (Year 2((ACOC – PCOC) x ACC) for each year for the life of the measure/program) + (NPV at the after-tax weighted average cost of capital of (Year 3((ACOC – PCOC) x ACC) for each year for the life of the measure/program) + (NPV at the after-tax weighted average cost of capital of (Year 4((ACOC – PCOC) x ACC) for each year for the life of the measure/program) x Y%

Where,
ACOC = Actual Demand impacts for the measure/program by year for the life of the measure/program for years 1-4 and projected Demand impacts for the measure/program for the remaining years in the life of the measure/program by vintage year

ATTACHMENT PGS-1

PCOC = Projected Demand impacts for the measure/program by year for the life of the measure/program for the vintage as used in the Rider SAW calculation each year
ACC = Annual Avoided Capacity Market-Based Rate, in $/year by year for the life of the measure/program as used in the Rider SAW calculation each year
Y% = Percentage of avoided costs for conservation to be collected through the rider

LMT = Year 1(ALME – PLME) x LMR + Year 2(ALME – PLME) x LMR + Year 3(ALME – PLME) + Year 4(ALME – PLME) x LMR

Where,
ALME = Actual Energy impacts for all measures/programs for the vintage
PLME = Projected Energy impacts for all measures/programs for the vintage as used in the Rider SAW calculation each year
LMR = Average Retail $/kWh excluding fuel as used in the Rider SAW calculation each year

ECT = NIC minus (Greater of NIC or CNI) grossed-up for applicable income and revenue related taxes

Where,
NIC = Net Income Cap
CNI = Calculated Net Income

NIC = PTCP x APC

Where,
PTCP = Performance Target Cap Percentage
APC = Actual Program Costs for the Years 1-4

PTCP is derived from the following table:

Percentage Actual Target Achievement	ROI Cap on Program Costs Percentage
>=90%	15%
80% to 89%	12%
60% to 79%	9%
< 60%	5%

PATA = AACS / TACS

Where,
AACS = Actual Avoided Cost Savings
TACS = Targeted Avoided Cost Savings

AACS = (Sum of Years 1-4 (ACDRC + ACCOE + ACCOC)) + ACT

CNI = AACS grossed-up for applicable revenue related taxes – Sum Years 1-4 APC – RRT – IT

Where,
RRT = Revenue related taxes calculated as the appropriate revenue related tax rate x AACS
IT = Income taxes calculated as the appropriate composite income tax rate x (AACS – Sum Years 1-4 APC – RRT)

HOME ENERGY ASSISTANCE PROGRAM

A Home Energy Assistance Program charge of $0 10 will be applied monthly to residential customer bills through September 2011

DEMAND RATCHETS

Customer served under the provisions of Rate DS or Rate DP may be eligible to have their billing demand re-determined in recognition of a permanent change in load due to the installation of load control equipment or other measures taken by the customer to permanently reduce the customer's demand.

ATTACHMENT PGS-1

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 Company's Service Regulations currently in effect, as filed with the Kentucky Public Service Commission, as provided by law.

ATTACHMENT PGS-2

DERIVATION OF RIDER SAW RATE

Kentucky residential electric revenue requirement = KY residential revenue requirement / (Projected 2009 KY residential retail sales - KY residential EE Impacts), where:

- Kentucky residential revenue requirement = $ 2,591,256
- Projected 2009 KY residential retail sales = 1,467,175,000 kWh
- Projected 2009 KY residential EE Impacts = 10,930,000 kWh

$X / (Y – Z) = $0.001779 /kWh

Kentucky non-residential electric revenue requirement = KY non-residential revenue requirement / (Projected 2009 KY non-residential retail sales – KY non-residential EE Impacts), where:

- Kentucky non-residential revenue requirement = $ 2,329,025
- Projected 2009 KY non-residential retail sales = 2,562,121,000 kWh
- Projected 2009 KY non-residential EE Impacts = 6,848,000 kWh

$X / (Y - Z) = $0.000912 /kWh

Kentucky residential gas revenue requirement = KY residential revenue requirement / (Projected 2009 KY residential retail sales - KY residential EE Impacts) / 10, where:

- Kentucky residential revenue requirement = $ 259,123
- Projected 2009 KY residential retail sales = 5,367,176 mcf

$X / (Y – Z) / 10 = $0.004828 / ccf

DUKE ENERGY KENTUCKY, INC.

ESTIMATED INCREASE IN CUSTOMER RATES DUE TO THE PROPOSED ENERGY EFFICIENCY PLAN
(DOLLARS IN MILLIONS)

Line No.	Description	Billed Revenues For The Twelve Months Ended December 2007	Year 1 Projected EE Revenue	Year 1 DSMR Rider	Year 1 Net Effect	Year 1 Percent Increase	Year 2 Projected EE Revenue	Year 2 DSMR Rider	Year 2 Net Effect	Year 2 Percent Increase	Year 3 Projected EE Revenue	Year 3 DSMR Rider	Year 3 Net Effect	Year 3 Percent Increase	Year 4 Projected EE Revenue	Year 4 DSMR Rider	Year 4 Net Effect	Year 4 Percent Increase
		(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)	(N)	(O)	(P)	(Q)
1	Residential (Electric)	$ 121.4	$ 2.6	$ (2.3)	$ 0.3	0.2%	$ 3.7	$ (2.6)	$ 1.1	0.9%	$ 5.0	$ (2.9)	$ 2.1	1.7%	$ 6.8	$ (2.9)	$ 3.8	3.2%
2	Residential (Gas)	$ 86.7	$ 0.3	(0.8)	$ (0.5)	-0.6%	$ 0.4	(0.8)	$ (0.4)	-0.4%	$ 0.5	(0.8)	$ (0.2)	-0.3%	$ 0.7	(0.8)	$ (0.1)	-0.1%
3	Non-Residential	184.0	$ 2.3	$ (2.0)	$ 0.3	0.2%	$ 3.0	$ (2.2)	$ 0.8	0.5%	$ 3.7	$ (2.4)	$ 1.3	0.7%	$ 5.0	$ (2.4)	$ 2.6	1.4%
4	Total	$ 392.0	$ 5.2	$ (5.1)	$ 0.1	0.0%	$ 7.1	$ (5.6)	$ 1.6	0.4%	$ 9.2	$ (6.1)	$ 3.1	0.8%	$ 12.5	$ (6.1)	$ 6.4	1.6%

1 DSMR Rider amount is from Appendix I, Demand Side Management Cost Recovery Rider (DSMR), January, 2009 through December, 2009, pages 2 and 5
2 DSMR Rider does not include the true up component
3 DSMR Rider includes 1/3 of lost revenues in year 1, 2/3 in year 2, and the entire amount in years 3 and 4. This is meant to approximate the 36 month collection of lost revenues.
4 Exhibit does not include Home Energy Assistance Program charge of $0.10 per month per residential electric and gas meter