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VIA OVERNIGHT DELIVERY

November 13, 2009

Mr. Jeff Derouen
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40602-0615

2009-00444

Re: *FILING OF THE ANNUAL STATUS REPORT, AND ADJUSTMENT OF THE DSM COST RECOVERY MECHANISM WITH FILING OF THE AMENDED TARIFF SHEETS FOR GAS RIDER DSM (FOURTH REVISED SHEET NO. 62) AND ELECTRIC RIDER DSM (FOURTH REVISED SHEET NO. 78)*

Dear Mr. Derouen:

Enclosed please find an original and twelve copies of the Annual Status Report and Adjustment of the 2009 DSM Cost Recovery Mechanism, as captioned above.

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

Sincerely,

Dianne Kuhnell

Dianne B. Kuhnell
Senior Paralegal

cc: Parties of Record

BEFORE THE
KENTUCKY PUBLIC SERVICE COMMISSION

In The Matter Of:

THE ANNUAL COST RECOVERY FILING	)	
FOR DEMAND SIDE MANAGEMENT BY	)	CASE NO. 2009-00444
DUKE ENERYGY KENTUCKY, INC.	)	

FILING OF THE ANNUAL STATUS REPORT, AND ADJUSTMENT OF THE DSM COST RECOVERY MECHANISM WITH FILING OF THE AMENDED TARIFF SHEETS FOR GAS RIDER DSM (FOURTH REVISED SHEET NO. 62) AND ELECTRIC RIDER DSM (FOURTH REVISED SHEET NO.78)

Now comes Duke Energy Kentucky, Inc. (Duke Energy Kentucky or the Company) with the consensus of the Residential Collaborative and the Commercial and Industrial Collaborative, pursuant to this Commission's November 4, 2004 Order in Case No. 2003-00367, February 14, 2005 Order in Case No. 2004-00389, April 4, 2006 Order in Case No. 2005-00402, May 15, 2007 Order in Case No. 2006-00426, May 14, 2008 Order in Case No. 2007-00369, and May 12, 2009 Order in Case No. 2008-00473 to file the annual status report and to propose an adjustment to the 2008 Demand Side Management (DSM) Cost Recovery Riders (Application). The Applicant is Duke Energy Kentucky of 139 East Fourth Street, Cincinnati, OH 45202.[1]

The Residential Collaborative members are: Paul Adams (Kentucky Attorney General's Office), Nina Creech (People Working Cooperatively), Joy Herald Rutan (League of Women Voters), Florence Tandy (Northern Kentucky Community Action Commission), Denise Govan (Brighton Center), Carl Melcher (Northern Kentucky Legal Aid), Karen Reagor (Kentucky NEED Project), Pat Dressman (Campbell County Fiscal Court), and John Davies (Department of Energy Development and Independence) and Pam

[1] Applicant's Kentucky business office address is 525 W. Fifth Street, Suite 228, Covington, KY. 41011.

Chapman (Duke Energy). The Commercial & Industrial Collaborative members are Paul Adams (Kentucky Attorney General's Office), Jock Pitts (People Working Cooperatively), Karen Reagor (Kentucky NEED Project), John Cain (Wiseway Supply), Daniele Longo (Northern Kentucky Chamber of Commerce), Pat Dressman and Russell Guy (Campbell County Fiscal Court), Kris Knochelmann (Knochelmann Heating & Air), Ed Monohan, Sr. (Monohan Development Company), Gary Sinclair (Kenton County Fiscal Court), and John Davies (Department of Energy Development and Independence) Carol Cornell (Northern Kentucky University/Small Business Development) and Pam Chapman (Duke Energy). Please note that the Boone County Fiscal Court is an ongoing member of both Collaboratives whose representative left the agency. Boone County Fiscal Court has not filled that position on the Collaboratives during the time of this filing

With the exception of the Kentucky Attorney General's Office, which will indicate its opinion at a later date, the members of both the Residential Collaborative and the Commercial & Industrial Collaborative agreed with this application.

In addition to filing the annual status report, Duke Energy Kentucky and the Collaborative respectfully request a modification of Duke Energy Kentucky's DSM Riders to reflect the reconciliation of planned and actual expenditures, lost revenues, and shared savings. For this filing, Duke Energy Kentucky will be using results of recent impact evaluation studies to provide estimates of lost revenues and shared savings. The Company requests Commission approval to continue the existing programs under the current DSM model until such time as the Commission approves the new programs proposed in its application under the save-a-watt model in Case No. 2008-00495. The Company will perform a final true-up and reconciliation of the current DSM Riders before converting to

a new energy efficiency (EE) and DSM recovery model. Any remaining balances (over or under) can be transferred to the new save-a-watt Rider or used to close out the existing Rider.

I. INTRODUCTION

A. Background

On December 17, 2002, the Commission issued its Order in Case No. 2002-00358 approving Duke Energy Kentucky's plan to continue the following DSM programs Residential Conservation and Energy Education, Residential Home Energy House Call, and Residential Comprehensive Energy Education for a three-year period ending December 31, 2005; to continue to fund the expansion and improvement of existing programs and the development of new programs; and to implement a revised low-income home energy assistance program as a pilot through May 31, 2004. These programs were extended through 2009 by the April 4, 2006 Order in Case No. 2005-00402. The Commission, in its November 30, 2003 Order in Case No. 2003-00367, also approved the implementation of Power Manager, a residential direct load control program, through the year 2007. The Commission's April 4, 2006 Order in Case No. 2005-00402 authorized the Personalized Energy Report (PER) program as a pilot program. Finally, the Commission's May 14, 2008 Order in Case No. 2007-00369 approved the Company's Power Manager program through 2012 and approved the PER program for recovery of lost revenues and shared savings.

This filing specifically addresses the requirements in prior Commission Orders: November 20, 2003 Order in Case No. 2003-00367, February 14, 2005 Order in Case 2004-00389, April 4, 2006 Order in Case No. 2005-00402, May 15, 2007 Order in Case

No. 2006-00426, and May 14, 2008 Order in Case No. 2007-00369. In addition, this filing is being made consistent with the Commission's September 18, 2007 Order in Case 2007-00369 granting Duke Energy Kentucky's request to file annual DSM applications no later than November 15. In the status and reconciliation portion of this report, expenses are reported for the period July 1, 2008 through June 30, 2009.

Duke Energy Kentucky requests an Order in this proceeding approving the proposed adjustments to the DSM rider and continuation of the Company's existing DSM portfolio of programs until the earlier of Commission approval of the Company's application in Case No. 2008-495 or December 31, 2012.

B. Definitions

For the purposes of this Application, the following terms will have the meanings established in the Principles of Agreement, Demand Side Management (Exhibit 1 to the Application in Case No. 95-312, dated July 15, 1995):

1) **"DSM Revenue Requirements"** shall mean the revenue requirements associated with all Program Costs, Administrative Costs, Lost Revenues (less fuel savings), and the Shareholder Incentive.
2) **"Collaborative"** shall mean the Duke Energy Kentucky DSM Collaborative, which was established by the Signatories and other parties separately from this process.
3) **"Program Costs"** shall mean the costs incurred for planning, developing, implementing, monitoring and evaluating the DSM programs described in Section XI of the Principles of Agreement, Demand Side Management (pp. 11-19) and the DSM programs that have been approved by the Collaborative.

4) **"Administrative Costs"** shall mean the costs incurred by or on behalf of the collaborative process and that are approved by the Collaborative, including, but not limited to, costs for consultants, employees and administrative expenses.

5) **"Lost Revenues"** shall have the meaning in Section IV of the Principles of Agreement, Demand Side Management.

6) **"Shareholder Incentive"** shall have the meaning in Section IV of the Principles of Agreement, Demand Side Management.

7) **"DSM Cost Recovery Mechanism"** shall have the meaning in Section IV of the Principles of Agreement, Demand Side Management.

8) **"Voucher"** shall mean the credit receipt the customer receives from a social service agency. The voucher can be used by the customer as a partial payment toward the utility bill.

II. STATUS OF CURRENT DSM PROGRAMS

Duke Energy Kentucky currently offers the following programs, the costs of which were recoverable through the DSM Cost Recovery Rider mechanism approved by the Commission in Case No. 2004-00389 and in subsequent proceedings.

Program 1: Residential Conservation and Energy Education

Program 2: Residential Home Energy House Call

Program 3: Residential Comprehensive Energy Education Program (NEED)

Program 4: Program Administration, Development & Evaluation Funds

Program 5: Payment Plus

Program 6: PowerManager

Program 7: Energy Star Products

Program 8: Energy Efficiency Website

Program 9: Personalized Energy Report (PER)

Program 10: C&I High Efficiency Incentive (for Businesses and Schools)

Program 11: PowerShare

Under the current DSM Agreement and prior Commission Orders, all of these programs except PowerManager and PER, will end December 2009 unless the Commission authorizes continuation of the programs until an order is issued on the Company's application in Case No. 2008-495 (Save-a-watt Application).

This section of the Application provides a brief description of each current program, a review of the current status of each program, and information on any changes that may have been made to the programs. The following table provides a brief summary of the load impacts achieved and level of participation obtained during this filing period.

Summary of Load Impacts July 2008 Through June 2009

Residential Programs	Incremental Participation	Load Impacts Net of Free Riders kWh	kW
Home Energy House Call	405	152,685	24.3
Energy Efficient Website	26	5,852	1.6
Energy Star Products*	10,685	602,841	102.9
Low Income Program	222	138,306	38.0
Refrigerator Replacement	66	71,742	17.3
Personalized Energy Report			
Power Manager**	10,500		14,437.5
NEED	390	45,353	3.9
Total Residential	22,294	1,016,779	14,625.6

Non-Residential Programs	Incremental Participation	Load Impacts Net of Free Riders kWh	kW
C&I Lighting	28,580	16,670,371	3,654.8
C&I HVAC	86	1,931,259	360.9
C&I Motors	11	514,137	82.0
C&I Other	18,410	4,609,054	-
Custom Incentive Schools	2	1,141,929	327.1
Power Share**	10		1,220.0
Total Non-Residential	47,099	24,866,750	5,644.7
Total	69,393	25,883,529	20,270.3

*Energy Star Products is number of bulbs not participants.
**Cumulative participation

Results of the current cost-effectiveness test results for each of the programs are provided in Appendix A.

Program 1: Residential Conservation and Energy Education

The Residential Conservation and Energy Education program is designed to help the Company's income-qualified customers reduce their energy consumption and lower their energy cost. This program specifically focuses on LIHEAP customers that meet the income qualification level (i.e., income below 130% of the federal poverty level). This program uses the LIHEAP intake process as well as other community outreach to improve participation. The program provides direct installation of weatherization and energy-efficiency measures and educates Duke Energy Kentucky's income-qualified

customers about their energy usage and other opportunities to reduce energy consumption and lower their costs. The program has provided weatherization services to 251 homes in 2000; 283 in 2001; 203 in 2002; 252 in 2003; 252 in 2004; 130 in 2005; 232 in 2006; 252 in 2007 and; 265 in 2008. For the fiscal year 2009[2], 222 homes were weatherized.

The program is structured so that the homes needing the most work, and having the highest energy use per square foot, receive the most funding. The program does this by placing each home into one of two "Tiers." This allows the implementing agencies to spend the limited budgets where there is the most significant potential for savings that is also cost effective. For each home in Tier 2, the field auditor uses the National Energy Audit Tool (NEAT) to determine which specific measures are cost effective for that home. The specific services provided within each Tier are described below.

The tier structure is defined as follows:

	Therm / square foot	kWh use/ square foot	Investment Allowed
Tier 1	0 < 1 therm / ft2	0 < 7 kWh / ft2	Up to $600
Tier 2	1 + therms / ft2	7 + kWh / ft2	All SIR* ≥ 1.5 up to $4K

*SIR = Savings - Investment Ratio

Tier One Services

Tier 1 services are provided to customers by Duke Energy Kentucky, through its subcontractors. Customers are considered Tier 1, if they use less than 1 therm per square foot per year or less than 7 kWh per square foot per year based on the last year of usage (weather adjusted) of Company supplied fuels. Square footage of the dwelling is based on conditioned space only, whether occupied or unoccupied. It does not include

[2] July 1, 2008 to June 30, 2009

unconditioned or semi-conditioned space (non-heated basements). The total program dollars allowed per home for Tier One services is $600.00 per home.

Tier One services are as follows:

- Furnace Tune-up & Cleaning
- Furnace replacement if investment in repair over $500
- Venting check & repair
- Water Heater Wrap
- Pipe Wrap
- Waterbed mattress covers
- Cleaning of refrigerator coils
- Cleaning of dryer vents
- Compact Fluorescent Light (CFL) Bulbs
- Low-flow shower heads and aerators
- Weather-stripping doors & windows
- Limited structural corrections that affect health, safety, and energy up to $100
- Energy Education

Tier Two Services

Duke Energy Kentucky will provide Tier Two services to a customer, if they use at least 1 therm or at least 7 kWh per square foot per year based on the last year of usage of Duke Energy Kentucky supplied fuels.

Tier Two services are as follows:

- Tier One services plus:

- Additional cost-effective measures (with SIR $\geq$ 1.5) based upon the results of the NEAT audit. Through the NEAT audit, the utility can determine if the cost of energy saving measures pay for themselves over the life of the measure as determined by a standard heat loss/economic calculation (NEAT audit) utilizing the cost of gas and electric as provided by Duke Energy Kentucky. Such items can include but are not limited to attic insulation, wall insulation, crawl space insulation, floor insulation and sill box insulation. Safety measures applying to the installed technologies can be included within the scope of work considered in the NEAT audit as long as the SIR is greater than 1.5 including the safety changes.

Regardless of placement in a specific tier, Duke Energy Kentucky provides energy education to all customers in the program.

To increase the cost-effectiveness of this program and to provide more savings and bill control for the customer, the Collaborative and Duke Energy Kentucky proposed in the September 27, 2002 filing in Case No. 2002-00358, and subsequently received approval to expand this program, to include refrigerators as a qualified measure in owner-occupied homes. Refrigerators consume a large amount of electricity within the home, and the program impacts have been updated during this year to reflect current energy savings and refrigerator replacements. To determine replacement, the program weatherization provider performs a two-hour meter test of the existing refrigerator unit. If it is a high-energy consuming refrigerator, as determined by this test, the unit is replaced. The program replaces about half of the units tested. Replacing with a new Energy Star qualified refrigerator, which uses approximately 400 kWh, results in an

overall savings to the average customer typically in excess of 1,000 kWh per year.

Refrigerators tested and replaced:

- 2003 = 116 tested and 47 replaced
- 2004 = 163 tested and 73 replaced
- 2005 = 115 tested and 39 replaced
- 2006 = 116 tested and 52 replaced
- 2007 = 136 tested and 72 replaced
- 2008 = 173 tested and 85 replaced
- 2009 = 153 tested and 66 replaced

The existing refrigerator being replaced is removed from the home and destroyed in an environmentally appropriate manner to assure that the units are not used as a second refrigerator in the home or do not end up in the secondary appliance market.

To further support the cost effectiveness of this program, Duke Energy Kentucky is evaluating additional opportunities for the refrigerator replacement program. Options being considered include an RFP designed to reduce equipment costs, or implementation of a sliding scale incentive that would cover a portion of the refrigerator replacement expenses.

Program 2: Residential Home Energy House Call

The Home Energy House Call (HEHC) program is administered by Duke Energy Kentucky Contractor Wisconsin Energy Conservation Corporation (WECC) Inc. The Wisconsin Energy Conservation Corporation (WECC) has been administering and implementing programs for 25 years. It is one of the largest program operators in the region. WECC's knowledge of home energy audits comes from years of experience

administering weatherization programs for income eligible customers and implemented through subcontractor Thermal Scan Inspections, Inc. (TSI) Thermal Scan Inspections (TSI) is located in Carmel, Indiana. TSI has been in the business of providing a wide array of inspection services for commercial and industrial businesses, municipalities, contractors and homeowners to identify, repair and protect homes, buildings, equipment and structures from moisture, leaks, corrosion and inefficient energy usage since 1979. They received the Energy Star for Homes Outstanding Achievement Award two years in a row recognizing the important contribution they make to energy efficient construction and environmental protection. Together, WECC and TSI provide the administration, marketing, staff, tracking, systems, logistics, training, customer service, scheduling and technical support required to support Duke Energy Kentucky's HEHC program. The HEHC program provides a comprehensive walk through in-home analysis by a qualified home energy specialist to identify energy savings opportunities in homes. The energy specialist analyzes the total home energy usage, checks the home for air infiltration, examines insulation levels in different areas of the home, and checks appliances and heating/cooling systems. A comprehensive report specific to the customer's home and energy usage is then provided to the customer at the time of the audit. The report focuses on the building envelope improvements as well as low-cost and no-cost improvements to save energy. At the time of the home audit, the customer receives a kit containing several energy saving measures at no cost. The measures include a low-flow showerhead, two aerators, outlet gaskets, three compact fluorescent bulbs, and a motion sensor night-light. The auditors will offer to install these measures, if approved by the customer, so that the

customer can begin realizing an immediate savings on their electric bill, and to help insure proper installation and use.

For the period of July 1, 2008 through June 30, 2009, a total of 405 audits were completed in Kentucky. During this filing period, direct mail brochures were mailed to customers in an effort to acquire the proposed participation for this program process. To date, customer satisfaction ratings for the program continue to remain high.

Some changes to the program delivery went into effect August 18, 2008. The auditors now carry laptop computers on-site and can enter the data collected into the software directly, eliminating error from third party interpretation, and also allows a customer to receive their energy audit information immediately on site. Reports are also available on-line within 24 hours of audit completion. Finally, the software report is updated to provide a more comprehensive and user friendly customer experience.

Program 3: Residential Comprehensive Energy Education

The Residential Comprehensive Energy Education program is operated under subcontract by Kentucky National Energy Education Development (NEED). Launched in 1980 NEED promotes student understanding of the scientific, economic, and environmental impacts of energy. The program is currently available in 46 states, the U.S. Virgin Islands, and Guam. The program has provided unbiased educational information on all energy sources, with an emphasis on the efficient use of energy. Energy education materials, emphasizing cooperative learning, are provided to teachers. Leadership Training Workshops are structured to educate teachers and students to return to their schools, communities, and families to conduct similar training and to implement behavioral changes that reduce energy consumption. Educational materials and

Leadership Training workshops are designed to address students of all aptitudes and have been provided for students and teachers in grades K through 12.

The Kentucky NEED program follows national guidelines for materials used in teaching, but also offers additional services such as: hosting teacher/student workshops, sponsoring teacher attendance at summer training conferences, sponsoring attendance at a National Youth Awards Conference for award-winning teachers and students, and providing curricula, free of charge, to teachers.

Overall, the program has reached teachers and students across the six counties served by Duke Energy Kentucky. There are currently 700+ northern Kentucky teachers enrolled in the program. Students who attend workshops are encouraged to mentor other students in their schools – further spreading the message of energy conservation. Teams of middle school and high school students serve as facilitators at workshops. Through this approach, all grade levels are either directly or indirectly presented the EE and conservation message. Several of the student teams have made presentations to community groups, sharing their knowledge of energy, promoting energy conservation and demonstrating that the actions of each person impact EE. It is intended that these students will also share this information with their families and reduce consumption in their homes.

Due to efforts of the Kentucky NEED program, energy and facility managers with the Kenton County School District implemented a voluntary program that garnered national recognition around their energy management plans; it incorporated student participation and education curriculum. This led to the construction project of an additional efficiency (LEED) certified school building and the design and construction of

additional high performance schools. In addition to providing safe and effective learning environments that are more efficient and cost effective than traditional schools, they are also designed as learning tools. Kentucky NEED's partnership with the Kentucky Department for Energy Development and Independence also promotes high performance school standards. The program addresses: (1) building EE improvements through retrofits financed by use of energy saving performance contracts (ESPC) and improved new construction; (2) school transportation practices; (3) educational programs; (4) procurement practices; and (5) linkages between school facilities and activities within the surrounding community. This program is now called Kentucky High Performance Sustainable Schools Program. During the 2008-09 school-year, this program expanded the partnership to include KEEPS (KY Energy Efficiency Program for Schools) and Kentucky School Plant Management Association (KSPMA). These workshops focused more on energy saving operations and maintenance opportunities that included establishing school energy teams consisting of maintenance/custodial staff, teacher advisor(s) and student energy teams. The student teams are encouraged to focus their efforts on developing an energy plan for their schools to encourage energy saving behaviors by all members of the school community.

To improve and better document the energy savings associated with the program, a change was made in 2004 adding a new survey instrument for use in the classroom and an energy savings "kit" as a teaching tool. New curriculum was developed around this kit, along with household surveys, to allow teachers to have actual in-home adoption of measures assessed and implemented. The result of this change has demonstrated that measures are being installed in the home as a result of the program. These kits include

CFL bulbs, low-flow shower heads, faucet aerators, water temperature gauge, outlet insulation pads, and a flow meter bag.

During the 2008-2009 school year 390 kits were distributed. Other specific activities in the 2008-09 school year included: six teachers from six schools in the service territory attended a five day training conference for the NEED summer teacher training workshop; 182 teachers received NEED materials; and two teacher/student training workshops were held with 22 teachers and 110 students. NEED promotes efficiency and conservation practices using lessons from the "Building Buddies" with kits, Monitoring & Mentoring with kit, Learning & 'Conserving with kit, Energy House, Today in Energy, and the Energy Conservation Contract.

Kentucky NEED works with the Department for Energy Development and Independence Division of Energy Efficiency and Conservation to develop and facilitate the Kentucky's High Performance Schools programs. NEED will be hosting the seventh annual High Performance Schools Workshop in the spring of 2010. Participants in the 2008-09 NEED Youth Awards for Energy Achievement Program included Caywood Elementary (Kenton County), Piner Elementary School (Kenton County), White's Tower Elementary School (Kenton County), Phillip Sharp Middle School (Pendleton County), Twenhofel Middle School (Kenton County), and Dixie Heights High School (Kenton County). Students and teachers from Piner Elementary, Caywood Elementary, Phillip A. Sharp Middle School, and Dixie Heights High School attended the national conference in Washington, D.C., June 26 – 29, 2009.

In partnership with the Department for Energy Development & Independence: Division of Energy Efficiency and Conservation-Kentucky, NEED continues to promote

student participation in ENERGY STAR®'s Change a Light, Change the World campaign. Using NEED's Change a Light (CAL) Teacher's Guide, students are encouraged to facilitate CAL activities in their schools and communities. The Department for Energy Development & Independence and Kentucky NEED offered $350 mini-grants to student groups facilitating Change a Light projects. During the 2007-09 campaigns, with the help of our Kentucky NEED partners, Kentucky NEED was the top pledge driver in the Education sector. Kentucky NEED is also actively promoting the EE incentive program for schools, coordinating a presentation at the northern Kentucky superintendents' monthly meeting and at meetings with additional district facility personnel.

Program 4: Program Administration, Development, & Evaluation

This program is responsible for designing, implementing and capturing costs related to the administration, evaluation and support of the Collaborative and Duke Energy Kentucky's overall DSM effort. Program development funds are utilized for the redesign of programs and for the development of new programs, or program enhancements, such as the refrigerator replacement portion of the Residential Conservation and Energy Education program. Evaluation funds are used for cost effectiveness analysis and evaluation, impact evaluation and process evaluation of program activities, such as those included as appendices to this filing. Funds going forward will be used to again monitor, evaluate and analyze these programs to improve cost effectiveness and program design. Therefore, Duke Energy Kentucky expects, and has planned for, the continuation of funding for this program to cover evaluation study costs for the current year's activities as well as future evaluations. Duke Energy Kentucky strives to optimize and balance the use of these program funds, such that

program development and redesign continues, that all programs are analyzed every year for cost effectiveness, and that programs are generally afforded the opportunity for a full scale impact evaluation and energy savings assessment once every two to three years. Duke Energy Kentucky believes that it is unnecessary to spend funds on impact evaluations every year for all programs, but also understands that all programs must undergo impact evaluation scrutiny and review at least once every two to three years.

Program 5: Payment Plus

Over the past few years, the Residential Collaborative and Duke Energy Kentucky have tested an innovative home energy assistance program called Payment Plus. The program was designed to impact participants' behavior (e.g., encourage meeting utility bill payments as well as eliminate arrearages) and to generate energy conservation impacts. That program was extended with the Commission's Order in Case No. 2004-00389 to include both the early participants and new participants each year.

The program has three parts:

1. Energy & Budget Counseling – to help customers understand how to control their energy usage and how to manage their household bills, a combined education/counseling approach is used.
2. Weatherization – participants in this program are required to have their homes weatherized as part of the normal Residential Conservation and Energy Education (low-income weatherization) program unless weatherized in past program years.
3. Bill Assistance – to provide an incentive for these customers to participate in the education and weatherization, and to help them get control of their bills, payment assistance credits are provided to each customer when they complete the other

aspects of the program. The credits are: $200 for participating in the EE counseling, $150 for participating in the budgeting counseling, and $150 to participate in the Residential Conservation and Energy Education program. If all of the requirements are completed, a household could receive up to a total of $500. This allows for approximately 125 homes to participate per year as some customers do not complete all three steps or have already had the weatherization completed prior to the program.

This program is offered over six winter months per year, starting in October. Customers are tracked and the energy savings is evaluated after two years to see if customer energy consumption dropped, and whether changes in bill paying habits have occurred. Previous participants' energy savings have been evaluated and compared to a control group of customers with similar arrearages and incomes. This analysis is the longest-running impact and process evaluation in the country looking at both energy savings and arrearages from a single program. From this analysis, there is long-term evidence that the program is effective at reducing energy usage and arrearages. Copies of the evaluation report were included in the 2006 filing. Given the positive evaluation results, the Collaborative proposed and the Commission approved in May 2007 continuation of the program at a cost of $150,000 per year, through 2009. Follow up educational reinforcement took place for all participants beginning in the Fall of 2007. For the filing period beginning in the Fall of 2008, 88 participants attended energy education counseling, 66 participants attended budget counseling and 32 participant homes have been weatherized. Test scores for this program will be updated upon completion of the next impact evaluation. Weatherization load impacts and program

costs for the participants were included in the test scores for the Residential Conservation and Energy Education program.

Program 6: Power Manager®

The purpose of the Power Manager program is to reduce demand by controlling residential air conditioning usage during peak demand conditions in the summer months. The program is offered to residential customers with central air conditioning. Duke Energy Kentucky attaches a load control device to the customer's compressor to enable Duke Energy Kentucky to cycle the customer's air conditioner off and on when the load on Duke Energy Kentucky's system reaches peak levels. Customers receive financial incentives for participating in this program based upon the cycling option selected. If a customer selects Option A, their air conditioner is cycled to achieve a 1 kW reduction in load. If a customer selects Option B, the air conditioner is cycled to achieve a 1.5 kW load reduction. Incentives are provided at the time of installation: $25 for Option A and $35 for Option B. In addition, when a cycling event occurs, a Variable Daily Event Incentive based upon marginal costs is also provided.

The cycling of the customer's air-conditioning system has shown that there is minimal impact on the operation of the air-conditioning system or on the customer's comfort level. The load control device has built-in safe guards to prevent the "short cycling" of the air-conditioning system. The air-conditioning system will always run the minimum amount of time required by the manufacturer. The cycling simply causes the air-conditioning system to run less which is no different than what it does on milder days. Research from other programs, including previous Duke Energy Ohio and Duke Energy Kentucky programs, has shown that the indoor temperature should rise approximately

one to two degrees for control Option A and approximately two to three degrees for control Option B. Additionally, the indoor fan will continue to run and circulate air during the cycling event.

The Power Manager program had 1,092 customer enrollments from July of 2008 through June of 2009. 1,648 device installations were completed during the time period. Some customers that were installed during this time period enrolled prior to July of 2008. During 2008 and 2009, quality control assessments, measurements and verification analysis suggested that paging, installation, operations and signaling were not being effectively received within some areas with the Corporate Systems Engineering switches. Therefore, load control switches manufactured by Cooper Power Systems/Cannon Technologies, previously tested in the Duke Energy Ohio territory, were installed in Kentucky beginning in mid- May 2008. This quality management effort has provided increased assurance that the program operates as intended, and at a load reduction level that continues to be cost effective, with an average per switch load reduction of .95 kW. The quality control efforts have covered hundreds of customer sample points in the field, consisting of a general inspection of the health of the air conditioner, the switch installation, and retrieval of the event performance data stored inside the switch. Switch performance data is assessed, and if not performing properly, it is replaced with a new Cannon device. Of 1,584 devices visited, 263 were replaced with new Cannon devices. These quality assurance efforts will continue through 2009 and 2010. In addition, data loggers are installed on a sample of cooling units at customer sites to measure duty cycles, and standard household meters were replaced with interval meters that measure 15-minute kWh usage. Finally, annual operability studies measure the performance of

both types of Power Manager® load control devices installed in Kentucky. The operability studies cover performance of both CSE load control devices and the Cannon load control devices. For both operability studies, an initial collection of register data from load control devices at these sites is completed at the end of the cycling season.

Program 7: ENERGY STAR Products

As approved in Order 2004-00389, the Energy Star Products program provides incentives and market support through manufacturer and retailer partners to build market share and usage of ENERGY STAR products, particularly CFLs. Incentives to buyers, along with educational materials, stimulate demand for the products, and make it easier for partners to participate. The program targets residential customers' purchase of specified ENERGY STAR technologies at local retail stores.

Price continues to be the primary market barrier to CFL adoption. While the average price of CFL's has dropped slightly in the last 12 months, the cost of a CFL is generally much higher than traditional incandescent alternatives (e.g., $2.50 vs. $.75). This cost difference is more exaggerated for specialty CFLs such as "can lights," 3-way bulbs and outdoor lights.

In the Fall of 2008, Duke Energy Kentucky shifted from promoting in-store "Instant Reward" events, where customers were presented an in-store rebate, to more recently sponsored promotions which provide coupons via direct mail. Duke Energy Kentucky partnered with two national retail chains, Wal-Mart and Lowe's Home Improvement, to offer customers two separate discount coupon offers. Mailing discount coupons directly to customers' homes allows Duke Energy Kentucky to reach customers beyond those customers who had previously participated in prior promotions. Further,

program promotion reach was enhanced by offering CFL coupons at two different types of retailers.

The Lowe's promotion ran from October 6, 2008 through December 14, 2008 and promoted coupons worth 40% off selected packages of Bright Effects 13 and 23 watt CFLs. The Wal-Mart campaign kicked off on November 7, 2008, with coupons valid through February 8, 2009. The Wal-Mart offer featured 4 coupons, three worth $3 off General Electric (GE) CFL 3 packs for 13, 20 and 23 watt bulbs, and $5 off a GE CFL 6 pack of 13 watt bulbs. The Lowe's promotion was supported with point of sale posters featuring the ENERGY STAR logo and educational messaging on CFLs. Further enhancements to the program were implemented in the Spring of 2009 with a manufacturer's coupon offer featuring GE branded CFL's. The goal of this campaign was to encourage more customers to participate, by presenting an offer that allowed those customers to use the coupons at the retailer of their choice, further expanding the program's reach. Working closely with our manufacturing partner, GE, Duke Energy Kentucky identified the most popular package size that gave the greatest variety to customers, while at the same time encouraged customers to purchase and install multiple CFL bulbs. Duke Energy Kentucky customers received a coupon mailer with four coupons each offering $3 off the purchase of two GE CFL 2-packs. In addition to having retailer options, this promotional offer gave customers the chance to purchase the wattage and bulb style of their choice, at a discount. The coupons were valid from May 4, through July 11, 2009.

Program 8: Energy Efficiency Website, On-line Energy Assessment

As approved in Order 2004-00389, Duke Energy Kentucky is authorized to offer

opportunities for customers to assess their energy usage and obtain recommendations for more efficient use of energy in their homes at the Duke Energy Kentucky website. This Kentucky program fits suitably into our new multi-state program design now referred to as our Residential Energy Assessment Program.

As an expansion to our previous EE website model, new website pages, new content and new on-line tools have been added. These on-line services help accomplish several things by providing EE information, tips, and bill analysis. However, Duke Energy Kentucky also intends to use these tools to help identify those customers who could benefit most by investing in new EE measures or practices. Those customers can then be targeted for participation in other Duke Energy Kentucky programs.

In September 2008, Duke Energy Kentucky changed to a new online Energy Efficiency (EE) website vendor (ACLARA), and as a result, the online offer for a free EE kit was temporarily discontinued. Thus during the reporting period only 26 participants were recorded, as would be expected during a period of transition. Since this time, we have been working to build a new process that will identify those customers who have not yet completed a survey, and encourage them to visit and complete an easy questionnaire. Participants will receive an immediate, online, printable EE report and also be sent a package of six CFL bulbs. The new ACLARA report will provide information on the entire home's energy usage, providing the customer energy tips and information regarding how they use energy and what simple, low cost/no cost measures can be undertaken to lower their energy bill. The report contains information on month-to-month comparisons of energy usage, trend chart showing usage of electric and/or gas by kWh/ccf by month, a disaggregation of how the customer uses electricity and/or gas in

the most important appliances, and customized energy tips based on the customer's answers to questions in the survey. Expenses for this program during this filing period are related to the participation in the program, as well as the transition to the new energy analysis software vendor.

Program 9: Personalized Energy Report (PER)

The Personalized Energy Report (PER) program provides Duke Energy Kentucky customers with a customized energy report aimed at helping them better manage their energy costs. This program targets single family residential customers in the Duke Energy Kentucky market that have not received measures through the Home Energy House Call EE audit or Residential Conservation & Energy Education programs within the last three years. Duke Energy Kentucky has been working with ACLARA™ software to coordinate the customer's EE experiences between the online offer, described under the Online Energy Assessment program above, and this mailed version, or "paper" offer. Marketing activities under this program were suspended pending the reorganization and harmonization of the website with the new vendor ACLARA. Expenses for this program for this filing period are associated with the transition to this new energy analysis software vendor.

Duke Energy Kentucky intends to enable the mailed paper EE reports to match the online content, for consistency. Plans are in place to offer the PER mailed survey and follow up with a mailed report in the Fall of 2009. To get the paper version of the ACLARA report, along with 6 CFLs, a customer will complete an energy survey which generates the paper PER. The survey stimulates the customer to think about how they use energy, and then the ACLARA report provides them with tools and information to

lower their energy costs. To gain customer participation, the paper PER program commences with a letter to the customer, offering the paper PER if they would return a short, energy survey about their home. The survey asks very simple questions such as age of home, number of occupants, types of fuel used to cool, heat, and cook. Once the survey is returned, the information is used to generate a customized energy report. The report contains the same information described under the online energy information report, but in paper format, mailed to the home, instead of viewed online. Customers who receive the mailed survey will also be encouraged to go online to Duke Energy Kentucky's web site to fill in the same survey online and have the online report immediately available in a printable format. This will save costs in the long run, and provide a source for customers to re-print their report, if desired. Participants will not only receive the valuable report, but also a free package of six CFLs. The bulbs will be two different sizes to accommodate different lighting needs in the home.

Program 10: C&I High Efficiency Incentive (Business and Schools)

The Commission's Order in Case No. 2004-00389 approved a new program for Duke Energy Kentucky to provide incentives to small commercial and industrial customers to install high efficiency equipment in applications involving new construction, retrofit, and replacement of failed equipment. The approval included a portfolio of nearly 100 lighting, HVAC, Motors/Pumps/VFDs, Process, Food Services equipment and Energy Star Commercial Clothes Washers.

Program operations began in October of 2005. However, the portfolio was downsized to some degree until a similar expanded program was approved in either Indiana or Ohio to gain efficiencies in administration costs. Results in the first 9 month

of program rollout were beyond expectation. Thirty-six applications were processed totaling $313,350 in incentives. Duke Energy Kentucky attributed this to a pent-up demand in the marketplace and the installation of the High Bay T-8 and T-5 lighting fixtures. In response to the market, the following adjustments were made to the program in order to serve more customers and remain cost effective:

- Incentives for T-8, T-5 and High Bay fixtures were no longer eligible in a "new construction" application, only retrofit applications. The new construction market was utilizing these technologies as the standard so incentives were no longer necessary.
- The incentive levels for T-8 High Bay and T-5 High Output High Bay fixtures were adjusted to align with price changes in the market.
- A cap of $50,000 per facility per calendar year was implemented in an effort to serve more customers.
- A reservation system was instituted during the proposal stage, to ensure that customers will receive their incentives once the project is complete.

In April of 2007, the program funds had exhausted again and Duke had to carryover $81,248 in incentives for customers until the new fiscal year budget became available. On May 15, 2007, the Commission approved Duke Energy Kentucky's application to increase funding for 100% with an additional $451,885 for a Kentucky Schools program.

In the first quarter of 2008, Duke Energy Kentucky reviewed the program's performance. Based on the current market response and its impact on the current revised budget, Duke Energy Kentucky made the decision to incorporate the new measures

mirroring those in the Ohio program that was approved July of 2007. Announcements in the form of e-mails and direct mail letters regarding the program expansion went out to vendors and all eligible customers in May, 2008. New vendor brochures were distributed in the direct mail letters. Follow-up phone calls to the vendors were made to ensure they received the material and understood the changes to the program. New applications were posted on Duke Energy Kentucky's website.

In March of 2008, Duke Energy Kentucky contracted with WECC through a bid process, to provide the back office support for implementation of this program. This program is jointly implemented with the Duke Energy Indiana and Duke Energy Ohio territories to reduce administrative costs and leverage promotion. The transition from the previous contractor, GoodCents, to WECC took place on November 1, 2008. WECC, located in Madison, WI, has 25 years experience in delivering programs similar to this. They have an office in the Midwest and are able to support Duke Energy programs in this region. They entered into the contract with the experience, infrastructure and resources in place to make this a seamless transition to consumers. The primary delivery of the program is through the existing market channels, equipment providers and contractors. WECC had an existing network of relationships with Vendors and Trade Ally organizations in Duke Energy Kentucky's service territory that have helped promote the sale of energy efficient equipment during these difficult economic times.

During the current reporting period July 2008 through June 2009, the Kentucky Smart $aver program continued to be successful, in spite of the current economic downturn. In the business market 108 customers received $474,531 in incentives.

Schools: assessments, prescriptive and custom efforts

The Schools program approved on May 15, 2007 provides schools funding for facility assessments, custom and prescriptive measures rebates and EE education from the NEED organization.

Due to the timing of the approval, there was modest activity in the schools market the first summer. However, during July 2008 to June 2009, Kenton County schools took advantage of all three components of the Schools program – Assessment funding, Prescriptive and Custom incentives. Seventeen schools in the Kenton County School District received $13,528 towards the cost of assessments; $28,080 in incentives for high efficiency prescriptive measures and $277,579 for a custom lighting project in the schools.

During this same time period, 3 other school districts participated in the Schools Program: Covington Latin, Walton Verona and Campbell County. Campbell County Board of Education received $6,500 and Walton Verona Board of Education received $3,470 in incentives towards the purchase of prescriptive measures. Covington Latin School received $281 towards an assessment; $260 for installation of prescriptive measures and $3,119 in custom incentives.

Duke Energy Kentucky Schools Custom Program was well received. It provided an additional funding source for EE measures which are not included in Duke Energy Kentucky's portfolio of Prescriptive Incentives. The program helped motivate additional custom EE within schools.

Upon receiving a Custom Incentive application, Duke Energy Kentucky reviews the application and performs a technical evaluation as necessary to validate energy savings. Measures submitted by the customer are then modeled in DSMore to determine

an acceptable incentive that ensures cost effectiveness to the program overall, given the energy savings, and improves a customer's payback to move them to invest in energy efficiency. Evaluation follow-up and review includes application review, site visits and/or onsite metering and verification of baseline energy consumption, customer interviews, and/or use of loggers/sub-meters. As use of Custom Incentives increases, Duke Energy Kentucky will evaluate applications and determine if additional measures can be included in the Prescriptive Incentives program. Including measures that repeatedly arise in Custom Incentive applications in the Prescriptive Incentives makes planning and applying for measure incentives easier for customers.

Program 11: PowerShare®

This PowerShare® update will first describe the program and then provide details on participation and curtailments for the summer of 2009. The update also describes significant events occurring that will impact the program next year. PowerShare® is the brand name given to Duke Energy Kentucky's Peak Load Management Program (Rider PLM, Peak Load Management Program KY.P.S.C. Electric No. 2, Sheet No. 77). The PLM Program is voluntary and offers customers the opportunity to reduce their electric costs by managing their electric usage during the Company's peak load periods. Customers and the Company will enter into a service agreement under this Rider, specifying the terms and conditions under which the customer agrees to reduce usage. There are two product options offered for PowerShare® called CallOption® and QuoteOption®:

- CallOption®
    - A customer served under a CallOption® product agrees, upon

notification by the Company, to reduce its demand or provide generation for purchase by the Company.

- Each time the Company exercises its option under the agreement, the Company will provide the customer a credit for the energy reduced or generation provided.
- If available, the customer may elect to buy through the reduction at a market-based price. The buy through option is not always available as specified in the 2009 PowerShare Agreements. During Midwest ISO declared emergency events, customers are not provided the option to buy through.
- In addition to the energy credit, customers on the CallOption® will receive an option premium credit.
- Only customers able to provide a minimum of 100 kW load response qualify for CallOption®.

- QuoteOption®
  - Under the QuoteOption® products, the customer and the Company agree that when the average wholesale market price for energy during the notification period is greater than a pre-determined strike price, the Company may notify the customer of a QuoteOption® event and provide a Price Quote to the customer for each event hour.
  - The customer will decide whether to reduce demand or provide generation during the event period. If they decide to do so, the customer will notify the Company and provide an estimate of the

customer's projected load reduction or generation.

- Each time the Company exercises the option, the Company will provide the customer an energy credit.
- There is no option premium for the QuoteOption® product since customer load reductions are voluntary.
- Only customers able to provide a minimum of 100 kW load response qualify for QuoteOption®.

Rider PLM was approved pursuant as part of the settlement agreement in Case No. 2006-00172. In the Commission's Order in Case No. 2006-00426, approval was given to include the PowerShare® program within the DSM programs.

PowerShare® 2009: Our customer participation goal for 2009 was to retain all customers that currently participate and to promote customer migration to the CallOption® program. The table below compares account participation levels for 2008 and 2009 as well as MW's enrolled in the program. The MW values are Duke Energy Kentucky's estimate of the curtailment capability across the summer of 2009.

Kentucky PowerShare Participation Update

Enrolled Customers

CallOption			QuoteOption		
2008	2009	Change	2008	2009	Change
7	**10**	**3**	**31**	**33**	**2**

Summer Curtailment Capability (MW's)*

CallOption			QuoteOption		
2008	2009	Change	2008	2009	Change
4.4	**12.2**	**7.8**	**6.1**	**6.1**	**0.0**

*Capability for QuoteOption is 80% of enrolled load curtailment estimate
CallOption numbers reported are adjusted for losses

During the summer of 2009, due to mild weather conditions, there were no CallOption® or QuoteOption® events. Therefore, the program's load reduction capability estimate is assessed using the existing contracted loads, de-rated by the average, historically observed realization rate of actual versus contracted load reductions. Due to on-going development of Midwest ISO requirements for Planning Resources, the 2009 PowerShare program has undergone several changes. Midwest ISO has instituted new requirements in 2009 that impact how Duke Energy Kentucky designs and uses the PowerShare program. One notable change is the requirement for programs to allow a minimum of 5 emergency events where customers have no buy through options. This requirement was incorporated into the PowerShare program for 2009 and future years.

For PowerShare 2010, Duke Energy Kentucky currently expects the following changes to be implemented.

- Due to internal and Midwest ISO requirements, the annual enrollment period will begin much earlier than usual. Duke Energy Kentucky anticipates the enrollment effort to start in November 2009 for the Summer 2010 program.
- For consistency, PowerShare CallOption parameters will change slightly to coordinate with Ohio and Indiana PowerShare options. Part of this coordination will be to offer a new option called PowerShare Emergency.
- Other changes, such as testing requirements, will be incorporated as the Midwest ISO finalizes additional rules for demand response to be utilized as Planning Resources.

III. CALCULATION OF THE 2008 DSM COST RECOVERY MECHANISM

The reconciliation of the DSM rider involves a comparison of projected vs. actual

program expenses, lost revenues, and shared savings as well as inclusion of the prior year's reconciliation. The actual cost of residential and non-residential program expenditures, lost revenues, and shared savings for this reporting period was $ 4.7 million. The projected level of expenditures was $6.1 million. Economic conditions have negatively impacted customer participation for programs that require an investment or longer-term commitment from the customer. In addition, the PER was not launched because the program transitioned to new vendor.

Lost revenues are computed using the applicable marginal block rate net of fuel costs and other variable costs times the estimated kWh savings for a three-year period from installation of the DSM measure. The estimate of kWh savings is based upon the results from any recently completed impact evaluation studies and actual customer participation. Lost revenues accumulate over a three-year period from the installation of each measure, unless a general rate case has occurred.

With respect to shared savings, Duke Energy Kentucky utilized the shared incentive of 10% of the total savings net of the costs of measures, incentives to customers, marketing, impact evaluation, and administration. The savings are estimated by multiplying the program spending times the UCT value and then subtracting the program costs. Shared savings are only valued for installation of new DSM measures.

Outline of DSM Activity

Duke Energy Kentucky is planning to offer the following DSM programs in Duke Energy Kentucky's service territory in 2009 as part of its current DSM model, until such time as a new portfolio of programs is approved as part of the Company's save-a-watt filing:

Program 1: Residential Conservation and Energy Education

Program 2: Residential Home Energy House Call

Program 3: Residential Comprehensive Energy Education Program (NEED)

Program 4: Program Administration, Development & Evaluation Funds

Program 5: Payment Plus

Program 6: PowerManager

Program 7: Energy Star Products

Program 8: Energy Efficiency Website

Program 9: Personalized Energy Report (PER)

Program 10: C&I High Efficiency Incentive (including School Incentives)

Program 11: PowerShare®

The Company is also implementing the Home Energy Assistance Program as approved by the Commission in its September 30, 2008 Order in Case No. 2008-00100. The program reconciliation is in this application in Appendix A. This program began collecting funds in November of 2008. A total of $165,922.60 was collected from Duke Energy Customers. ($95,833.80 electric and $70,088.80 gas) through June of 2009. Northern Kentucky Community Action Committee administrative costs for this period totaled $17,464.87. A total of 459 clients were served by this program during the 2009 calendar year.

2009 DSM Riders

In accordance with the Commission's Order in Case No. 95-312, the Joint Applicants submit the proposed DSM Riders (Appendices C and D). The Riders are intended to recover projected 2010 program costs, lost revenues and shared savings and to

reconcile the actual DSM revenue requirement, as previously defined, to the revenue recovered under the DSM Riders for the period July 1, 2008 through June 30, 2009. Appendix B, page 1 of 5, tabulates the reconciliation of the DSM Revenue Requirement associated with the prior reconciliation, Duke Energy Kentucky's program costs, lost revenues, and shared savings between July 1, 2008 and June 30, 2009, and the revenues collected through the DSM Riders over the same period. The true-up adjustment is based upon the difference between the actual DSM revenue requirement and the revenues collected during the period July 1, 2008 through June 30, 2009.

The actual DSM revenue requirement for the period July 1, 2008 through June 30, 2009 consists of: (1) program expenditures, lost revenues, and shared savings; and (2) amounts approved for recovery in the previous reconciliation filing. The actual program costs incurred are reflected in column (2) labeled "Projected Program Costs 7/2008 to 6/2009."

Appendix B, page 5 of 5 contains the calculation of the 2009 Residential DSM Riders. The calculation includes the reconciliation adjustments calculated in Appendix B, page 1 of 5 and the DSM revenue requirement for 2010. The residential DSM revenue requirement for 2010 includes the costs associated with the Residential DSM programs, the program development funds, the Energy Education and Bill Assistance Program (Payment Plus), the PowerManager program, the Energy Star Products program, the Energy Efficiency Website program, the PER program, and any applicable net lost revenues and shared savings (Appendix B, pages 2 and 3 of 5). Total revenue requirements are incorporated along with the projected electric and gas volumes (Appendix B, page 4 of 5) in the calculation of the Residential DSM Rider.

Appendix B, page 5 of 5 also contains the calculation of the 2010 Commercial and Industrial DSM Rider. The calculation includes the reconciliation adjustments calculated in Appendix B, page 1 of 5 and the DSM revenue requirement for 2010. The Commercial & Industrial DSM revenue requirement for 2010 includes the costs associated with the commercial and industrial DSM program (C&I High Efficiency Incentive), the PowerShare® program, the High Efficiency School Incentive program, and the associated net lost revenues and shared savings (Appendix B, pages 2 and 3 of 5). The 2010 Commercial and Industrial DSM Rider is calculated in two parts. One part (Part A) is based upon the revenue requirements for the C&I High Efficiency Incentive Program (Business and Schools). This part is only recovered from all non-residential rate classes except rate TT. The other part (Part B) is based upon the revenue requirements for the PowerShare® program and is recovered from all non-residential rate classes including rate TT.

Total revenue requirements are incorporated along with the projected electric volumes (Appendix B, page 4 of 5) in the calculation of the Residential DSM Rider.

The Company's proposed DSM Riders, shown as Appendices C and D, replace the current DSM Riders, which were implemented in the first available billing cycle of May 2009. The electric DSM rider, proposed to be effective with the first billing cycle in January 2010, is applicable to service provided under Duke Energy Kentucky's electric service tariffs as follows:

Residential Electric Service provided under:

Rate RS, Residential Service, Sheet No. 30

Non-Residential Electric Service provided under:

Rate DS, Service at Secondary Distribution Voltage, Sheet No. 40

Rate DT, Time-of-Day Rate for Service at Distribution Voltage, Sheet No. 41

Rate EH, Optional Rate for Electric Space Heating, Sheet No. 42

Rate SP, Seasonal Sports, Sheet No. 43

Rate GS-FL, Optional Unmetered General Service Rate for Small Fixed Loads, Sheet No. 44

Rate DP, Service at Primary Distribution Voltage, Sheet No. 45

Rate RTP-M, Real Time Pricing – Market-Based Pricing, Sheet No. 59

Rate RTP, Experimental Real Time Pricing Program, Sheet No. 99

Rate TT, Service at Transmission Voltage, Sheet No. 51

The gas DSM rider is applicable to service provided under the following residential gas service tariff:

Rate RS, Residential Service, Sheet No. 30

Calculation of the Residential Charge

The proposed residential charge per kWh for 2010 was calculated by dividing the sum of: (1) the reconciliation amount calculated in Appendix B, page 1 of 5; and (2) the DSM Revenue Requirement associated with the DSM programs projected for calendar year 2010, by the projected sales for calendar year 2010. DSM Program Costs for 2010 include the total implementation costs plus program rebates, lost revenues, and shared savings. The calculations in support of the residential recovery mechanism are provided in Appendix B, page 5 of 5.

Calculation of the Non-Residential Charge

The proposed non-residential charge per kWh for 2010 was calculated in two parts.

The first part (Part A), applicable to all non-residential rate classes except Rate TT, is calculated by dividing the sum of: (1) the reconciliation amount calculated in Appendix B, page 1 of 5; and (2) the DSM Revenue Requirement associated with the C&I High Efficiency Incentive Program projected for calendar year 2010, by the respective projected sales for calendar year 2010. The second part (Part B), applicable to all non-residential rate classes including Rate TT, is calculated by dividing the DSM Revenue Requirement associated with the PowerShare® program projected for calendar year 2010, by total non-residential projected sales for calendar year 2010. DSM Program Cost for 2010 includes the total implementation costs plus program rebates, lost revenues and shared savings.

The rider applicable to all non-residential rate classes except Rate TT is the sum of Part A and Part B. The rider applicable to all non-residential rate classes including Rate TT is only Part B.

Allocation of the DSM Revenue Requirement

As required by KRS 278.285(3), the DSM Cost Recovery Mechanism attributes the costs to be recovered to the respective class that benefits from the programs. The amounts associated with the reconciliation of the Rider are similarly allocated as demonstrated in Appendix B, page 2 of 5. The costs for the PowerManager program are fully allocated to the residential electric class, since this is the class benefiting from the implementation of the program. As required, qualifying industrial customers are permitted to "opt-out" of participation in, and payment for, the C&I High Efficiency Incentive Program. All of Duke Energy Kentucky's Rate TT customers met the "opt-out" requirements prior to the implementation of the DSM Riders in May 1996, and are not subject to this portion of the DSM Cost Recovery Mechanism. However, all non-residential customers, including Rate

TT customers, will be charged for the PowerShare® program.

WHEREFORE, the Joint Applicants respectfully request that the Commission review and approve this Application and Duke Energy Kentucky gives notice that the new rates will take effect 30 days from the date of this Application.

Respectfully submitted,

DUKE ENERGY KENTUCKY, INC.

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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing filing was served on the following via ordinary United States mail, postage prepaid, this 13th day of November, 2009:

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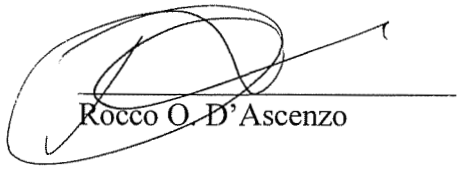

Rocco O. D'Ascenzo

Appendix A

Cost Effectiveness Test Results

Program	UCT	TRC	RIM	Participant
Residential Conservation and Energy Education	1.21	1.21	0.81	NA
Refrigerator Replacement	0.78	0.78	0.44	NA
Residential Home Energy House Call	1.15	1.19	0.65	NA
Residential Comprehensive Energy Education Program (NEED)	0.29	0.29	0.24	NA
Power Manager	2.00	2.32	2.00	NA
Energy Star Products	2.93	3.63	0.65	NA
Energy Efficiency Website	0.43	0.43	0.33	NA
Personal Energy Report (PER)	NA	NA	NA	NA
C&I High Efficiency Incentive (for Businesses and Schools)				
Lighting	7.36	3.74	1.12	4.74
HVAC	8.25	5.63	1.75	4.91
Motors	27.84	10.08	1.26	11.65
Other	47.50	2.34	1.70	2.13
Custom Incentives for Schools	3.56	0.92	0.98	1.18
PowerShare	3.33	945509.00	2.63	NA

Appendix B
Kentucky DSM Rider

Comparison of Revenue Requirement to Rider Recovery

Residential Programs	(1) Projected Program Costs 7/2008 to 6/2009 (A)	(2) Projected Lost Revenues 7/2008 to 6/2009 (A)	(3) Projected Shared Savings 7/2008 to 6/2009 (A)	(4) Program Expenditures 7/08 through 6/09 (B)	(5) Program Expenditures (C) Gas	(6) Program Expenditures (C) Electric	(7) Lost Revenues 7/08 through 6/09 (B)	(8) Shared Savings 7/08 through 6/09 (B)	(9) 2008 Reconciliation Gas (D)	(10) 2008 Reconciliation Electric (E)	(11) Rider Collection (F) Gas	(12) Rider Collection (F) Electric	(13) (Over)/Under Collection Gas (G)	(14) (Over)/Under Collection Electric (H)
Res. Conservation & Energy Education	$ 499,800	$ 16,525	$ (3,499)	$ 517,967	$ 325,800	$ 192,167	$ 17,737	$ 10,879			NA	NA	NA	NA
Refrigerator Replacement	$ 100,000	$ 6,145	$ 300	$ 75,037		$ 75,037	$ 9,198	$ (1,633)						
Residential Home Energy House Call	$ 150,000	$ 49,810	$ 35,700	$ 117,743	$ 74,060	$ 43,683	$ 27,163	$ 1,766			NA	NA	NA	NA
Res. Comprehensive Energy Education	$ 81,500	$ -	$ -	$ 80,609	$ 50,703	$ 29,906	$ -	$ -			NA	NA	NA	NA
Payment Plus	$ 150,000	$ -	$ -	$ 103,925		$ 103,925	$ -	$ -						
Power Manager	$ 875,000	$ -	$ 174,000	$ 745,159		$ 745,159	$ -	$ 74,519						
Program Development Funds	$ 140,000	$ -	$ -	$ 86,376	$ 54,330	$ 32,046	$ -	$ -			NA	NA	NA	NA
Energy Star Products	$ 243,000	$ 690,225	$ 63,450	$ 78,755	$ 49,537	$ 29,218	$ 735,035	$ 12,023			NA	NA	NA	NA
Energy Efficiency Website	$ 31,110	$ 26,781	$ 2,955	$ 9,649	$ 6,069	$ 3,580	$ 7,521	$ (549)			NA	NA	NA	NA
Personalized Energy Report Pilot Program	$ 153,000	$ 121,547	$ 73,134	$ 7,276	$ 4,576	$ 2,700	$ -	$ -			NA	NA	NA	NA
Home Energy Assistance Pilot Program (I)	$ -	$ -	$ -	$ 165,923	$ 104,365	$ 61,558	$ -	$ -			$ 70,089	$ 95,834	NA	NA
Revenues collected except for HEA											(528844)	$ 2,359,033		
Total	$ 2,423,410	$ 911,033	$ 346,040	$ 1,988,417	$ 669,440	$ 1,318,977	$ 796,654	$ 97,004	$ 2,724,504	$ (15,724)	$ (458,755)	$ 2,454,867	$ 3,852,699	$ (257,957)

(A) Amounts identified in report filed on November 15, 2008.
(B) Actual program expenditures, lost revenues, and shared savings for the period July 1, 2008 through June 30, 2009 and lost revenues for this period and from prior period DSM measure installations.
(C) Allocation of program expenditures to gas and electric. Uses 62.9% gas based upon saturation of gas space heating.
(D) Recovery allowed in accordance with the Commission's Order in Case No. 2004-00389.
(E) Recovery allowed in accordance with the Commission's Order in Case No. 2004-00389.
(F) Revenues collected through the DSM Rider between July 1, 2008 and June 30, 2009.
(G) Column (5) + Column (9) - Column(11).
(H) Column (6) + Column (7) + Column (8) + Column (10) - Column(12).
(I) Revenues and expenses for the Home Energy Assistance Pilot Program.

Commercial Programs	(1) Projected Program Costs 7/2008 to 6/2009 (A)	(2) Projected Lost Revenues 7/2008 to 6/2009 (A)	(3) Projected Shared Savings 7/2008 to 6/2009 (A)	(4) Program Expenditures 7/08 through 6/09 (B)	(5) Lost Revenues 7/08 through 6/09 (B)	(6) Shared Savings 7/08 through 6/09 (B)	(7) 2008 Reconciliation (C)	(8) Rider Collection (D)	(9) ((Over)/Under Collection (E)
High Efficiency Program									
Lighting	$ 209,520	$ 308,352	$ 10,698	$ -	$ 671,921	$ 792,148			
HVAC	$ 142,760	$ 29,247	$ 14,588	$ -	$ 17,422	$ 177,666			
Motors	$ 100,678	$ 21,031	$ 25,718	$ -	$ 3,027	$ 38,605			
Other	$ 450,814	$ 298,836	$ 448,830	$ -	$ 19,699	$ 282,775			
Total for High Efficiency Program	$ 903,772	$ 657,466	$ 499,834	$ 857,531	$ 712,068	$ 1,291,194	$ (184,637)	$ 2,909,726	$ (233,569)
PowerShare®	$ 265,000	$ -	$ 107,641	$ 283,807	$ -	$ 66,127	$ (237,422)	$ 296,046	$ (183,533)

(A) Amounts identified in report filed on November 15, 2008.
(B) Actual program expenditures, lost revenues, and shared savings for the period July 1, 2008 through June 30, 2009 and lost revenues for this period and from prior period DSM measure installations.
(C) Recovery allowed in accordance with the Commission's Order in Case No. 2004-00389. Corrected for error in last year's reconciliation.
(D) Revenues collected through the DSM Rider between July 1, 2008 and June 30, 2009.
(E) Column (4) + Column (5) + Column (6) + Column (7) - Column (8)

2009 Projected Program Costs, Lost Revenues, and Shared Savings

Residential Program Summary

	Costs	Lost Revenues	Shared Savings	Total	Allocation of Costs Electric	Allocation of Costs Gas	Electric Costs	Budget (Costs, Lost Revenues, & Shared Savings) Electric	Budget (Costs, Lost Revenues, & Shared Savings) Gas Costs
Residential - Current Programs/Measures									
Residential Conservation & Energy Education	$ 499,800	$ 16,525	$ (3,499)	$ 512,826	37.1%	62.9%	$ 185,426	$ 198,452	$ 314,374
Refrigerator Replacement	$ 100,000	$ 6,145	$ 300	$ 106,445	100.0%	0.0%	$ 100,000	$ 106,445	$ -
Home Energy House Call	$ 150,000	$ 49,810	$ 35,700	$ 235,510	37.1%	62.9%	$ 55,650	$ 141,160	$ 94,350
Residential Comprehensive Energy Education	$ 81,500	$ -	$ -	$ 81,500	37.1%	62.9%	$ 30,237	$ 30,237	$ 51,264
Home Energy Assistance Plus (continuing)	$ 150,000	$ -	$ -	$ 150,000	37.1%	62.9%	$ 55,650	$ 55,650	$ 94,350
Power Manager	$ 875,000	$ -	$ 174,000	$ 1,049,000	100.0%	0.0%	$ 875,000	$ 1,049,000	$ -
Program Development Funds	$ 140,000	$ -	$ -	$ 140,000	37.1%	62.9%	$ 51,940	$ 51,940	$ 88,060
Energy Star Products	$ 243,000	$ 690,225	$ 63,450	$ 996,675	100.0%	0.0%	$ 243,000	$ 996,675	$ -
CFL's (Compact Fluorescent Lights)									
Torchieres (Floor lamps)									
Energy Efficiency Web Site	$ 31,110	$ 26,781	$ 2,955	$ 60,846	37.1%	62.9%	$ 11,542	$ 41,278	$ 19,568
Personalized Energy Report Pilot Program	$ 153,000	$ 121,547	$ 73,134	$ 347,681	37.1%	62.9%	$ 56,763	$ 251,444	$ 96,237
Total Costs, Net Lost Revenues, Shared Savings	$ 2,423,410	$ 911,033	$ 346,040	$ 3,680,483			$ 1,665,207	$ 2,922,280	$ 758,203
Home Energy Assistance Pilot Program	$ 247,886							$ 143,360	$ 104,526

C&I DSM Program Summary

High Efficiency Program	Costs	Lost Revenues	Shared Savings	Total	Allocations Electric	Allocations Gas	Electric Costs	Budget (Costs, Lost Revenues, & Shared Savings) Electric	Budget (Costs, Lost Revenues, & Shared Savings) Gas
Lighting	$ 104,760	$ 273,388	$ 5,349	$ 383,497	100.0%	0.0%	$ 104,760	$ 383,497	NA
HVAC	$ 71,380	$ 15,925	$ 7,294	$ 94,598	100.0%	0.0%	$ 71,380	$ 94,598	NA
Motors	$ 50,339	$ 10,610	$ 12,859	$ 73,808	100.0%	0.0%	$ 50,339	$ 73,808	NA
Other	$ 225,407	$ 149,418	$ 224,415	$ 599,240	100.0%	0.0%	$ 225,407	$ 599,240	NA
Total for the High Efficiency Program	$ 451,885	$ 449,341	$ 249,916	$ 1,151,143			$ 451,885	$ 1,151,143	

High Efficiency School Incentive Program	Costs	Lost Revenues	Shared Savings	Total	Allocations Electric	Allocations Gas	Electric Costs	Budget (Costs, Lost Revenues, & Shared Savings) Electric	Budget (Costs, Lost Revenues, & Shared Savings) Gas
Lighting	$ 104,760	$ 34,963	$ 5,349	$ 145,072	100.0%	0.0%	$ 104,760	$ 145,072	NA
HVAC	$ 71,380	$ 13,323	$ 7,294	$ 91,996	100.0%	0.0%	$ 71,380	$ 91,996	NA
Motors	$ 50,339	$ 10,421	$ 12,859	$ 73,619	100.0%	0.0%	$ 50,339	$ 73,619	NA
Other	$ 225,407	$ 149,418	$ 224,415	$ 599,240	100.0%	0.0%	$ 225,407	$ 599,240	NA
Total for the High Efficiency School Incentive Program	$ 451,885	$ 208,125	$ 249,916	$ 909,927			$ 451,885	$ 909,927	

	Costs	Lost Revenues	Shared Savings	Total	Allocations Electric	Allocations Gas	Electric Costs	Budget (Costs, Lost Revenues, & Shared Savings) Electric	Budget (Costs, Lost Revenues, & Shared Savings) Gas
PowerShare® Program	$ 265,000		$ 107,641	$ 372,641	100.0%	0.0%	$ 265,000	$ 372,641	NA
Total C&I DSM Program	$ 1,168,771	$ 657,466	$ 607,474	$ 2,433,710				$ 2,433,710	
Total Program	$ 3,592,181	$ 1,568,499	$ 953,514	$ 6,114,193					

Duke Energy Kentucky
Demand Side Management Cost Recovery Rider (DSMR)
Summary of Calculations for Programs

January, 2010 through December, 2010

	Program Costs (A)
Electric Rider DSM	
Residential Rate RS	$ 2,922,280
Distribution Level Rates Part A DS, DP, DT, GS-FL, EH & SP	$ 2,061,069
Transmission Level Rates & Distribution Level Rates Part B	$ 372,641
Gas Rider DSM	
Residential Rate RS	$ 758,203

(A) See Appendix I, page 2 of 5.

Duke Energy Kentucky
Demand Side Management Cost Recovery Rider (DSMR)
Summary of Billing Determinants

Year	2009
Projected Annual Electric Sales kWH	
Rates RS	1,454,008,000
Rates DS, DP, DT, GS-FL, EH, & SP	2,174,110,000
Rates DS, DP, DT, GS-FL, EH, SP, & TT	2,387,338,000
Projected Annual Gas Sales CCF	
Rate RS	62,445,060

Appendix B

Duke Energy Kentucky
Demand Side Management Cost Recovery Rider (DSMR)
Summary of Calculations

January, 2009 through December, 2009

Rate Schedule Riders	True-Up Amount (A)	Expected Program Costs (B)	Total DSM Revenue Requirements	Estimated Billing Determinants (C)		DSM Cost Recovery Rider (DSMR)	
Electric Rider DSM							
Residential Rate RS	$ (261,774)	$ 2,922,280	$ 2,660,506	1,454,008,000	kWh	$ 0.001830	$/kWh
Distribution Level Rates Part A							
DS, DP, DT, GS-FL, EH & SP	$ (237,026)	$ 2,061,069	$ 1,824,043	2,174,110,000	kWh	$ 0.000839	$/kWh
Transmission Level Rates & Distribution Level Rates Part B							
TT	$ (186,250)	$ 372,641	$ 186,391	2,387,338,000	kWh	$ 0.000078	$/kWh
Distribution Level Rates Total							
DS, DP, DT, GS-FL, EH & SP						$ 0.000917	$/kWh
Gas Rider DSM							
Residential Rate RS	$ 3,909,719	$ 758,203	$ 4,667,922	62,445,060	CCF	$ 0.074752	$/CCF
Total Rider Recovery			$ 9,338,862				
Customer Charge for HEA Program							
Electric No.4			Annual Revenues	Number of Customers		Monthly Customer Charge	
Residential Rate RS			$ 143,360	119,467		$ 0.10	
Gas No. 5							
Residential Rate RS			$ 104,526	87,105		$ 0.10	
Total Customer Charge Revenues			$ 247,886				
Total Recovery			$ 9,586,748				

(A) (Over)/Under of Appendix J page 1multiplied by 1.0148 for 2009 for the average three-month commercial paper rate to include interest on over or under-recovery.
(B) Appendix I, page 2.
(C) Appendix I, page 4.

Appendix C

Duke Energy Kentucky
525 W. Fifth Street, Suite 228
Covington, Kentucky 41011

KY.P.S.C. Gas No. 2
Fifth Revised Sheet No. 62
Cancels and Supersedes
Fourth Revised Sheet No. 62
Page 1 of 1

RIDER DSMR

DEMAND SIDE MANAGEMENT RATE

The Demand Side Management Rate (DSMR) shall be determined in accordance with the provisions of Rider DSM, Demand Side Management Cost Recovery Rider, Sheet No. 61 of this Tariff.

The DSMR to be applied to residential customer bills is $0.074752 per hundred cubic feet.

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

The DSMR to be applied to non-residential service customer bills is $0.00 per hundred cubic feet.

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

Issued: Effective:

Issued by Julie Janson, President

Appendix D

Duke Energy Kentucky
525 W. Fifth Street, Suite 228
Covington, Kentucky 41011

KY.P.S.C. Electric No. 2
Fifth Revised Sheet No. 78
Cancels and Supersedes
Fourth Revised Sheet No. 78
Page 1 of 1

RIDER DSMR

DEMAND SIDE MANAGEMENT RATE

The Demand Side Management Rate (DSMR) shall be determined in accordance with the provisions of Rider DSM, Demand Side Management Cost Recovery Rider, Sheet No. 75 of this Tariff.

The DSMR to be applied to residential customer bills is $0.001830 per kilowatt-hour.

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

The DSMR to be applied to non-residential distribution service customer bills is $0.000917 per kilowatt-hour.

The DSMR to be applied for transmission service customer bills is $0.000078 per kilowatt-hour.

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

Issued: Effective:

Issued by Julie Janson, President