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DUKE ENERGY CORPORATION OCT 05 2010

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PUBLIC SERVICE  
COMMISSION

Kristen Cocanougher  
Sr. Paralegal  
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**VIA OVERNIGHT DELIVERY**

October 4, 2010

Ms. Linda Faulkner  
Filings Division Director  
Kentucky Public Service Commission  
211 Sower Blvd  
Frankfort, KY 40601

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OCT 05 2010

PUBLIC SERVICE  
COMMISSION

Re: In the Matter of the Application of Duke Energy Kentucky, Inc. for an Order to Enter into up to \$25,000,000 Principal Amount of Capital Lease Obligations Case No. 2010-370

Dear Ms. Faulkner:

Please accept this correspondence as a response to your September 28, 2010 letter relative to the above-referenced matter. It has been discovered that typographical errors occurred within Exhibit C. Duke Energy Kentucky has made the changes in the enclosed documents. I apologize for any inconvenience this may have caused.

Enclosed please find an original and twelve copies of a redlined version of Exhibit C and a final version of Exhibit C. Please make certain that the changes are noted in the record. Feel free to contact me should you have any questions.

Sincerely,

Kristen Cocanougher

cc: Hon. Larry Cook

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OCT 05 2010

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COMMISSION

Duke Energy Kentucky  
Exhibit C  
Page 1 of 67

**FINANCIAL EXHIBIT**

(1) **Amount and kinds of stock authorized**

1,000,000 shares of Capital Stock \$15 par value amounting to \$15,000,000 par value.

(2) **Amount and kinds of stock issued and outstanding**

585,333 shares of Capital Stock \$15 par value amounting to \$8,779,995 total par value. Total Capital Stock and Additional Paid-in Capital as of June 30, 2010:

Capital Stock and Additional Paid-in Capital

As of ~~6/30/2010~~ 6/30/2010

(\$ per 1,000)

Capital Stock	\$8,780
Premiums thereon	18,839
Total Capital Contributions from Parent (since 2006)	8,594
Contribution from Parent Company for Purchase of Generation Assets	140,061
Total Capital Stock and Additional Paid-in-Capital	<u>\$176,274</u>

(3) **Terms of preference or preferred stock whether cumulative or participating, or on dividends or assets or otherwise.**

There is no preferred stock authorized, issued or outstanding.

(4) **Brief description of each mortgage on property of applicant, giving date of execution, name of mortgagor, name or mortgagee, or trustee, amount of indebtedness authorized to be secured thereby, and the amount of indebtedness actually secured, together with any sinking fund provision.**

Duke Energy Kentucky does not have any liabilities secured by a mortgage.

(5) **Amount of bonds authorized, and amount issued, giving the name of the public utility which issued the same, describing each class separately, and giving the date of issue, face value, rate of interest, date of maturity and how secured, together with the amount of interest paid thereon during the last fiscal year.**

The Company has three outstanding issues of unsecured senior debentures issued under an Indenture dated December 1, 2004, between itself and Deutsche Bank Trust Company Americas, as Trustee, as supplemented by one Supplemental Indenture. The Indenture allows the Company to issue debt securities in an unlimited amount from time to time. The Debentures issued under the Indenture are the following:

Supplemental Indenture	Date of Issue	Principal Amount Authorized and Issued	Principal Amount Outstanding	Rate of Interest	Date of Maturity	Interest Paid Year 2007 <sup>9</sup>
Not Applicable	12/9/2004	40,000,000	40,000,000	5.000%	12/15/2014	2,000,000
1 <sup>st</sup> Supplemental	3/10/2006	50,000,000	50,000,000	5.750%	3/10/2016	2,875,000
1 <sup>st</sup> Supplemental	3/10/2006	65,000,000	65,000,000	6.200%	3/10/2036	4,030,000
2 <sup>nd</sup> Supplemental	9/22/2009	100,000,000	100,000,000	4.65%	10/1/2019	0
			155,000,000			8,905,000

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**(6) Each note outstanding, giving date of issue, amount, date of maturity, rate of interest, in whose favor, together with amount of interest paid thereon during the last fiscal year.**

Not applicable. Duke Energy Kentucky has no outstanding notes other than the short term notes permitted under the terms of the Utility Money Pool Agreement approved by the Commission.

**(7) Other indebtedness, giving same by classes and describing security, if any, with a brief statement of the devolution or assumption of any portion of such indebtedness upon or by person or corporation if the original liability has been transferred, together with amount of interest paid thereon during the last fiscal year.**

The Company has two series of Pollution Control Revenue Refunding Bonds issued under a Trust Indenture dated as of August 1, 2006, and a Trust Indenture dated as of December 1, 2008, between the County of Boone, Kentucky and Deutsche Bank National Trust Company as Trustee. The Company's obligation to make payments equal to debt service on the Bonds is evidenced by a Loan Agreement dated as of August 1, 2006 and December 1, 2008 between the County of Boone, Kentucky and Duke Energy Kentucky. The Bonds issued under the Indentures are as follows:

**Duke Energy Kentucky**  
**Exhibit C**  
**Page 3 of 67**

Indenture	Date of Issue	Principal Amount Authorized and Issued	Principal Amount Outstanding	Rate of Interest	Date of Maturity	Interest Paid Year 2009 <sup>7</sup>
Series 2008A	12/11/2008	50,000,000	50,000,000	3.6% <sup>(1)</sup>	8/1/2027	178,761
Series 2006B	8/2/2006	26,720,000	<u>26,720,000</u>	3.63% <sup>(2)</sup>	8/1/2027	<u>968,654</u>
			<u>76,720,000</u>			<u>1,147,415</u>

(1) The interest rate represents the average floating-rate of interest on the bonds for 2007<sup>9</sup>. The interest rate on the bonds resets every 35 days through an auction process.

(2) The variable-rate debt was swapped to a fixed rate of 3.86% for the life of the debt.

The Company has issued and has outstanding as of June 30, 2010 the following capital leases:

Series	Date of Issue	Principal Amount Authorized and Issued	Principal Amount Outstanding	Rate of Interest	Date of Maturity
2001	12/20/2001	1,411,952	335,507	5.997	09/20/2010
2002	12/20/2002	1,074,181	355,987	4.481	09/20/2011
2003	12/20/2003	2,068,445	907,785	4.740	09/20/2012
2004	12/25/2004	2,017,084	1,088,631	5.010	09/25/2013
2005	12/30/2005	2,079,031	1,309,722	4.893	12/30/2014
2006	12/28/2006	2,406,336	1,734,670	5.000	12/30/2015
Erlanger	12/30/2006	2,100,000	1,705,004	8.634	09/30/2020
2007	12/31/2007	3,066,955	2,474,321	5.115	12/31/2016
2009	04/21/2009	3,429,432	3,110,551	4.821	04/21/2018
2010	06/18/2010	<u>955,061</u>	<u>955,061</u>	3.330	06/18/2019
		<u>20,608,477</u>	<u>13,977,239</u>		

The Company also has outstanding as of June 30, 2010, long term debt in the amount of \$851,494 associated with the July 31, 2007 sale of a gas storage cavern carrying an interest rate of 4.77% and a maturity date of July 31, 2027.

(8) **Rate and amount of dividends paid during the last five (5) previous fiscal years, and the amount of capital stock on which dividends were paid each year.**

**DIVIDENDS PER SHARE**

Year Ending	Per Share	Total	No. of Shares	Par Value of Stock
December 31, 2003	\$10.77	6,304,036	585,333	8,779,995
December 31, 2004	24.94	14,600,000	585,333	8,779,995
December 31, 2005	17.03	9,965,521	585,333	8,779,995
December 31, 2006	0.00	0	585,333	8,779,995
December 31, 2007	0.00	0	585,333	8,779,995
December 31, 2008	51.25	30,000,000	585,333	8,779,995
December 31, 2009	0.00	0	585,333	8,779,995

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(9) **Detailed Income Statement and Balance Sheet**

See the attached pages for the detailed Income Statement for the twelve months ended June 30, 2010 and the detailed Balance Sheet as of June 30, 2010.

**FINANCIAL EXHIBIT**

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**Duke Energy Kentucky**  
**Exhibit C**  
**Page 3 of 7**

Indenture	Date of Issue	Principal Amount Authorized and Issued	Principal Amount Outstanding	Rate of Interest	Date of Maturity	Interest Paid Year 2009
Series 2008A	12/11/2008	50,000,000	50,000,000	.36% <sup>(1)</sup>	8/1/2027	178,761
Series 2006B	8/2/2006	26,720,000	<u>26,720,000</u>	3.63% <sup>(2)</sup>	8/1/2027	<u>968,654</u>
			<u>76,720,000</u>			<u>1,147,415</u>

<sup>(1)</sup> The interest rate represents the average floating-rate of interest on the bonds for 2009. The interest rate on the bonds resets every 35 days through an auction process.

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December 31, 2005	17.03	9,965,521	585,333	8,779,995
December 31, 2006	0.00	0	585,333	8,779,995
December 31, 2007	0.00	0	585,333	8,779,995
December 31, 2008	51.25	30,000,000	585,333	8,779,995
December 31, 2009	0.00	0	585,333	8,779,995

- (9) **Detailed Income Statement and Balance Sheet**

See the attached pages for the detailed Income Statement for the twelve months ended June 30, 2010 and the detailed Balance Sheet as of June 30, 2010.

Duke Energy Kentucky, Inc.  
Quarterly Supplemental Financial Statements  
Balance Sheet - Page 1  
As of June 30, 2010  
(Unaudited)

	Electric Jurisdictional	Gas Jurisdictional	Non- Jurisdictional	Total Company
<b>Assets</b>				
Utility Plant in Service	1,178,273,040	384,122,611	12,413,824	1,574,809,475
Construction Work in Progress	8,611,436	883,031	-	9,494,467
Less Accum. Depreciation	(578,648,160)	(105,061,247)	(7,814,060)	(691,523,467)
Net Utility Plant	<u>608,236,316</u>	<u>279,944,395</u>	<u>4,599,764</u>	<u>892,780,475</u>
Nonutility Property	-	-	8,494,911	8,494,911
Other Investments	-	-	1,500	1,500
Total Other Property & Investments	<u>-</u>	<u>-</u>	<u>8,496,411</u>	<u>8,496,411</u>
Cash	6,188,239	2,540,660	(463,366)	8,265,533
Working Funds	1,872	768	(140)	2,500
Temporary Cash Investments	-	-	-	0
Customer Accounts Re	697,150	261,497	-	958,647
Other Accounts Receivable	3,770,325	1,547,954	(282,316)	5,035,963
Less Provision for Uncollectibles	(244,324)	(91,645)	-	(335,969)
Notes Receivable from Assoc. Co.	72,737,658	29,863,361	(5,446,483)	97,154,536
Accounts Receivable from Assoc. Co.	2,032,375	834,417	(152,181)	2,714,611
Fuel Stock	21,168,291	536,553	996,455	22,701,299
Gas Stored Underground Inventory	-	4,616,520	-	4,616,520
Plant Materials & Operating Supplies	11,693,457	82,166	-	11,775,623
Other Materials & Supplies	107	1	-	108
Stores Expense Undistributed	869,308	6,108	-	875,416
Prepayments	1,937,495	917,220	-	2,854,715
Emission Allowances	2,187,079	-	-	2,187,079
Derivative Instrument Assets	26,068	-	-	26,068
Interest & Dividends Receivable	1,427	586	(107)	1,906
Misc Current and Accrued Assets	502,000	-	-	502,000
Total Current & Accrued Assets	<u>123,568,527</u>	<u>41,116,166</u>	<u>(5,348,138)</u>	<u>159,336,555</u>
Unamortized Debt Expense	1,721,133	706,633	(128,876)	2,298,890
Other Regulatory Assets	12,153,943	5,250,982	-	17,404,925
Preliminary Survey & Investigation	1,041,674	427,672	(77,999)	1,391,347
Clearing Accounts	7,849	2,903	-	10,752
Temporary Facilities	(38,955)	-	-	(38,955)
Miscellaneous Deferred Debits	26,419,807	10,846,985	(1,978,274)	35,288,518
Unamortized Loss on Reacquired Debt	2,424,504	995,410	(181,543)	3,238,371
Accumulated Deferred Income Taxes	(13,724,258)	9,074,426	2,360,627	(2,289,205)
Unrecovered Purchased Gas Costs	-	(2,101,603)	-	(2,101,603)
Total Deferred Debits	<u>30,005,697</u>	<u>25,203,408</u>	<u>(6,065)</u>	<u>55,203,040</u>
<b>TOTAL ASSETS AND OTHER DEBITS</b>	<u><u>761,810,540</u></u>	<u><u>346,263,969</u></u>	<u><u>7,741,972</u></u>	<u><u>1,115,816,481</u></u>

Duke Energy Kentucky, Inc.

Quarterly Supplemental Financial Statements  
Balance Sheet - Page 2  
As of June 30, 2010  
(Unaudited)

	Electric Jurisdictional	Gas Jurisdictional	Non- Jurisdictional	Total Company
<u>Proprietary Capital</u>				
Common Stock Issued	6,573,407	2,698,795	(492,207)	8,779,995
Premium on Capital Stock	14,104,342	5,790,715	(1,056,111)	18,838,946
Other Paid-in Capital Stock	111,295,166	45,693,632	(8,333,609)	148,655,189
Retained Earnings	231,137,737	95,664,798	(60,463,612)	266,338,923
Accumulated Other Comprehensive Income	-	-	-	-
Total Proprietary Capital	<u>363,110,652</u>	<u>149,847,940</u>	<u>(70,345,539)</u>	<u>442,613,053</u>
<u>Liabilities</u>				
Bonds	248,989,626	102,225,826	(18,643,958)	332,571,494
Less Unamortized Discount on Long-Term Debt	(633,310)	(260,013)	47,421	(845,902)
Total Long-Term Debt	<u>248,356,316</u>	<u>101,965,813</u>	<u>(18,596,537)</u>	<u>331,725,592</u>
Obligations Under Capital Leases - Noncurrent	8,534,170	3,503,760	-	12,037,930
Asset Retirement Obligation	1,883,804	5,348,431	-	7,232,235
Long-Term Portion of Derivative Instrument Liabilities	4,179,008	1,545,503	-	5,724,511
Accum. Misc. Operating Provisions	6,405,379	10,878,079	-	17,283,458
Total Other Noncurrent Liabilities	<u>21,002,361</u>	<u>21,275,773</u>	<u>-</u>	<u>42,278,134</u>
Accounts Payable	14,122,991	5,798,372	(1,057,508)	18,863,855
Notes Payable to Assoc. Co.	-	-	-	0
Accounts Payable to Assoc. Co.	11,297,919	4,638,503	(845,971)	15,090,451
Customer Deposits	4,685,804	3,151,300	-	7,837,104
Taxes Accrued	6,409,616	3,168,077	216,152	9,793,845
Interest Accrued	4,069,031	1,670,592	(304,683)	5,434,940
Tax Collections Payable	959,484	429,149	42,982	1,431,615
Misc. Current & Accrued Liabilities	8,350,368	3,088,179	-	11,438,547
Obligations Under Capital Leases - Current	1,374,854	564,456	-	1,939,310
Total Current & Accrued Liabilities	<u>51,270,067</u>	<u>22,508,628</u>	<u>(1,949,028)</u>	<u>71,829,667</u>
Customer Advances for Construction	-	1,298,019	-	1,298,019
Accum. Deferred Investment Tax Credits	(1,317,752)	1,097,381	3,254,823	3,034,452
Other Deferred Credits	14,200,085	4,728,314	-	18,928,399
Other Regulatory Liabilities	811,069	347,501	-	1,158,570
Accumulated Deferred Income Taxes	64,377,742	43,194,600	95,378,253	202,950,595
Total Deferred Credits	<u>78,071,144</u>	<u>50,665,815</u>	<u>98,633,076</u>	<u>227,370,035</u>
TOTAL PROPRIETARY CAPITAL, LIABILITIES, AND OTHER DEFERRED CREDITS	<u>761,810,540</u>	<u>346,263,969</u>	<u>7,741,972</u>	<u>1,115,816,481</u>

Quarterly Supplemental Financial Statements  
Income Statement  
For the 12 Months Ended June 30, 2010  
(Unaudited)

	Electric Jurisdictional	Gas Jurisdictional	Non- Jurisdictional	Total Company
<u>Revenues</u>				
Residential Sales	122,852,029	84,201,318	-	207,053,347
Commercial Sales	110,024,785	30,749,384	-	140,774,169
Industrial Sales	51,756,791	2,920,818	-	54,677,609
Sales to Public Authorities	22,963,671	3,750,713	-	26,714,384
Public Street & Highway Lighting	1,702,918	962	-	1,703,880
Inter-Departmental Sales	53,398	32,078	-	85,476
Misc Service Revenues	(129,916)	57,236	514,092	441,412
Revenues from Transportation	-	5,200,141	-	5,200,141
Sales for Resale	19,513,157	-	-	19,513,157
Rents from Property	459,112	34,188	1,561,700	2,055,000
Other Revenues	9,084,074	12,097	-	9,096,171
Total Revenues	<u>338,280,019</u>	<u>126,958,935</u>	<u>2,075,792</u>	<u>467,314,746</u>
<u>Operating Expenses</u>				
Operation Expense	225,658,873	89,329,625	97,469	315,085,967
Maintenance Expense	26,089,318	1,645,740	69,336	27,804,394
Depreciation Expense	29,611,277	11,214,871	1,684,994	42,511,142
Amortization and Depletion	3,594,556	1,763,353	-	5,357,909
Taxes Other than Income Taxes	7,103,388	3,177,139	318,211	10,598,738
Income Taxes - Federal & Other	12,436,479	6,480,817	340,733	19,258,029
Provision of Deferred Income Taxes - Net	3,338,406	2,086,578	487,432	5,912,416
Investment Tax Credit Adjustment	-	406	(406)	-
Total Operating Expenses	<u>307,832,297</u>	<u>115,698,529</u>	<u>2,997,769</u>	<u>426,528,595</u>
NET OPERATING INCOME	<u>30,447,722</u>	<u>11,260,406</u>	<u>(921,977)</u>	<u>40,786,151</u>
<u>Other Income &amp; Deductions</u>				
Revenues from Merchandising, Jobbing and Contract Work	-	-	381,335	381,335
Less Expense of Merchandising, Jobbing and Contract Work	-	-	(179,194)	(179,194)
Revenues from Nonutility Operations	-	-	(473,358)	(473,358)
Interest & Dividend Income	-	-	2,767,983	2,767,983
AFUDC	249,693	73,240	-	322,933
Gain on Disposition of Property	-	-	(24)	(24)
Loss on Disposition of Property	-	-	-	-
Misc Income Deductions	-	-	(844,470)	(844,470)
Taxes Other than Income Taxes	-	-	(79,944)	(79,944)
Income Taxes - Federal & Other	-	-	8,799,672	8,799,672
Provision for Deferred Income Taxes - Net	-	-	(2,380,568)	(2,380,568)
Total Other Income & Deductions	<u>249,693</u>	<u>73,240</u>	<u>7,991,432</u>	<u>8,314,365</u>
<u>Interest Charges</u>				
Interest on Long Term Debt	(9,871,832)	(4,053,005)	739,188	(13,185,649)
Amortization of Debt Disc. And Expense	(284,631)	(116,859)	21,313	(380,177)
Amortization of Loss on Reacquired Debt	(211,984)	(87,032)	15,873	(283,143)
Interest on Debt to Assoc Co	(274)	(113)	21	(366)
Other Interest Expense	(2,536,794)	(1,041,513)	189,951	(3,388,356)
Less Allowance for Borrowed Fund Used During Construction - Credit	153,655	21,806	-	175,461
Net interest Charges	<u>(12,751,860)</u>	<u>(5,276,716)</u>	<u>966,346</u>	<u>(17,062,230)</u>
Extraordinary Items after Taxes	-	-	-	-
NET INCOME	<u>17,945,555</u>	<u>6,056,930</u>	<u>8,035,801</u>	<u>32,038,286</u>