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VIA FAX
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October 22, 2012

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

RECEIVED

OCT 23 2012

PUBLIC SERVICE
COMMISSION

Re: Case No. 2008-0408
*In the Matter of the Consideration of the New Federal Standards of the Energy
Independence and Security Act of 2007*

Dear Mr. Derouen:

On July 24, 2012, this Commission entered an Order requiring utilities to develop policies and procedures that ensure that cost-effective energy efficiency is given the same priority as all other cost-effective resources. As such, please find Duke Energy Kentucky, Inc.'s Adoption of Cost-Effective Energy Efficiency Policies and Procedures.

Feel free to contact me should you have any questions.

Sincerely,

Rocco D'Ascenzo
Associate General Counsel

cc: Dennis G. Howard II (w/enclosures)
Parties of Record

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of Consideration of the New)
Federal Standards of the Energy) Case No. 2008-408
Independence and Security Act of 2007)
)

DUKE ENERGY KENTUCKY, INC.'S ADOPTION OF COST-EFFECTIVE ENERGY EFFICIENCY POLICIES AND PROCEDURES

Overview

The purpose of this policy is to ensure that energy efficiency is considered as a cost-effective resource for Duke Energy Kentucky, Inc. (Duke Energy Kentucky or the Company) customers. Duke Energy Kentucky promotes energy efficiency for both gas and electric services through the operation of its Demand-side Management Program (DSM), which is a tariffed DSM program allowed under KRS 278.285 and was initially approved in Case No. 95-312. In addition, Duke Energy Kentucky's DSM program has been renewed with modifications in Case Nos. 99-414, 2001-309, 2002-00358, 2003-00367, 2004-00389, 2005-0402, 2006-00426, 2007-00369, 2008-00100, 2008-00473, 2009-00202, 2009-00444, 2010-00445, 2011-00109, 2011-00448, and 2012-00085. Also, energy efficiency is a resource used in the Duke Energy Kentucky load forecasting. Finally, the design of Duke Energy Kentucky's current base rates helps to promote energy efficiency.

Demand-side Management Program

Duke Energy Kentucky's DSM program aligns the Company's interests with that of its customers, through implementation of innovative conservation programs while providing recovery of the lost revenue associated with customer conservation and efficiency, an incentive to encourage conservation, and by providing for the recovery of the expenses associated with promoting the program.

Conservation and efficiency is promoted through the components of the DSM programs. Duke Energy Kentucky offers four DSM programs that include gas impacts: Energy Efficiency Education Program for Schools, Low Income Services, Residential Energy Assessments and Residential Smart Saver®, as well as, a gas weatherization program funded by base rates. Program costs, lost revenues and shared savings are recovered through these programs, which include rebates on high efficiency appliances, low-income weatherization and customer education.

The Company is committed to implementing cost-effective natural gas energy efficiency programs and measures. In light of this commitment, the Company periodically reviews adding natural gas focused programs to its portfolio of energy efficiency programs, and did in fact complete such an assessment of the cost-effectiveness of programs focused on natural gas savings in 2011. Additionally, in the Company's recent application for energy efficiency programs, Case No. 2012-00085, the Company included the following programs, Energy Efficiency Education Program for Schools, Low Income Services, Residential Energy Assessments and Residential Smart Saver® that have natural gas as well as electric energy efficiency impacts. Some of the measures included in the mentioned programs include, insulation, air and duct sealing, low flow showerheads, faucet aerators, and energy saving tips.

To account for the natural gas savings, a separate DSM Rider is filed each year within the status update filing. The status update filing is reviewed annually by the Residential and Commercial & Industrial Collaborative and then filed for approval by the Commission.

Duke Energy Kentucky continues to conduct weatherization programs that can deliver natural gas savings targeted at its low income customers that is funded through its base rates. Additionally, as a condition of the Stipulation related to the Duke Energy and Progress Energy merger, Duke Energy Kentucky has committed \$115,000 annually for five years to People Working Cooperatively¹ to conduct weatherization for low income customers which will result in even more natural gas efficiency savings.

Load Forecasting

Duke Energy Kentucky uses consumption data in its regression analysis for forecasting future load. The consumption data helps capture energy efficiency within our customers' usage

¹ Or to another entity to be mutually determined by Duke Energy Kentucky and the Attorney General.

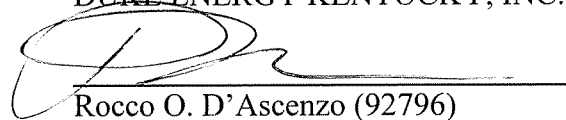
patterns and assists in determining future requirements. In general, natural gas consumption by customers is dependent upon usage for space heating, and usage of gas tends to exhibit a regular pattern that follows weather conditions. However, usage per customer has experienced some downward pressure due to conservation driven by increasing equipment efficiencies.

Rate Design

Duke Energy Kentucky promotes customer conservation through the rate design sought in its general rate cases. Duke Energy Kentucky's base rates include a fixed monthly customer charge along with a volumetric rate. To partially decouple the revenue, Duke Energy Kentucky earns from the volumes of gas sold, a majority of the base rate increase granted in Duke Energy Kentucky's most recent rate case (2009-00202) was allocated to the monthly customer charge rather than the volumetric rate in an effort to move towards a rate design that removes the Company's disincentive to promote conservation. In future rate proceedings, Duke Energy Kentucky will continue to address customer conservation in its rate design.

Respectfully submitted,

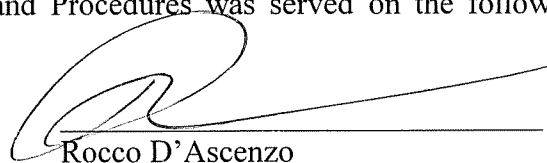
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CERTIFICATE OF SERVICE

The undersigned hereby certifies that a copy of Duke Energy Kentucky, Inc.'s Adoption of cost-Effective Energy Efficiency Policies and Procedures was served on the following by regular mail, this 22nd day of October 2012.



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