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**VIA OVERNIGHT MAIL DELIVERY**

December 28, 2010

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

Re: Case No. 2010-203, *Application of Duke Energy Kentucky, Inc for Approval to Transfer Functional Control of its Transmission Assets from the Midwest Independent Transmission System Operator to the PJM Interconnection Regional Transmission Organization and Request for Expedited Treatment*

Dear Mr. Derouen:

Please accept this letter in response to paragraph eight (8) of the Commission's December 22, 2010 Order in the above-referenced proceeding, requesting that the Chief Executive Officer of Duke Energy Kentucky, Inc. (Duke Energy Kentucky or the Company) file a letter accepting and agreeing to be bound by conditions set forth in the Commission's Order. Pursuant to the Commission's instruction, such a letter is to be filed no later than December 29, 2010.

Duke Energy Kentucky filed its application in the above-referenced proceeding, seeking the Commission's approval to transfer functional control over its limited number of transmission facilities from the Midwest Independent System Operator (Midwest ISO) to PJM Interconnection LLC (PJM). As explained in the testimony submitted in this proceeding, Duke Energy Kentucky is a transmission dependent utility, relying upon Duke Energy Ohio's bulk transmission to provide service to Kentucky customers. As such, for operating efficiency, Duke Energy Kentucky's RTO membership is dependent upon Duke Energy Ohio's RTO membership. Duke Energy Kentucky's filing: (1) explained that the realignment was in the public interest; (2) was supported by an Application and Testimony of several witnesses who described why realignment was necessary from an operations perspective; and (3) made specific commitments to ensure its customers would not be required to pay certain costs associated with the realignment such as exit fees, overlapping transmission expansion costs, and integration costs. Moreover, the Company described how its customers would share in the benefits of the realignment through increased opportunities for off-system sales pursuant to the Company's existing profit sharing mechanism (Rider PSM).

On December 22, 2010, the Commission approved Duke Energy Kentucky's request to transfer functional control of its limited transmission assets from Midwest ISO to PJM subject to the following conditions:

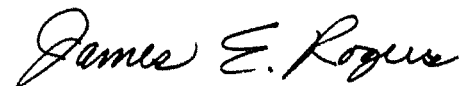
1. Duke Energy Kentucky should not seek to recover, in base rates or any type of rate mechanism, an exit fee or any other type of fee imposed by the Midwest ISO in conjunction with Duke Energy Kentucky's move from the Midwest ISO to PJM, regardless of how that fee is identified or labeled, and regardless of whether or not such fee is approved by the Federal Energy Regulatory Commission (FERC).
2. Duke Energy Kentucky should not seek to double-recover in a future rate case the transmission expansion fees that may be charged by the Midwest ISO and PJM in the same period or overlapping periods, nor shall it seek to defer and/or amortize any transmission expansion fees it incurs for Midwest ISO transmission expansion projects which received approval when it was a member of the Midwest ISO, regardless of whether or not such fees are approved by the FERC.
3. Duke Energy Kentucky should not seek to recover, in base rates or any type of rate mechanism, its costs of integration into PJM, nor should it seek to defer and/or amortize any PJM integration costs it incurs in conjunction with its alignment with PJM, regardless of whether or not such costs or fees are approved by the FERC.
4. Duke Energy Kentucky should file a revised Rider PSM to provide that effective January 1, 2012, the first \$1 million in annual profits from off-system sales is allocated to ratepayers, with any profits in excess of \$1 million split 75:25, with rate payers receiving 75 percent and shareholders receiving 25 percent.
5. No customer should be allowed to participate directly or through a third party in any PJM demand-response program until that customer has entered into a special contract with Duke Energy Kentucky which has been filed with and approved by the Commission, or until Duke Energy Kentucky has an approved tariff authorizing customer participation.
6. Duke Energy Kentucky should participate in PJM under a FRR capacity plan until it requests and receives this Commission's approval to participate in the RPM capacity market.
7. The Chief Executive Officer of Duke Kentucky should file, within seven days of the date of this Order, a letter accepting and agreeing to be bound by the conditions set forth above.<sup>1</sup>

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<sup>1</sup> See Order at 17-18.

In order to maintain the Company's existing operating efficiencies, avoid incurring additional costs by membership in a different RTO than Duke Energy Ohio's bulk transmission, and thus complete the necessary realignment to PJM, Duke Energy Kentucky must receive regulatory approval from this Commission. The Company's acceptance of these conditions assumes completion of Duke Energy Ohio's RTO realignment. Therefore, Duke Energy Kentucky hereby accepts the above-referenced conditions contained in Commission's Order. The Company's agreement to the aforementioned conditions is subject to and dependent upon Duke Energy Ohio's completion of the RTO realignment to PJM as contemplated. Duke Energy Kentucky agrees to seek Commission approval if the Company decides to participate in PJM's RPM capacity market in the future. With respect to Rider PSM, Duke Energy Kentucky acknowledges the Commission's ongoing jurisdiction over the Company's rates and respectfully reserves its right to file, request, and seek Commission approval to amend Rider PSM in the future for any reason, including but not limited to, timing of its true-up, addition of sales and/or costs to be included in the Rider calculation, and adjustments to the profit sharing proportions. If the Company should seek Commission approval to amend Rider PSM in any way, the Company acknowledges and agrees that it would bear the burden of proof on such amendment.

Sincerely,



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James E. Rogers  
Chief Executive Officer  
Duke Energy Corporation