

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF DUKE ENERGY KENTUCKY, INC.	)	
TO IMPLEMENT A HEDGING PROGRAM TO MITIGATE	)	CASE NO.
PRICE VOLATILITY IN THE PROCUREMENT OF	)	2011-00091
NATURAL GAS	)	

ORDER

On March 11, 2011, Duke Energy Kentucky, Inc. ("Duke Kentucky") filed a request for approval to continue its natural gas hedging plan, with no modifications, through March 31, 2014, with the ability to hedge natural gas deliveries for 31 months following the period covered by the plan. In lieu of a written data request, the Commission held an informal conference in this proceeding on May 10, 2011, at which time Duke Kentucky and Commission Staff discussed Duke Kentucky's proposal. On May 17, 2011, Duke Kentucky submitted additional information in response to an inquiry at the informal conference. There are no intervenors in this proceeding. The record is now complete and the matter stands submitted for decision.

Duke Kentucky has had a Commission approved hedging plan in place since July 2001. Its most recent plan was approved on August 19, 2008, in Case No. 2008-00175.<sup>1</sup> On May 13, 2011, Duke Kentucky caused to be filed in the record of that 2008 proceeding its final report on its natural gas hedging activities for the period April 1,

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<sup>1</sup> Case No. 2008-00175, Duke Energy Kentucky, Inc. (Ky. PSC Aug. 19, 2008).

2010 through March 31, 2011, which the Commission incorporates by reference into the record in this case.

Duke Kentucky proposes to use the same types of hedging instruments that were authorized in its last hedging plan -- fixed price contracts with cost-averaging, fixed price contracts without cost averaging, contracts with price caps, and contracts with no-cost collars. It further proposes to continue its annual reporting to the Commission on the results of its plan.

In Duke Kentucky's hedging plan, all hedging is conducted through supplier contracts, thereby avoiding any transaction fees and reducing hedging costs. Duke Kentucky does not use any financial hedges, such as NYMEX futures. Its plan hedges a certain volume for each winter or summer month covered by the plan. While Duke Kentucky's stated goal for the plan is to mitigate the volatility in natural gas prices, it acknowledges that, with the historically low and relatively stable price levels experienced in the 12 months covered in the above-mentioned report, its gas prices were slightly more volatile as a result of its plan than they would have been absent a hedging plan. It contends, however, that its need for hedging still exists. It states that there are no guarantees that natural gas prices will remain at their current level and cited examples to demonstrate that fact. It asserts that the increased supply of natural gas from unconventional sources is one of the primary reasons that prices have declined and that a decrease in the availability of that supply or an increase in natural gas usage due to an improved economy, or for other reasons, could cause prices to rise again.

Based on the evidence of record and being otherwise sufficiently advised, the Commission finds that Duke Kentucky's hedging plan should continue. However, given that natural gas prices are currently low and relatively stable, albeit without any guarantees that they will remain so, we find that Duke Kentucky's hedging plan should be approved only through September 30, 2012, with the continued ability to hedge beyond the plan period for an additional 31 months up to and including April 2015. This will allow the Commission to review the most current forecasts for gas prices as well as Duke Kentucky's next annual hedging report, which we find it should continue to file, to determine whether there are changes in natural gas prices that support Duke Kentucky's contention that the need for hedging still exists. Duke Kentucky should file its application requesting Commission approval of further extension of its plan at the time it files its next annual hedging report, but in any event, no later than June 1, 2012.

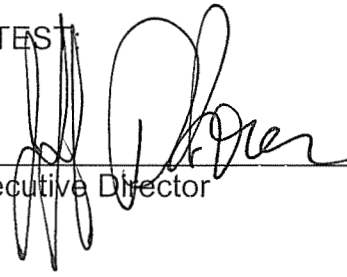
IT IS THEREFORE ORDERED that:

1. Duke Kentucky's final report on its natural gas hedging activities filed in Case No. 2008-00175 is incorporated by reference into the record in this proceeding.
2. Duke Kentucky is authorized to continue its natural gas hedging plan through September 30, 2012.
3. Duke Kentucky shall continue to file interim and final reports as required by the Commission in its approvals of Duke's previous hedging programs.
4. Duke Kentucky shall file, at the time it files its next annual hedging report, but in any event, no later than June 1, 2012, for further extension of its natural gas hedging plan.

By the Commission

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AUG 08 2011  
KENTUCKY PUBLIC  
SERVICE COMMISSION

ATTEST:

  
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