



DUKE ENERGY CORPORATION

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Kristen Cocanougher
Sr. Paralegal
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VIA OVERNIGHT DELIVERY

July 9, 2012

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

RECEIVED

JUL 10 2012

PUBLIC SERVICE
COMMISSION

Re: Case No. 2012-00180

In the Matter of the Application of Duke Energy Kentucky, Inc. to Implement a Hedging Program to Mitigate Price Volatility in the Procurement of Natural Gas

Dear Mr. Derouen:

Enclosed please find an original and twelve copies of the Responses of Duke Energy Kentucky, Inc. to Commission Staff's First Set of Data Requests and Petition for Confidential Treatment in the above captioned case. Also enclosed in the white envelope is one set of the confidential responses being filed under seal.

Please date-stamp the two copies of the letter and the Petition and return to me in the enclosed envelope.

Sincerely,

Kristen Cocanougher

cc: Larry Cook (w/enclosures)

COMMONWEALTH OF KENTUCKY

BEFORE THE KENTUCKY PUBLIC SERVICE COMMISSION

In the Matter of the Application of Duke)
Energy Kentucky, Inc. to Implement a)
Hedging Program to Mitigate Price) Case No. 2012-00180
Volatility in the Procurement of Natural)
Gas)

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**PETITION OF DUKE ENERGY KENTUCKY, INC.
FOR CONFIDENTIAL TREATMENT OF INFORMATION CONTAINED IN
ITS NATURAL GAS HEDGING PLAN**

Duke Energy Kentucky, Inc. (Duke Energy Kentucky or Company), pursuant to 807 KAR 5:001, Section 7, respectfully requests the Commission to classify and protect certain information provided by Duke Energy Kentucky in its response to data request No. 2 and attachments to Nos. 1 and 2, as requested by Commission Staff (Staff) in this case on June 27, 2012. The information that Staff seeks through discovery and for which Duke Energy Kentucky now seeks confidential treatment (Confidential Information) shows sensitive and confidential information relating to the details of Duke Energy Kentucky's hedging strategies and volumes of gas that Duke Energy Kentucky purchased.

The response in No. 2 and the attachments to Nos. 1 and 2, contain sensitive information, the disclosure of which would injure Duke Energy Kentucky and its competitive position and business interest. Specifically, the attachment and response to No. 1 contains information regarding the details of Duke Energy Kentucky's hedging strategy that could be used to the Company's disadvantage by potential counterparties to hedging transactions.

The sensitive information contained in the attachment and response to Data Request No. 2 contains the details of a transaction between Duke Energy Kentucky and a supplier. Duke Energy Kentucky is contractually bound to not disclose the details of those transactions with other parties.

1. The Kentucky Open Records Act exempts from disclosure certain commercial information. KRS 61.878 (1)(c). To qualify for this exemption and, therefore, maintain the confidentiality of the information, a party must establish that disclosure of the commercial information would permit an unfair advantage to competitors of that party.

2. This information was, and remains, integral to Duke Energy Kentucky's effective execution of business decisions. And such information is generally regarded as confidential or proprietary. Indeed, as the Kentucky Supreme Court has found, "information concerning the inner workings of a corporation is generally accepted as confidential or proprietary." *Hoy v. Kentucky Industrial Revitalization Authority, Ky.*, 904 S.W.2d 766, 768.

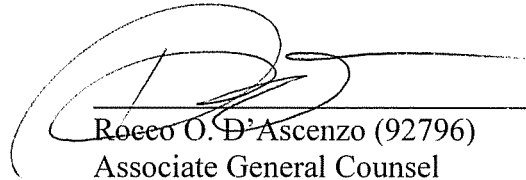
3. The information for which Duke Energy Kentucky is seeking confidential treatment is not known outside of Duke Energy Kentucky, and it is not disseminated within Duke Energy Kentucky except to those employees with a legitimate business need to know and act upon the information.

4. The public interest will be served by granting this Petition, in that Duke Energy Kentucky's ability to obtain low cost gas supplies will be fostered and the cost of gas to Duke Energy Kentucky's customers will thereby be minimized.

WHEREFORE, Duke Energy Kentucky respectfully requests that the Commission classify and protect as confidential the specific information described herein.

Respectfully submitted,

DUKE ENERGY KENTUCKY, INC.

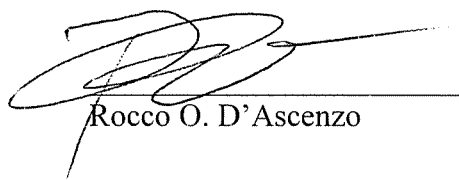


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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing filing was served on the following via overnight mail, this 9th day of July 2012:

Hon. Larry Cook
Assistant Attorney General
Kentucky Office of the Attorney General
Capital Center Drive, Suite 200
Frankfort, Kentucky 40601-8204



Rocco O. D'Ascenzo

VERIFICATION

RECEIVED

State of Ohio)
)
County of Hamilton) SS:

JUL 10 2012
PUBLIC SERVICE
COMMISSION

The undersigned, Jeff L. Kern, being duly sworn, deposes and says that he is the Manager, Gas Resources, that he has supervised the preparation of the response to the foregoing information request; and that the matters set forth in the foregoing responses to information requests are true and accurate to the best of his knowledge, information and belief, after reasonable inquiry.



Jeff L. Kern, Affiant

Subscribed and sworn to before me by Jeff L. Kern on this 2nd day of July 2012.



NOTARY PUBLIC

My Commission Expires: 11-19-2015



Julie M. Thompson
Notary Public, State of Ohio
My Commission Expires 11-19-2015

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STAFF-DR-01-001
CONFIDENTIAL AS TO ATTACHMENT

REQUEST:

Duke states, on page five of its application, that it is seeking to institute another gas hedging plan “[s]imilar to what was approved by the Commission in previous cases” The proposed hedging plan for 2012 (“HP-2012”) appears identical in every respect to the plan Duke proposed in 2011, which was approved by the Commission for a period of one year.

- a. Explain whether there are any differences between the 2011 plan and HP-2012.
- b. Explain what changes or additions to its hedging products Duke considered. The explanation should specifically address whether it considered the use of measures such as call options to limit the risk of paying a higher fixed price for gas during a time of declining prices. If no alternatives to Duke’s current hedging program were considered, explain why.

RESPONSE:

CONFIDENTIAL PROPRIETARY TRADE SECRET
AS TO ATTACHMENT

- a. The only difference between the 2011 plan and HP-2012 are the dates that the plan would be in effect and over which hedging could take place. All other aspects of the plans are identical.
- b. The plan already includes call options in the form of price caps. Since the plan is based on physical rather than financial hedging, executing a price cap would have the same effect as purchasing a call option. No changes were specifically considered for HP-2012, but a detailed review of the Hedging Plan was conducted in the spring of 2011 that considered different types of hedging, (physical vs financial, mechanistic vs judgmental, etc) and concluded that no changes were needed to the hedging plan. **See Staff-DR-01-001 Confidential Attachment.**

PERSON RESPONSIBLE: Jeff L. Kern

STAFF-DR-01-001

REQUEST:

Duke states, on page five of its application, that it is seeking to institute another gas hedging plan “[s]imilar to what was approved by the Commission in previous cases” The proposed hedging plan for 2012 (“HP-2012”) appears identical in every respect to the plan Duke proposed in 2011, which was approved by the Commission for a period of one year.

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RESPONSE:

- a. The only difference between the 2011 plan and HP-2012 are the dates that the plan would be in effect and over which hedging could take place. All other aspects of the plans are identical.
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PERSON RESPONSIBLE: Jeff L. Kern

**Duke Energy Kentucky
Case No. 2012-180
Staff First Set Data Requests
Date Received: June 27, 2012**

**STAFF-DR-01-002
PUBLIC**

REQUEST:

Duke's fixed price hedging products include cost-averaging. Describe the use of cost-averaging in more detail, including its relative advantage over traditional fixed-price contracts.

RESPONSE:

CONFIDENTIAL PROPRIETARY TRADE SECRET

This response has been filed with the Commission under a Petition for Confidential Treatment.

PERSON RESPONSIBLE: Jeff L. Kern

**Duke Energy Kentucky
Case No. 2012-180
Staff First Set Data Requests
Date Received: June 27, 2012**

STAFF-DR-01-003

REQUEST:

Duke's Annual Report on Hedging Activity, filed with the Commission on May 15, 2012, included summary pages entitled Hedging Program-Current Position for April 2011 through March 2012, with four years' hedging position details included each month (for example, pages 17 through 20 of 337 show Duke Kentucky's hedging position for November 2010 through October 2011; November 2011 through October 2012; November 2012 through October 2013; and November 2013 through October 2014, as of April 19, 2011). Explain the calculation of the prices in the row entitled Estimated EGC per Dth at City Gate, specifically whether this calculation includes the Embedded Hedge Cost calculated in the row above, and what purpose this information serves in Duke's monthly review of its hedging program.

RESPONSE:

The rows titled "Estimated EGC per Dth at City Gate" included on the referenced pages of the Annual Report on Hedging Activity are calculated as the weighted average price for the amounts currently hedged (calculated in the row above), the amounts expected to be purchased at market prices and the amounts expected to be withdrawn from storage. This represents the estimated commodity portion of the Expected Gas Cost, which is one of the components of the Gas Cost Recovery (GCR) rate.

This row is included in the data reviewed by the Hedging Committee to show the estimated effect of the hedging program on the price paid by customers, putting the amounts hedged into perspective with the price of the other sources of gas supply.

PERSON RESPONSIBLE: Jeff L. Kern