

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 PRICE)	CASE NO. 2012-00180
VOLATILITY IN THE PROCUREMENT OF)	
NATURAL GAS)	

ORDER

On May 17, 2012, Duke Energy Kentucky, Inc. (“Duke Kentucky”) filed a request for approval to continue its natural gas hedging plan, with no modifications, through March 31, 2015, with the ability to hedge natural gas deliveries for 31 months following the period covered by the plan. Duke Kentucky’s application followed its May 15, 2012 filing of its final report on its natural gas hedging activities for April 1, 2011 through March 31, 2012. Duke Kentucky has filed a similar report for each past year in which it conducted hedging activities. Duke Kentucky responded to one Commission Staff Request for Information. 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 program in place since July 2001. Its most recent program extension was approved for one year on August 8, 2011, in Case No. 2011-00091.¹ In that proceeding, the Commission approved a one-year extension instead of three years as proposed by Duke Kentucky to allow the Commission to determine whether hedging should continue in an era of low and relatively stable prices.

¹ Case No. 2011-00091, Application of Duke Energy Kentucky, Inc. to Implement a Hedging Program to Mitigate Price Volatility in the Procurement of Natural Gas (Ky. PSC Aug. 8, 2011).

Duke Kentucky proposes to use the same types of hedging instruments that were authorized in its last hedging program -- 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 program.

In Duke Kentucky's hedging program, 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. Duke Kentucky's plan hedges a certain volume for each winter or summer month covered by the plan. Duke Kentucky's stated goal for the plan is to mitigate the volatility in natural gas prices for its customers. In support for its request for Commission approval to extend its hedging program for an additional three years, Duke Kentucky stated in its petition that: gas prices are currently as low as they have been in over 10 years; further decreases in the market price of natural gas are less likely than increases; there is much more room for prices to go higher, as they did in the early 2000s; and a period of historic low prices may be the best time to lock in hedged supply.

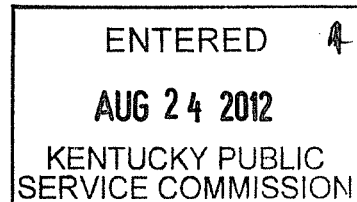
Based on the evidence of record and being otherwise sufficiently advised, the Commission finds that Duke Kentucky has documented, through responses to Commission Staff's Request for Information, the process it uses to review market information and make decisions consistent with its long-term goal of price volatility reduction, as well as its own internal review of the advisability of continuing its hedging program and has supported the conclusions it has reached. Duke Kentucky's hedging plan extension should be approved as proposed for three years.

IT IS THEREFORE ORDERED that:

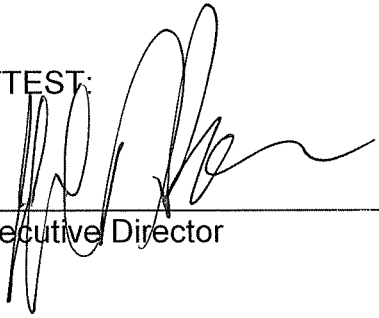
1. Duke Kentucky's report on its natural gas hedging activities for the 2011-2012 heating season is accepted.
2. Duke Kentucky is authorized to continue its natural gas hedging plan through March 31, 2015, with the ability to hedge through October 31, 2017.
3. Duke Kentucky shall continue to file interim and final reports as required by the Commission in its approvals of Duke's previous hedging programs.
4. Duke Kentucky shall file no later than February 1, 2015 for further extension of its natural gas hedging plan.

By the Commission

Commissioner Breathitt is abstaining from this proceeding.



ATTEST:



Executive Director

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