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 VOLATILITY IN THE PROCUREMENT OF NATURAL GAS	)))))	CASE NO. 2008-00175

ORDER

On May 15, 2008, Duke Energy Kentucky, Inc. ("Duke") filed its final report on its natural gas hedging activities for April 1, 2007 through March 31, 2008,[1] as well as an application for approval to continue its natural gas hedging program, with no modifications, through March 31, 2011. The Commission received no requests for intervention.

Duke has had a Commission-approved hedging program in place since July 2001;[2] the most recent version was approved in August 2005.[3] Duke proposes to continue to employ fixed price contracts with cost averaging, fixed price contracts without cost averaging, contracts with price caps, and contracts with no-cost collars. These are the same hedging instruments used by Duke for its hedged transactions during its previous price hedging cases. Duke also, as in its previous application,

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[1] Duke has filed similar reports for each year it has conducted hedging activities.

[2] See Case No. 2001-00128, Application of The Union Light, Heat and Power Company to Implement a Pilot Program to Evaluate the Use of a Hedging Program to Mitigate Price Volatility in the Procurement of Natural Gas (Ky. PSC July 16, 2001).

[3] See Case No. 2005-00191, Application of The Union Light, Heat and Power Company to Implement a Hedging Program to Mitigate Price Volatility in the Procurement of Natural Gas (Ky. PSC August 15, 2005).

proposes that it be allowed to enter into transactions with terms up to 18 months from the time of the transaction. Therefore, the proposed plan would cover hedging activity through March of 2011 and would allow purchases for gas delivered through October 31, 2013.

In Duke's hedging program, all hedging is done through supplier contracts, thereby avoiding any transaction fees and reducing hedging costs. Duke does not use any financial hedges, such as NYMEX futures. Duke's proposal is to hedge a certain volume for each winter or summer month covered by the plan, which is ultimately designed to hedge a percentage of its base gas within the plan's minimum and maximum volume. Duke's stated goal for the plan is to reduce the volatility in gas prices experienced by its customers.

Based on the evidence of record and being otherwise sufficiently advised, the Commission finds that:

1. Duke's report on its natural gas hedging activities for the 2007-2008 heating season should be accepted.

2. Duke's request to continue its natural gas hedging plan through March 31, 2011 is reasonable and should be approved.

3. Duke should continue to file interim and final reports on its hedging activities as required by the Commission in its approvals of Duke's previous hedging programs.

IT IS THEREFORE ORDERED that:

1. Duke's report on its natural gas hedging activities for the 2007-2008 heating season is accepted.

2. Duke's proposal to continue its natural gas hedging plan through March 31, 2011 is approved and Duke may, as part of that plan, enter into contracts for gas purchases through October 31, 2013.

3. Duke shall file interim and final reports as required by the Commission in its approvals of Duke's previous hedging programs.

Done at Frankfort, Kentucky, this 19th day of August, 2008.

By the Commission

ATTEST:

Executive Director