

**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. 2015-00025  
Volatility in the Procurement of Natural )  
Gas )

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**PETITION OF DUKE ENERGY KENTUCKY, INC.  
FOR CONFIDENTIAL TREATMENT OF INFORMATION CONTAINED IN  
THE ANNUAL REPORT ON HEDGING ACTIVITY FOR APRIL 1, 2014  
THROUGH DECEMBER 31, 2014,  
AND REPORT ON ONGOING GAS HEDGING ACTIVITY FOR FUTURE GAS  
DELIVERIES**

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Duke Energy Kentucky, Inc. (Duke Energy Kentucky), pursuant to 807 KAR 5:001, Section 13, respectfully requests the Commission to classify and protect as confidential certain information that is contained in its Annual Report on Hedging Activity for April 1, 2014 through December 31, 2014 and Report on Ongoing Gas Hedging Activity for Future Gas Deliveries in this proceeding, which is being filed contemporaneously with this petition. In support thereof, Duke Energy Kentucky states:

1. Duke Energy Kentucky has filed today documents containing sensitive and confidential information relating to the volumes of gas that Duke Energy Kentucky purchased through the use of hedging instruments for its hedging plan. Disclosure of this information would damage Duke Energy Kentucky by alerting suppliers as to how much gas Duke Energy Kentucky intends to purchase through hedging instruments at any particular point in time, which could allow suppliers to raise the cost of their hedging

instruments to Duke Energy Kentucky, thus making it more costly to Duke Energy Kentucky to acquire hedging instruments for future gas supply.

2. Certain attachments contain copyrighted documents published by PIRA Energy Group not available for reproduction to the general public. This information is subject to copyright protection and has been obtained through paid company subscriptions.

3. 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. The Commission previously granted confidential treatment to similar information on July 12, 2013.<sup>1</sup>

4. 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. Public disclosure of the information identified herein would, in fact, prompt such a result for the reasons set forth below.

5. The information for which Duke Energy Kentucky is seeking confidential treatment is not known outside of Duke Energy Corporation. Duke Energy Kentucky does not object to limited disclosure of the confidential information described herein, pursuant to an acceptable protective agreement, with the Attorney General or other intervenors with a legitimate interest in reviewing the same for the purpose of participating in this case.

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<sup>1</sup> Case No. 2012-00180, Order granting confidential treatment, July 12, 2013.

6. 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*, 904 S.W.2d 766, 768 (Ky. 1995).

7. In accordance with the provisions of 807 KAR 5:001 Section 13, the Company is filing with the Commission one copy of the Confidential Information separately under seal highlighted, and one copy without the Confidential Information included.

8. Duke Energy Kentucky respectfully requests that the Confidential Information be withheld from public disclosure for a period of ten years. This will assure that the Confidential Information – if disclosed after that time – will no longer be commercially sensitive so as to likely impair the interests of the Company or its customers if publicly disclosed.

9. To the extent the Confidential Information becomes generally available to the public, whether through filings required by other agencies or otherwise, Duke Energy Kentucky will notify the Commission and have its confidential status removed, pursuant to 807 KAR 5:001 Section 13(10)(a).

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 certify that a copy of the foregoing was served to the parties listed below via electronic mail, this 13<sup>th</sup> day of February 2015.



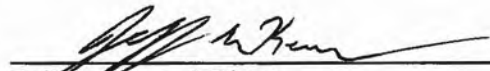
Rocco O. D'Ascenzo

Jennifer Hans  
Assistant Attorney General  
1024 Capital Center Drive, Suite 200  
Frankfort, Kentucky 40601-8204

**VERIFICATION**

STATE OF OHIO )  
 ) SS:  
COUNTY OF HAMILTON )

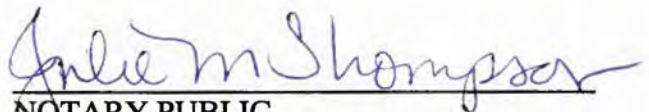
The undersigned, Jeff L. Kern, Manager of Gas Resources, being duly sworn, deposes and says that he has personal knowledge of the matters set forth in the foregoing data requests, and that the answers contained therein are true and correct to the best of his knowledge, information and belief.

  
\_\_\_\_\_  
Jeff L. Kern, Affiant

Subscribed and sworn to before me by Jeff L. Kern on this 6<sup>th</sup> day of February, 2015.



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

  
\_\_\_\_\_  
NOTARY PUBLIC

My Commission Expires: 11-19-2015

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**Duke Energy Kentucky  
Case No. 2015-00025  
Staff's First Set Data Requests  
Date Received: February 5, 2015**

**STAFF-DR-01-001**

**REQUEST:**

State whether Duke is aware of the Commission's decisions in Case Nos. 2013-00354<sup>1</sup> and 2013-00421,<sup>2</sup> which deny the requests of Columbia Gas of Kentucky, Inc. and Atmos Energy Corporation, respectively, to continue their gas cost hedging programs.

**RESPONSE:**

Duke Energy Kentucky was not aware of the Commission's decisions in Case Nos. 2013-00354 and 2013-00421 at the time of filing for approval to continue its own Hedging Plan.

**PERSON RESPONSIBLE:** Jeff Kern

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<sup>1</sup> Case No. 2013-00354, *Application of Columbia Gas of Kentucky, Inc. to Extend Its Gas Price Hedging Plan* (Ky. PSC Sept. 17, 2014).

<sup>2</sup> Case No. 2013-00421, *Application of Atmos Energy Corporation for Continuation of Its Hedging Program* (Ky. PSC Sept. 18, 2014),

**Duke Energy Kentucky  
Case No. 2015-00025  
Staff's First Set Data Requests  
Date Received: February 5, 2015**

**STAFF-DR-01-002**

**REQUEST:**

State whether Duke is aware of the letter filed October 16, 2014, by Delta Natural Gas Company, Inc. in Case No. 2012-00025,<sup>1</sup> attached as Appendix A to this request, which informed the Commission of its decision not to file a request to continue its Gas Supply Hedging Plan beyond March 31, 2015, based on the Commission's decisions in the two cases cited in STAFF-DR-01-001.

**RESPONSE:**

Duke Energy was not aware of the letter filed October 16, 2014 by Delta Natural Gas Company, Inc. in Case No. 2012-00025 at the time of filing for approval to continue its own Hedging Plan.

**PERSON RESPONSIBLE:** Jeff Kern

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<sup>1</sup> Case No. 2012-00025, *Application of Delta Natural Gas Company, Inc. to Extend Its Natural Gas Supply Hedging Plan to March 31, 2015* (Ky. PSC May 7, 2012).



**Duke Energy Kentucky**  
**Case No. 2015-00025**  
**Staff's First Set Data Requests**  
**Date Received: February 5, 2015**

**STAFF-DR-01-003**

**REQUEST:**

If the response to STAFF-DR-01-001 and/or STAFF-DR-01-002 is no, state whether Duke will continue to seek extension of its hedging program as proposed in this proceeding. If Duke's intention is to continue to seek approval as proposed, provide the information requested in STAFF-DR-01-004.

**RESPONSE:** The Company believes it was required to file a Hedging Plan Application pursuant to the Commission's August 24, 2012 Order in Case No. 2012-000180 providing in relevant part that: "Duke Kentucky shall file no later than February 1, 2015 for further extension of its natural gas hedging plan." If the Commission does not want the Company to continue to pursue its hedging strategy, then the Company will discontinue seeking to extend its program.

**PERSON RESPONSIBLE:** Jeff Kern

**STAFF-DR-01-004 PUBLIC**

**REQUEST:**

If the response to STAFF-DR-01-001 and/or STAFF-DR-01-002 is yes, and if Duke believes its program and circumstances are sufficiently distinguishable to support a continuation of its hedging program as proposed:

- a. Provide an evaluation of how the proposed hedging program specifically addresses the concerns and findings set out in the Commission's Orders in Case Nos. 2013-00354 and 2013-00421, attached as Appendix B and Appendix C, respectively, to this request.
- b. Provide the effect of Duke's hedging program on its gas cost beginning April 1, 2014, through the most recent time period available. The information provided should be in a format similar to that provided in pages 6-10 of Duke's Annual Report on Hedging Activity, filed May 15, 2014, in Case No. 2012-00180.<sup>1</sup>

**RESPONSE:**

**CONFIDENTIAL PROPRIETARY TRADE SECRET (As to Attachment Only)**

- a. Since the Company believes that it was required to file a Hedging Plan Application as described in STAFF-DR-01-003, we do not believe that we can withdraw the filing absent Commission directive. However, there is nothing in the Company's Hedging Plan that is materially different from the plans submitted by Columbia Gas of

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<sup>1</sup> Case No. 2012-00180, *Application of Duke Energy Kentucky, Inc. to Implement a Hedging Program to Mitigate Price Volatility in the Procurement of Natural Gas* (Ky. PSC Aug. 24, 2012).

Kentucky, Inc or Atmos Energy Corporation that would address the concerns and findings set out in the Commission's Orders in Case Nos. 2013-00354 and 2013-00421.

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

**PERSON RESPONSIBLE:** Jeff Kern

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# **Duke Energy Kentucky**

## **Quarterly Report on Hedging Activity For April 1, 2014 – December 31, 2014 And Report on Hedging Activity For Future Gas Deliveries**

February, 2015

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The Vice President Ohio and Kentucky Gas Operations, Manager of Gas Resources, the Lead of Gas Procurement and Analysis and other personnel (Natural Gas Hedging Committee) met on a regular basis to review current market conditions for natural gas, short and long-term weather forecasts, gas industry trade publications, and price estimates to determine whether to enter into any hedging transactions. These meetings were scheduled at least monthly, but can occur more frequently depending on the season and market conditions. A brief summary of each hedging decision made at these meetings during the 9 months ended December 2014 is included. Information reviewed during each meeting is on file in Gas Resources Department.

A summary of the amounts hedged prior to December 31, 2014 for delivery at a later date is shown below, followed by details of the factors influencing Duke Energy Kentucky, Inc.'s ("Duke Energy Kentucky") decision to enter into the hedging agreements during the 9 months ended December 31, 2014.

Strike Date	Supplier	Type	Price Per Dth	Delivery Point	Volume Dth/day	Month(s)	Seasonal Volume
<b>Summer 2014</b>							
1/23/2012	[REDACTED]	Fixed	[REDACTED]	CGT-M	[REDACTED]	Nov 13 – Mar 15	[REDACTED]
10/19/2012	[REDACTED]	Fixed	[REDACTED]	CGT-M	[REDACTED]	Apr 14 – Oct 15	[REDACTED]
8/8/2013	[REDACTED]	Fixed	[REDACTED]	CGT-M	[REDACTED]	Apr 14 – Mar 16	[REDACTED]
<b>Winter 2014/15</b>							
1/23/2012	[REDACTED]	Fixed	[REDACTED]	CGT-M	[REDACTED]	Nov 13 – Mar 15	[REDACTED]
10/19/2012	[REDACTED]	Fixed	[REDACTED]	CGT-M	[REDACTED]	Apr 14 – Oct 15	[REDACTED]
8/8/2013	[REDACTED]	Fixed	[REDACTED]	CGT-M	[REDACTED]	Apr 14 – Mar 16	[REDACTED]
3/28/2014	[REDACTED]	Fixed	[REDACTED]	CGT-M	[REDACTED]	Nov 14 – Mar 15	[REDACTED]
4/29/2014	[REDACTED]	Fixed	[REDACTED]	CGT-M	[REDACTED]	Nov 14 – Mar 15	[REDACTED]
8/8/2014	[REDACTED]	Fixed	[REDACTED]	TGT	[REDACTED]	Nov 14 – Mar 15	[REDACTED]
<b>Summer 2015</b>							
10/19/2012	[REDACTED]	Fixed	[REDACTED]	CGT-M	[REDACTED]	Apr 14 – Oct 15	[REDACTED]
8/8/2013	[REDACTED]	Fixed	[REDACTED]	CGT-M	[REDACTED]	Apr 14 – Mar 16	[REDACTED]
7/30/2014	[REDACTED]	Collar	[REDACTED]	CGT-M	[REDACTED]	Apr 15 – Mar 16	[REDACTED]
<b>Winter 2015/16</b>							
8/8/2013	[REDACTED]	Fixed	[REDACTED]	CGT-M	[REDACTED]	Apr 14 – Mar 16	[REDACTED]
2/21/2014	[REDACTED]	Fixed	[REDACTED]	CGT-M	[REDACTED]	Nov 15 – Oct 16	[REDACTED]
7/30/2014	[REDACTED]	Collar	[REDACTED]	CGT-M	[REDACTED]	Apr 15 – Mar 16	[REDACTED]
12/22/2014	[REDACTED]	Fixed	[REDACTED]	CGT-M	[REDACTED]	Nov15 – Mar 16	[REDACTED]
<b>Summer 2016</b>							
2/21/2014	[REDACTED]	Fixed	[REDACTED]	CGT-M	[REDACTED]	Nov 15 – Oct 16	[REDACTED]
9/29/2014	[REDACTED]	Cst. Avg	[REDACTED]	CGT-M	[REDACTED]	Apr 16 – Mar 17	[REDACTED]

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Strike Date	Supplier	Type	Price Per Dth	Delivery Point	Volume Dth/day	Month(s)	Seasonal Volume
<b>Winter 2016/17</b>							
9/29/2014		Cst. Avg		CGT-M		Apr 16 – Mar 17	
10/24/2014		Fixed		CGT-M		Nov 16 – Oct 17	
<b>Summer 2017</b>							
10/24/2014		Fixed		CGT-M		Nov 16 – Oct 17	

CGT-M = Columbia Gulf Transmission Mainline  
 TGT = Texas Gas Transmission Zone 1

There were no transactional costs associated with any of these arrangements. When the natural gas is delivered, the suppliers simply invoice Duke Energy Kentucky based on the hedged price. The portions of system supply hedged for each season are listed in the table below, along with the percentage including storage:

Season As of December 31, 2014	Total System Supply	Total Hedged	% Hedged	% Hedged And Storage*
Summer 2014				
Winter 2014/15				
Summer 2015				
Winter 2015/16				
Summer 2016				
Winter 2016/17				
Summer 2017				

\* Includes Interstate Pipeline Storage and Supply Contracts that mimic Storage Service.

**Winter 2014-2015 Fixed Price with [REDACTED] – April 29, 2014**

During the hedging meeting on April 28, 2014, discussion focused on the fundamentals of the market such as weather, storage levels, PIRA and EIA price forecasts, analyst’s forecasts of supply and demand and the impact on gas prices, economic influences on supply, demand and technical analysis on Summer and Winter Strip prices and current position in the Hedging Program. Discussion focused on the Winter 2014-2015 strip, with significant discussion around the low storage level and current estimates for the November 1, 2014 balance estimated to be 3.4 Tcf. This level is well below the 3.6 Tcf to 3.8 Tcf levels in recent years. Storage injections will need to average 89 Bcf/week to reach the reduced 3.4 Tcf level which still would be the highest weekly injection level since 2003. Discussions took place about the volatility of the Winter 2014/15 contract and the best product to use during times of high volatility. Based on the discussion, a fixed price product will be used in the amount of [REDACTED] Dth/d for Duke Kentucky. Three suppliers were contacted to provide simultaneous bids. [REDACTED] and [REDACTED] were the lowest bidders at \$ [REDACTED], with [REDACTED] bidding \$ [REDACTED]. Since

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there are no significant differences between the two lowest bids, [REDACTED] was randomly selected as the winning bidder.

The EIA storage report released on April 24, 2014 indicated that as of April 18, 2014, total U.S. amount of gas in storage was 899 Bcf (22% full), which was 831 Bcf lower than the previous year and 1,008 Bcf lower than the five-year average. Duke Energy Kentucky's storage with [REDACTED] was approximately [REDACTED] Bcf ([REDACTED] % full).

The table below compares the futures price data for April 29th with the most recently available forecasts from PIRA and EIA and the locked in price that Duke Energy Kentucky agreed to pay [REDACTED] for base gas to be delivered November 1, 2014 through March 31, 2015 at Columbia Gulf Mainline.

Month	Price Forecasts		NYMEX Futures Price			Fixed Price
	PIRA	EIA	High	Low	Close	
Nov 14	[REDACTED]	\$4.220	\$4.870	\$4.791	\$4.862	[REDACTED]
Dec 14	[REDACTED]	\$4.300	\$4.971	\$4.898	\$4.963	[REDACTED]
Jan 15	[REDACTED]	\$4.270	\$5.040	\$4.966	\$5.032	[REDACTED]
Feb 15	[REDACTED]	\$4.200	\$4.992	\$4.934	\$4.988	[REDACTED]
Mar 15	[REDACTED]	\$4.050	\$4.875	\$4.802	\$4.870	[REDACTED]
<b>Weighted Ave.</b>	[REDACTED]	<b>\$4.208</b>	<b>\$4.950</b>	<b>\$4.878</b>	<b>\$4.943</b>	[REDACTED]

**1 Year Costless Collar with [REDACTED] – July 30, 2014 and Winter 2014-2015 Fixed Price with [REDACTED] – August 8, 2014**

During the hedging meeting on July 25, 2014, discussion focused on the fundamentals of the market such as weather, storage levels, PIRA and EIA price forecasts, analyst's forecasts for future price movements, and current position in the Hedging Program. Significant discussion took place regarding the dramatic drop in prices, specifically the Winter 14/15, Summer 2015, and Winter 15/16 strips. The primary driver of the decrease in prices has been strong storage injections, storage fears have eased and that has been reflected in pricing. After discussion, it was determined that additional hedging should take place. Significant discussion took place regarding the amount and type of hedging to be recommended. Consensus was reached for the following: [REDACTED] Dth/d for April 1, 2015 to March 31, 2016 using a Costless Collar with a ceiling of [REDACTED] and converting a FOMI deal to a Fixed price deal for [REDACTED] Dth/d for the Winter 14/15. Suppliers were contacted to determine interest in a one year Costless Collar ([REDACTED] Dth/day) and a Winter 14/15 Fixed Price deal ([REDACTED] Dth/day). Three suppliers were contacted and asked to provide a floor for a ceiling set at [REDACTED]. The results were: [REDACTED], [REDACTED], [REDACTED]. [REDACTED] was awarded the Costless Collar. [REDACTED] was contacted to convert [REDACTED] Dth/d of FOMI base gas to a fixed price at Columbia Gulf Mainline for November 2014 through March 2015. [REDACTED] price was compared with NYMEX price and the price was accepted.

The EIA storage report released on July 24, 2014 indicated that as of July 18, 2014, total U.S. amount of gas in storage was [REDACTED] [REDACTED] % full), which was [REDACTED] bcf

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lower than the previous year and [REDACTED] bcf lower than the five-year average. Duke Energy Kentucky's storage with [REDACTED] was approximately [REDACTED] full).

The table below compares the futures price data for July 30th with the most recently available forecasts from PIRA and EIA and the collared price that Duke Energy Kentucky agreed to pay [REDACTED] for base gas to be delivered April 1, 2015 through March 31, 2016 at Columbia Gulf Mainline. Please note that EIA's and PIRA's forecasts do not cover the entire term. Since a single collar was locked in for all 12 months, a row showing the average price is provided for comparison purposes.

Month	Price Forecasts		NYMEX Futures Price			Collar Price	
	PIRA	EIA	High	Low	Close		
Apr 15	[REDACTED]	\$4.260	\$3.738	\$3.692	\$3.720	[REDACTED]	
May 15	[REDACTED]	\$4.160	\$3.712	\$3.695	\$3.712		
Jun 15	[REDACTED]	\$4.350	\$3.746	\$3.730	\$3.746		
Jul 15	[REDACTED]	\$4.460	\$3.781	\$3.765	\$3.781		
Aug 15	[REDACTED]	\$4.480	\$3.791	\$3.775	\$3.791		
Sep 15	[REDACTED]	\$4.440	\$3.801	\$3.751	\$3.778		
Oct 15	[REDACTED]	\$4.570	\$3.798	\$3.780	\$3.798		
Nov 15	[REDACTED]	\$4.610	\$3.875	\$3.853	\$3.874		
Dec 15	[REDACTED]	\$4.650	\$4.046	\$4.015	\$4.046		
Jan 16	[REDACTED]		\$4.178	\$4.151	\$4.175		
Feb 16	[REDACTED]		\$4.159	\$4.142	\$4.156		
Mar 16	[REDACTED]		\$4.100	\$4.084	\$4.095		
<b>Weighted Ave.</b>	[REDACTED]	<b>\$4.442</b>	<b>\$3.893</b>	<b>\$3.869</b>	<b>\$3.889</b>		
<b>No Cost Collar (7/30/14)</b>							
Floor							[REDACTED]
Ceiling						[REDACTED]	

The EIA storage report released on August 7, 2014 indicated that as of August 1, 2014, total U.S. amount of gas in storage was [REDACTED] bcf ([REDACTED] full), which was [REDACTED] bcf lower than the previous year and [REDACTED] bcf lower than the five-year average. Duke Energy Kentucky's storage with [REDACTED] was approximately [REDACTED] bcf ([REDACTED]% full).

The table below compares the futures price data for August 8th with the most recently available forecasts from PIRA and EIA and the locked in price that Duke Energy Kentucky agreed to pay [REDACTED].

Month	Price Forecasts		NYMEX Futures Price			Fixed Price
	PIRA	EIA	High	Low	Close	
Nov 14	[REDACTED]	\$4.650	\$4.054	\$3.961	\$4.045	[REDACTED]
Dec 14	[REDACTED]	\$4.780	\$4.135	\$4.047	\$4.129	
Jan 15	[REDACTED]	\$4.810	\$4.215	\$4.118	\$4.205	
Feb 15	[REDACTED]	\$4.680	\$4.195	\$4.116	\$4.190	
Mar 15	[REDACTED]	\$4.550	\$4.118	\$4.046	\$4.114	
<b>Weighted Ave.</b>	[REDACTED]	<b>\$4.694</b>	<b>\$4.143</b>	<b>\$4.057</b>	<b>\$4.136</b>	

**1 Year Cost Averaging with [REDACTED] – September 29, 2014**

During the hedging meeting on September 25, 2014, discussion focused on the fundamentals of the market such as weather, storage, analyst's forecasts for future price



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movements, and current positions in the Hedging Program. Significant discussion took place regarding the storage inventory levels. While there was a large deficit from the five-year and one-year average, storage injections this season have been significantly above average and the end of the season balance is estimated to be 3.5 Tcf. The Natural Gas Hedging Committee decided that cost averaging would provide the opportunity to lock in today's lower price as well as participate in further declines in pricing by accumulating prices between October 1, 2014 and November 14, 2014. Bids were sought for April 2016 through March 2017 for [redacted] dth per day to be delivered at Columbia Gulf Mainline. [redacted], [redacted], and [redacted] were each contacted by phone on September 29, 2014 requesting a bid. [redacted] bid was [redacted], [redacted] bid was [redacted], and [redacted] bid was -\$[redacted]. [redacted] bid was accepted. The price will be the average of the NYMEX closing price for the months April 2016 through March 2017 NYMEX contracts from October 1, 2014 through November 14, 2014 minus [redacted] for [redacted] dth/day delivered to Columbia Gulf Mainline. (See Attachment A).

**1 Year Fixed Price with [redacted] – October 24, 2014**

During the hedging meeting on October 23, 2014, discussion focused on the fundamentals including weather (end of the hurricane season), storage inventory levels, PIRA and EIA forecasts, independent analyst's projections of supply and demand and the impact on gas prices, technical analysis on Summer and Winter Strip prices, and current positions in the Hedging Program. Significant discussion took place regarding the various Winter Weather Forecasts and cuts announced by several analysts to their 2015 price forecasts. In addition, discussed that all Strips that are followed have hit their lows since 2011. After discussion, a determination was made to hedge additional volumes. Discussed several hedging opportunities and determined to hedge [redacted] Dth/day for Duke Energy Kentucky for November 2016 through October 2017. [redacted], [redacted] and [redacted] were contacted for November 2016 through October 2017 on Columbia Gulf Mainline. [redacted] bid-- [redacted], [redacted] bid-- [redacted], [redacted] bid-- [redacted]. [redacted] was selected as the winning bidder based on lowest cost.

The EIA storage report released on October 23, 2014 indicated that as of October 17, 2014, total U.S. amount of gas in storage was 3,393 Bcf (83% full), which was 336 Bcf lower than the previous year and 338 Bcf lower than the five-year average. Duke Energy Kentucky's storage with Columbia Gas was approximately [redacted] Bcf ([redacted] full) on October 24, 2014.

The table below compares the futures price data for October 24th with the most recently available forecasts from PIRA and EIA and the locked in price that Duke Energy Kentucky agreed to pay [redacted] for base gas to be delivered November 1, 2016 through October 31, 2017 at Columbia Gulf Mainline. Please note that PIRA's and EIA's forecasts were not available for this period.

Month	Price Forecasts		NYMEX Futures Price			Fixed Price
	PIRA	EIA	High	Low	Close	
Nov 16			\$3.900	\$3.880	\$3.899	
Dec 16			\$4.073	\$4.060	\$4.070	

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Month	Price Forecasts		NYMEX Futures Price			Fixed Price
	PIRA	EIA	High	Low	Close	
Jan 17			\$4.210	\$4.200	\$4.204	
Feb 17			\$4.190	\$4.185	\$4.185	
Mar 17			\$4.127	\$4.110	\$4.127	
Apr 17			\$3.893	\$3.893	\$3.893	
May 17			\$3.901	\$3.890	\$3.901	
Jun 17			\$3.931	\$3.931	\$3.931	
Jul 17			\$3.967	\$3.967	\$3.967	
Aug 17			\$3.980	\$3.980	\$3.980	
Sep 17			\$3.972	\$3.972	\$3.972	
Oct 17			\$3.995	\$3.994	\$3.994	
<b>Weighted Ave.</b>			<b>\$4.011</b>	<b>\$4.005</b>	<b>\$4.010</b>	

**Winter 2015-2016 Fixed Price with [REDACTED] – December 22, 2014**

During the hedging meeting on December 18, 2014, discussion focused on the fundamentals of the market such as weather, storage levels, PIRA and EIA price forecasts, analyst’s forecasts of supply and demand and the impact on gas prices, economic influences on supply, demand and technical analysis on Summer and Winter Strip prices and current position in the Hedging Program. Discussion focused on the recent decline in NYMEX pricing specifically Summer 2015 and Winter 2015/16 strip prices. After discussion determined that the Winter 2015/16 offered an opportunity to lock in prices with a fixed price transaction for [REDACTED] Dth/d on Columbia Gulf Mainline. Three suppliers were contacted to provide simultaneous bids. [REDACTED] bid-[REDACTED], [REDACTED] bid-[REDACTED], [REDACTED] bid-[REDACTED]. [REDACTED] was selected as the winning bidder based on lowest cost.

The EIA storage report released on December 18, 2014 indicated that as of December 12, 2014, total U.S. amount of gas in storage was 3,295 Bcf (80% full), which was 6 Bcf higher than the previous year and 258 Bcf lower than the five-year average. Duke Energy Kentucky’s storage with Columbia Gas was approximately [REDACTED] Bcf ([REDACTED] full).

The table below compares the futures price data for December 22nd with the most recently available forecasts from PIRA and EIA and the locked in price that Duke Energy Kentucky agreed to pay [REDACTED] for base gas to be delivered November 1, 2015 through March 31, 2016 at Columbia Gulf Mainline. Please note that PIRA’s and EIA’s forecasts were not available for the entire period.

Month	Price Forecasts		NYMEX Futures Price			Fixed Price
	PIRA	EIA	High	Low	Close	
Nov 15	[REDACTED]	\$3.940	\$3.330	\$3.313	\$3.313	
Dec 15	[REDACTED]	\$4.070	\$3.535	\$3.511	\$3.511	
Jan 16	[REDACTED]		\$3.752	\$3.654	\$3.660	
Feb 16	[REDACTED]		\$3.675	\$3.660	\$3.660	
Mar 16	[REDACTED]		\$3.704	\$3.608	\$3.616	
<b>Weighted Ave.</b>	[REDACTED]	<b>\$4.005</b>	<b>\$3.600</b>	<b>\$3.549</b>	<b>\$3.552</b>	

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**Effect of Hedging Program on Gas Costs**

The effect of the hedging activity on gas cost can be determined by comparing the price paid for any hedged gas with the published Inside FERC First of Month Index (FOMI) for the delivery point where physical delivery of the hedged gas was received (Columbia Gulf Mainline or Texas Gas Zone 1). The hedged price includes the basis from Henry Hub to the point of delivery. This analysis shows that for the 9 months ended December 31, 2014 gas costs were about \$0.2 million more when comparing the hedged price with the FOMI at the time of physical delivery than they would have been if no hedging had taken place. The following tables list each package of hedged gas and the impact on the total gas cost resulting from that hedge.

**Summer Season 2014**

Supplier	Type	Dth/day	Total Dth	Receipt Point	Hedged Price \$/dth	IFERC FOMI \$/dth	Cost Increase/ (Savings)
<b>April</b>							
	Fixed			CGT-M			
	Fixed			CGT-M			
	Fixed			CGT-M			
<b>May</b>							
	Fixed			CGT-M			
	Fixed			CGT-M			
	Fixed			CGT-M			
<b>June</b>							
	Fixed			CGT-M			
	Fixed			CGT-M			
	Fixed			CGT-M			
<b>July</b>							
	Fixed			CGT-M			
	Fixed			CGT-M			
	Fixed			CGT-M			
<b>August</b>							
	Fixed			CGT-M			
	Fixed			CGT-M			
	Fixed			CGT-M			
<b>September</b>							
	Fixed			CGT-M			
	Fixed			CGT-M			
	Fixed			CGT-M			
<b>October</b>							
	Fixed			CGT-M			
	Fixed			CGT-M			
	Fixed			CGT-M			
<b>Season Total</b>							

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**Winter Season 2014/2015**

Supplier	Type	Dth/day	Total Dth	Receipt Point	Hedged Price \$/dth	IFERC FOMI \$/dth	Cost Increase/ (Savings)
<b>November</b>							
	Fixed			CGT-M			
	Fixed			CGT-M			
	Fixed			CGT-M			
	Fixed			CGT-M			
	Fixed			TGT			
	Fixed			CGT-M			
<b>December</b>							
	Fixed			CGT-M			
	Fixed			CGT-M			
	Fixed			CGT-M			
	Fixed			CGT-M			
	Fixed			TGT			
	Fixed			CGT-M			
<b>Season Total</b>							

Due to the mechanics of the Gas Cost Adjustment (GCA) Clause, the effect of the hedging program on the gas cost portion of customer's bills will occur in stages. The Expected Gas Cost (EGC) component of each GCA included estimated gas costs based on a combination of hedged gas and gas at estimated market prices. Absent the hedging program, the EGC would have been calculated on market prices alone. The Actual Adjustment (AA) component of each GCA also includes the effect of the hedging program reflected in the actual gas costs, which are compared to GCA revenues to calculate the AA.

When the monthly EGCs were calculated, the forecasted natural gas requirements were priced out based on the weighted average of known hedged prices and the NYMEX futures price on the day that the calculation was performed. To determine the impact of the hedging program on the EGC, the hedging transactions were removed from the original calculations to determine what EGC would have been filed if no hedging had taken place. This effect may differ from the ultimate impact on the GCA once actual costs are known and flow through the AA.

The following table shows the effect that hedging had on each separate GCA rate for the 9 months ending December 31, 2014. The prior year's hedging program continues to affect the AA portion of the GCA through February 28, 2015. Likewise, gas costs during the 9 months ended December 31, 2014 will continue to affect the AA portion of the GCA through February 29, 2016. A negative sign means that the rate was decreased due to the hedging program, and a positive indicates that the rate was increased. Rates are in dollars per ccf.

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Month	Impact on EGC	Impact on AA *	Impact on GCA
April 2014	-\$0.0142	+\$0.0043	-\$0.0099
May 2014	-\$0.0125	+\$0.0043	-\$0.0082
June 2014	-\$0.0092	-\$0.0031	-\$0.0123
July 2014	-\$0.0063	-\$0.0031	-\$0.0094
August 2014	+\$0.0053	-\$0.0031	+\$0.0022
September 2014	+\$0.0127	-\$0.0007	+\$0.0120
October 2014	+\$0.0078	-\$0.0007	+\$0.0071
November 2014	+\$0.0219	-\$0.0007	+\$0.0212
December 2014	+\$0.0077	-\$0.0028	+\$0.0049

\*Includes impact on AA from previous year's hedging activity.

To determine the ultimate effect on the price paid by customers subject to the GCA, the total difference in gas cost due to the hedging program was divided by the annual total Ccf used in the calculation of the EGC as part of the GCA filing effective December 1, 2014. Based on this calculation, GCA customers will pay approximately \$0.0038/Ccf more than they would have paid absent the hedging program for natural gas purchased between April 1, 2014 and December 31, 2014, as shown below:

$$(\$208,408 / 55,470,650 = \$0.0038)$$

**Effect of Hedging Program on Volatility**

The hedging program increases costs when market prices are relatively low and decreases costs when market prices are high. This provides prima facie evidence that the hedging program meets its stated goal of reducing the volatility in gas prices and providing some protection against extremely high prices. An analysis of the Standard Deviation does not produce meaningful results over short-term periods. Therefore, the analysis will only be included in the Annual Report.

**Summary**

Gas prices for the 9 months ended December 2014 were consistent. The average NYMEX settlement price for the 9 month period ended December 31, 2014 was about \$4.24 with a range of \$1.07. The comparable five year average was about \$3.78 with a range of about \$2.76. During this period the result of the hedging program was decreased costs. Although the hedging plan decreased gas costs overall, the hedging strategy was in place to provide protection against extreme prices and reduce volatility.