

GAS COST ADJUSTMENT CLAUSE

APPLICABILITY

The charge to each customer for the cost of gas shall be the appropriate Gas Cost Adjustment Rate applied to the customer's monthly consumption. This charge is applicable to all Company sales that are under the jurisdiction of the Kentucky Public Service Commission (Commission).

DETERMINATION OF GCA

The Company, unless otherwise ordered by the Commission, shall file a monthly report with the Commission which shall contain an updated gas cost adjustment rate (GCA) and shall be filed at least twenty (20) days prior to the beginning of the billing period in accordance with an Order in Case No. 2006-00144.

The GCA is comprised of:

- (1) The expected gas cost component (EGC) on a dollar per Mcf basis, rounded to the nearest 0.1 cent, which represents the average cost of gas supplies including propane. Estimated monthly net charge offs on a dollar per Mcf basis, rounded to the nearest 0.1 cent, will be added to the EGC.
- (2) The supplier refund adjustment (RA) on a dollar per Mcf basis, rounded to the nearest 0.1 cent, which reflects refunds received during the reporting period plus interest at a rate equal to the average of the "3-month Commercial Paper Rate" for the immediately preceding 12-month period, less 1/2 of 1 percent to cover the cost of refunding.
- (3) The actual adjustment (AA) on a dollar per Mcf basis, rounded to the nearest 0.1 cent, which compensates for any previous over or under collections of gas cost experienced and net charge offs by the Company through the operation of this gas cost recovery procedure.
- (4) The balance adjustment (BA) on a dollar per Mcf basis, rounded to the nearest 0.1 cent, which compensates for any over or under collections which have occurred as a result of prior adjustments.

HEDGING PLAN

In accordance with the approved hedging plan, Duke Energy Kentucky, Inc., will utilize fixed price contracts without cost averaging and no-cost collars for gas purchases within the range of volumes defined in the plan for up to eighteen (18) months from the time of the transaction. On or before each May 15, the Company shall file a report of its hedging activities for the twelve (12) months ended the previous March 31 that also identifies all existing hedging arrangements for future purchases.

BILLING

The gas cost recovery rate to be applied to the customers' bills shall equal the sum of the following components:

$$\text{GCA} = \text{EGC} + \text{RA} + \text{AA} + \text{BA}$$

Issued by authority of an Order of the Kentucky Public Service Commission dated December 29, 2009 in Case No. 2009-00202.

DEFINITIONS

For purposes of this tariff:

- (A) "Average Cost" means the cost of gas supplies, including associated transportation and storage charges and propane, which results from the application of suppliers' rates currently in effect, or reasonably expected to be in effect during the three (3) month period, on purchased volumes during the twelve month period ending with the reporting period, divided by the corresponding sales volume. This includes the cost of all gas supplies acquired through hedging instruments, including the cost of the hedging instruments themselves, acquired under a hedging plan approved by the Commission and under the terms and conditions of this tariff.
- (B) "GCA" means the sum of the expected gas cost component plus the supplier refund adjustment plus the actual adjustment plus the balancing adjustment; i.e., $GCA = EGC + RA + AA + BA$.
- (C) "Billing period" means each of the four three-month periods of (1) December, January, and February; (2) March, April, and May; (3) June, July, and August; (4) September, October, and November.
- (D) "Reporting Period" means the three (3) month accounting period that ended approximately fifty-Five days prior to the filing date of the updated gas cost adjustment rates.

Issued by authority of an Order of the Kentucky Public Service Commission dated December 29, 2009 in Case No. 2009-00202.

Issued: September 29, 2010

Issued by Julie Janson, President

Effective: September 30, 2010