

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF DUKE ENERGY KENTUCKY,)	
INC. FOR AN ORDER AUTHORIZING THE ISSUANCE)	
OF UNSECURED DEBT AND LONG-TERM NOTES,)	CASE NO.
EXECUTION AND DELIVERY OF LONG-TERM LOAN)	2010-00369
AGREEMENTS, AND USE OF INTEREST RATE)	
MANAGEMENT INSTRUMENTS)	

O R D E R

On September 17, 2010, Duke Energy Kentucky, Inc. ("Duke Kentucky") filed an application for authority to issue and sell a principal amount of up to \$100 million in long-term debt. In addition, Duke Kentucky requested authority to borrow from Boone County, Kentucky, or another authorized issuer of tax-exempt bonds in the Commonwealth of Kentucky ("Authority"), for a term not to exceed 40 years, the proceeds of up to a maximum aggregate principal amount of \$26.72 million of Authority Tax Exempt Revenue Bonds ("Authority Bonds") that may be issued in one or more series. Commission Staff issued a request for information on October 15, 2010 and Duke Kentucky filed its responses on October 25, 2010.

LONG-TERM DEBT OF \$100 MILLION

Duke Kentucky requests approval to issue and sell up to \$100 million of any combination of secured or unsecured debt instruments over a period ending December 31, 2012. Authorization to issue \$100 million in long-term debt was previously granted

to Duke Kentucky in Case No. 2008-00503.¹ However, the authorization granted in that case extended only until December 31, 2010. Duke Kentucky states that the authorization requested herein is identical to what the Commission authorized in Case No. 2008-00503, except for extending the time to complete the transactions through December 31, 2012.²

Duke Kentucky estimates the interest rate cost difference between issuing secured versus unsecured debt to be approximately 15 to 20 basis points. Duke states that, at the time of issue, it will consider the costs and benefits associated with secured versus unsecured debt and select the most cost effective alternative.

Duke Kentucky plans to use the proceeds to: (1) repay short-term debt or expiring long-term indebtedness; (2) to redeem early long-term debt, if conditions are favorable; (3) to fund capital expenditures related to gas delivery and electric generation, transmission and distribution businesses; (4) for such additional expenditures as contemplated by KRS 278.300; or (5) for other lawful corporate purposes.

AUTHORITY BONDS OF \$26.72 MILLION

Duke Kentucky also requests authority to issue up to a maximum of \$26.72 million in Authority Bonds. As with the aforementioned authorization to issue \$100

¹ Case No. 2008-00503, Application of Duke Energy Kentucky, Inc. for an Order Authorizing the Issuance of Unsecured Debt and Long-Term Notes, Execution and Delivery of Long-Term Loan Agreements, and Use of Interest Rate Management Instruments (Ky. PSC Feb. 5, 2009).

² Response to Commission Staff's Initial Request for Information, Item 2.

million in long-term debt, the Commission previously granted Duke Kentucky this authorization to issue \$26.72 million in Authority Bonds in Case No. 2008-00503.

The proceeds from the issuance of the Authority Bonds will be used to refund existing obligations on outstanding tax-exempt bonds. Duke Kentucky states that the authorization it seeks in this case is identical to that authorized in Case No. 2008-00503, except for extending the time to complete the transactions through December 31, 2012.³

INTEREST RATE MANAGEMENT

Duke Kentucky requests approval to use interest rate management techniques and to enter into interest rate management agreements. This authority will allow Duke Kentucky to react to market fluctuations that will result in better management of its interest cost. This authority was also granted in Case No. 2008-00503.

Interest rate management agreements will facilitate common products of today's capital markets, consisting of interest rate swaps, caps, collars, floors, options, or hedging products to manage interest rate costs. Net fees and commissions in connection with these interest rate management agreements will not exceed 10 percent of the underlying obligation.⁴

FINDINGS

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that the proposed issuance of securities and the assumption of obligations in connection therewith as set out in Duke Kentucky's application, as

³ Response to Commission Staff's Initial Request for Information, Item 2.

⁴ Application at 8.

amended in its response to Commission Staff's information request, should be approved. The Commission also finds that the proposed financing, as amended, is for lawful objects within the corporate purposes of Duke Kentucky's utility operations, is necessary and appropriate for and consistent with the proper performance of its service to the public, will not impair its ability to perform that service, is reasonably necessary and appropriate for such purposes, and should therefore be approved

IT IS THEREFORE ORDERED that:

1. Duke Kentucky is authorized to obtain long-term debt in an aggregate amount not to exceed \$100 million as set forth in its application for the period ending December 31, 2012. Duke Kentucky is also authorized to borrow from Boone County, Kentucky, or another authorized issuer of tax-exempt bonds in the Commonwealth of Kentucky, for a term not to exceed 40 years, the proceeds of up to a maximum of \$26.72 million aggregate principal amount of Authority Bonds that may be issued in one or more series, for the period ending December 31, 2012.

2. Duke Kentucky is authorized to use interest rate management techniques and to enter into interest rate management agreements as will reduce its overall interest costs. Further, in the event Duke Kentucky enters into an interest rate management agreement, a copy of the agreement shall be provided to the Commission within 30 days of its execution.

3. The proceeds from the transactions authorized herein shall be used only for the lawful purposes set out in the application.

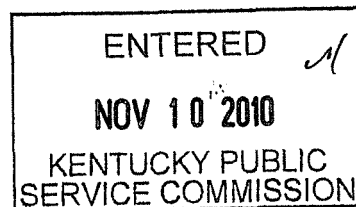
4. Duke Kentucky shall agree to only such terms and prices as are consistent with this Order.

5. Duke Kentucky shall, within 30 days of the date of issuance, file a statement with the Commission setting forth the date or dates of issuance and terms of the securities authorized herein, the price paid, the interest rate, and all fees and expenses, including underwriting discounts or commissions or other compensation, involved in the issuance and distribution.

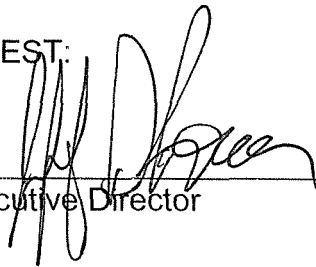
6. Any documents filed in the future pursuant to ordering paragraphs 2 or 5 herein shall reference this case number and shall be retained in the utility's general correspondence file.

Nothing contained herein shall be construed as a finding of value for any purpose or as a warranty on the part of the Commonwealth of Kentucky or any agency thereof as to the securities authorized herein.

By the Commission



ATTEST:



Executive Director

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