

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)	CASE NO.
UNSECURED DEBT AND LONG-TERM NOTES,)	2014-00343
EXECUTION AND DELIVERY OF LONG-TERM LOAN)	
AGREEMENTS, AND USE OF INTEREST RATE)	
MANAGEMENT INSTRUMENTS)	

ORDER

On September 26, 2014, Duke Energy Kentucky, Inc. ("Duke Kentucky") filed an application for authority to issue and sell a principal amount of up to \$175 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 \$76.72 million of Authority Tax Exempt Revenue Bonds ("Authority Bonds") that may be issued in one or more series.

Duke Kentucky requests approval to issue and sell up to \$175 million of any combination of secured or unsecured debt instruments over a period ending December 31, 2016. Authorization to issue \$150 million in long-term debt was previously granted in Case No. 2012-00575,¹ and that authority expires December 31, 2014.² Duke

¹ Case No. 2012-00575, 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. 12, 2013).

² Duke states in its Application that it has not issued any debt related to this authority, but is contemplating a long-term debt issuance to refinance the maturity of its \$40 million outstanding 5% Senior Notes due December 15, 2014.

Kentucky 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 states that it plans to use the proceeds:

1. To repay short-term debt or expiring long-term indebtedness;
2. To redeem early or at maturity long-term debt, if conditions are favorable;
3. To fund estimated future capital expenditures related to gas delivery and electric generation, transmission and distribution expenditures of approximately \$58 million in 2014; \$77 million in 2015; and \$90 million in 2016;
4. To fund such additional expenditures as are contemplated by KRS 278.300; or
5. For other lawful corporate purposes.

Duke Kentucky projects that it will need to issue long-term debt to repay maturing long-term debt in the amount of \$40 million in December 2014 and \$50 million in December 2016, respectively. It also estimates that it will need to issue at least \$95 million in long-term debt to pay for projected capital expenditures by the end of 2016.

Duke Kentucky also requests authority to issue up to a maximum of \$76.72 million in Authority Bonds. Duke Kentucky states that the proceeds from the issuance of the Authority Bonds will be used to refund existing obligations on outstanding tax-exempt bonds, in particular the \$50 million County of Boone, Kentucky Pollution Control Revenue Refunding Bonds originally issued as series 2008A on December 3, 2008, and the \$26.72 million County of Boone, Kentucky Pollution Control Revenue Refunding Bonds issued as series 2010 on November 24, 2010.

Duke Kentucky also requests approval to use interest rate management techniques and to enter into interest rate management agreements. Duke Kentucky states that this authority will allow it to react to market fluctuations that will result in better management of its interest cost. This authority was also granted in Case No. 2012-00575.

According to Duke Kentucky, interest rate management agreements will facilitate products commonly used in today's capital markets, consisting of interest rate swaps, caps, collars, floors, options, or hedging products to manage interest rate costs. Duke Kentucky states that any net fees and commissions in connection with these interest rate management agreements will not exceed 10 percent of the amount of the underlying obligation.

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 should be approved. The Commission also finds that the proposed financing 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 \$175 million as set forth in its application for the period ending December 31, 2016.

2. Duke Kentucky is 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 \$76.72 million aggregate principal amount of Authority Bonds that may be issued in one or more series, for the period ending December 31, 2016.

3. 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.

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

5. Duke Kentucky shall agree only to terms and prices that are consistent with this Order.

6. Duke Kentucky shall, within 30 days from the date of issuance, file with this Commission a statement setting forth the date or dates of issuance 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 of any such securities.

7. Any documents filed in the future pursuant to ordering paragraphs 3 or 6 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

ENTERED
NOV 20 2014
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director

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