



139 East Fourth Street  
PO Box 860  
1303-Main  
Cincinnati, Ohio 45201-0960

o: 513-287-4320  
f: 513.287.4385

Rocco.O.D'Ascenzo@duke-energy.com  
Rocco O. D'Ascenzo  
Associate General Counsel

**VIA OVERNIGHT DELIVERY**

September 25, 2014

Mr. Jeff Derouen  
Executive Director  
Kentucky Public Service Commission  
211 Sower Blvd  
Frankfort, KY 40601

RECEIVED  
SEP 26 2014  
PUBLIC SERVICE  
COMMISSION

*Case No. 2014-00343*

Re: In the Matter of the 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  
Case No. 2014-XXX

And

In the Matter of the Application of Duke Energy Kentucky, Inc. for an Order to Enter into up to \$25,000,000 Principal Amount of Capital Lease Obligations  
Case No. 2014-XXX

Dear Mr. Derouen:

Enclosed please find an original and twelve copies of each of the above-referenced Applications.

Please assign a separate case number for each enclosed Application and file-stamp and return two extra copies of each in the enclosed overnight envelope.

Feel free to contact me should you have any questions.

Respectfully submitted,

Rocco D'Ascenzo (92796)  
Associate General Counsel  
Duke Energy Kentucky, Inc.  
139 East Fourth Street, 1313 Main  
Cincinnati, Ohio 45201-0960  
(513) 287-4320  
(513) 287-4385 (f)  
Rocco.D'ascenzo@duke-energy.com  
Counsel for Duke Energy Kentucky, Inc.

RECEIVED

SEP 26 2014

PUBLIC SERVICE  
COMMISSION

**COMMONWEALTH OF KENTUCKY**  
**BEFORE THE PUBLIC SERVICE COMMISSION**

In the Matter of the 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. )

Case No. 2014- 00343

---

**APPLICATION FOR FINANCING AUTHORITY**

---

Pursuant to KRS 278.300 and 807 KAR 5:001 Sections 12 and 18, Duke Energy Kentucky, Inc. (Duke Energy Kentucky) respectfully requests that the Commission authorize Duke Energy Kentucky to, effective upon approval, issue securities, assume obligations and enter into all necessary agreements relating thereto, to issue and sell up to \$175,000,000 principal amount, consisting of long-term debt that Duke Energy Kentucky may elect to issue pursuant to: (1) the Indenture between The Union Light, Heat and Power Company (n/k/a Duke Energy Kentucky) and Deutsche Bank Trust Company dated as of December 1, 2004, or any amendments thereto (the Deutsche Bank Indenture); (2) the Indenture between The Union Light, Heat and Power Company (n/k/a Duke Energy Kentucky) and The Fifth Third Bank (succeeded by The Bank of New York) dated July 1, 1995, or any amendments thereto (the BONY Indenture); or (3) other long-term debt, including conversion of short-term borrowings into long-term debt.

Duke Energy Kentucky also requests ability to borrow from Boone County Kentucky, or another authorized issuer of tax exempt bonds in the State of Kentucky (Authority), for a term

not to exceed forty (40) years, the proceeds of up to a maximum of \$76,720,000 aggregate principal amount of Authority tax exempt revenue bonds that may be issued in one or more series (Authority Bonds).<sup>1</sup> Duke Energy Kentucky proposes to enter into one or more loan agreements (Loan Agreements) with the Authority to evidence and secure its obligations to repay such loan or loans. Duke Energy Kentucky will use the proceeds from any such loans to refinance existing tax-exempt Authority Bonds. The proceeds from the issuance of the securities will be used to refund existing obligations on currently outstanding tax exempt bonds, which are puttable to Duke Energy Kentucky by December 31, 2016, in particular, the \$50,000,000 County of Boone, Kentucky Pollution Control Revenue Refunding Bonds (Duke Energy Kentucky, Inc. Project), due August 1, 2027, which were originally issued as series 2008A on December 3, 2008 (the 2008A Bonds) and the \$26,720,000 County of Boone, Kentucky Pollution Control Revenue Refunding Bonds (Duke Energy Kentucky, Inc. Project), due August 1, 2027, which were issued as series 2010 on November 24, 2010 (the 2010 Bonds). Duke Energy Kentucky requests such authority beginning upon approval by the Commission through the period ending December 31, 2016, unless amended by Commission Order.

In support of this Application, Duke Energy Kentucky states as follows:

1. **807 KAR 5:001 Section 18(1)(a).** Pursuant to 807 KAR 5:001, Section 14(2), Duke Energy Kentucky is a Kentucky Corporation that was originally incorporated on March 20, 1901, is in good standing, and, as a public utility, as that term is defined in KRS 278.010(3), is subject to the Commission's jurisdiction. Duke Energy Kentucky is engaged in the business of providing retail gas and electric service to its customers in Northern Kentucky in various municipalities and unincorporated areas of Kenton, Campbell, Boone, Gallatin, Grant, and

---

<sup>1</sup> *In the Matter of: The 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*, Case No. 2012-00575, (Order)(February 12, 2013).

Pendleton Counties. Duke Energy Kentucky's business address is 139 East Fourth Street, Cincinnati, Ohio 45202. The Company's local office in Kentucky is Duke Energy Envision Center, 4580 Olympic Boulevard Erlanger, Kentucky 41018. Duke Energy Kentucky's email address is [KYfilings@duke-energy.com](mailto:KYfilings@duke-energy.com). Duke Energy Kentucky's articles of incorporation are on file with the Commission in Case No. 2013-00097 and are hereby incorporated by reference.

2. **807 KAR 5:001 Section 18(1)(b).** As of June 30, 2014, the original cost of Duke Energy Kentucky's property was \$1,761,175,000. The Company's principal properties consist of electric generating plants, and gas and electric distribution facilities.

3. **807 KAR 5:001 Section 18(1)(c).** Duke Energy Kentucky proposes, with the necessary consent and authority of this Commission, to issue and sell, from time to time over a period ending December 31, 2016, up to \$175,000,000 principal amount of secured indebtedness (Bonds) or unsecured indebtedness (Debentures), or any combination thereof. Duke Energy Kentucky also requests permission to convert to long-term debt: (a) borrowings under the Company's revolving credit facility; and (b) loans under the Utility Money Pool Agreement approved by the Commission in Case No. 2005-00228 and recently revised as part of Case No., 2011-124.<sup>2</sup> The foregoing types of debt are referred to collectively as the "Securities." Duke Energy Kentucky also requests permission to borrow from time to time over a period ending December 31, 2016, up to \$76,720,000 principal amount of proceeds of tax-exempt Authority Bonds issued for a term not to exceed forty (40) years. Duke Energy Kentucky proposes to enter into one or more Loan Agreements with the Authority to evidence and secure its obligations to

---

<sup>2</sup> *In the Matter of the Joint Application of Duke Energy Corporation, Cinergy Corp., Duke Energy Ohio, Inc., Duke Energy Kentucky, Inc., Diamond Acquisition Corporation and Progress Energy, Inc., for Approval of the Indirect Transfer of Control of Duke Energy Kentucky, Inc.*, Case No., 2011-00124; Among other things, approving the addition of Progress as a party to the agreement.

repay such loan or loans. Duke Energy Kentucky will use the proceeds from any such loans to refinance existing tax-exempt financings.

Method of Issuance. Duke Energy Kentucky proposes to either: (a) sell the Securities to one or more purchasers or underwriters through negotiated offerings; (b) sell the Securities through a competitive bidding process; (c) convert to long-term debt and hold amounts borrowed under the revolving credit facility or Utility Money Pool Agreement. If the Securities are sold through a negotiated offering, the terms of each offering of the Securities will be negotiated by Duke Energy Kentucky either with one or more underwriters/managing underwriters, with one or more purchasers, for direct sale or for sale through agents. If the Securities are sold through competitive bidding, the Securities will be sold to the bidder(s) whose proposal results in the lowest annual cost of money, with Duke Energy Kentucky having the right to reject any or all bids. The bidders will be required to specify the coupon rate and the price, exclusive of accrued interest, to be paid for the Securities. After approval of the terms for each offering by Duke Energy Kentucky's Board of Directors, or by persons authorized by Duke Energy Kentucky's Board of Directors, it is anticipated that an agreement and other transaction documents setting forth the terms of the Securities would be concluded.

The Authority Bonds will be issued pursuant to one or more Indentures of Trust (Indentures) to be entered into between the Authority and the trustee to be determined, which Indentures establish the terms of each series of the Authority Bonds. The Authority Bonds will be special obligations payable solely out of revenues derived from the payments by Duke Energy Kentucky under the Loan Agreements.

Pricing Parameters. Duke Energy Kentucky has developed parameters under which the Securities and Authority Bonds are to be sold. The parameters, as set forth in Exhibit A, are

designed to provide a reasonable allowance for potential changes in financial market conditions between the time of Commission authorization and the actual sale of the Securities. The inclusion of the parameters within the Order would allow Duke Energy Kentucky to sell the Securities or Authority Bonds at any time when it believes it is prudent to do so, provided the terms are within the parameters. Exhibit B is a representative form of senior note.

Duke Energy Kentucky proposes that the Commission issue its order authorizing Duke Energy Kentucky to execute and deliver the Loan Agreements prior to the time Duke Energy Kentucky and the underwriters reach agreement with respect to the terms of the Authority Bonds.

It is anticipated the underwriters would offer the Authority Bonds to purchasers pursuant to one or more Official Statements. The proposed sale of the Authority Bonds will be exempt from registration under the Securities Act of 1933, as amended.

Security and Other Agreements. The Bonds will be issued under and secured by the Deutsche Bank Indenture, the BONY Indenture, or a new indenture or mortgage agreement with a trustee to be determined. If the Debentures are issued, they will be issued under the Deutsche Bank Indenture, the BONY Indenture, and to be supplemented by one or more supplemental indentures, or a new indenture with a trustee to be determined.

Duke Energy Kentucky's obligations under the Loan Agreements will be to provide the Authority with sufficient revenues to enable it to pay the principal of, premium, if any, and interest on, the Authority Bonds as and when any and all payments are due. Duke Energy Kentucky may enter into letter of credit agreements to secure Duke Energy Kentucky's obligations under the Loan Agreements. Alternatively, such Loan Agreement obligations may be unsecured.

Duke Energy Kentucky would consider arranging an irrevocable letter of credit which would support future payments of interest and principal on the Authority's Bonds, if needed. Duke Energy Kentucky would use such credit enhancements if the projected interest savings from having such credit enhancements would exceed the cost of the credit enhancement. Each Loan Agreement will stand alone, allowing Duke Energy Kentucky the option of providing or not providing security, letters of credit or other credit enhancements under each Loan Agreement.

Accounting. Duke Energy Kentucky proposes to either credit premiums or charge discounts, if any, and to charge the expenses to be incurred in connection with each issue to the proper deferred accounts and amortize such amounts over the respective lives of the Securities or Authority Bonds respectively, in equal annual amounts to current income.

Request for Commission Approval. Duke Energy Kentucky requests that the Commission issue its order authorizing the issuance and sale of the Securities, authorizing the borrowing of proceeds of the issuance and sale of the Authority Bonds, and the described Loan Agreements as requested herein. The Commission's authorization would not relieve Duke Energy Kentucky of its responsibility to negotiate and obtain the best terms available for the structure selected and, therefore, it is appropriate and reasonable for this Commission to authorize Duke Energy Kentucky to agree to such terms and prices consistent with these pricing parameters.

Use of Interest Rate Management Techniques. Duke Energy Kentucky requests that the Commission grant Duke Energy Kentucky authority to continue to utilize interest rate management techniques and enter into interest rate management agreements to manage its overall effective interest cost and interest rate risk. Such authority will allow Duke Energy Kentucky sufficient alternatives and flexibility when striving to better manage its interest cost

and interest rate risk. Such authority was previously granted in Case Nos. 2004-00435, 2006-00563, 2008-00118, 2008-00503, 2010-00369 and 2012-00575.

Description of the Interest Rate Management Agreements. The 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 such as forwards or futures, or similar products, the purpose of which being to manage interest costs. Duke Energy Kentucky expects to enter into these agreements with counterparties that are highly rated financial institutions. The transactions will be for a fixed period and a stated principal amount, and may be for underlying fixed or variable obligations of Duke Energy Kentucky.

Pricing Parameters. Duke Energy Kentucky proposes that the pricing parameters for interest rate management agreements be governed by the parameters corresponding to the underlying obligation in effect at its original issuance as specified in the Order authorizing such obligation by this Commission, if applicable.

Net fees and commissions in connection with any interest rate management agreement will be in addition to the above parameters and will not exceed 10% of the amount of the underlying obligation involved.

Accounting. Duke Energy Kentucky proposes to account for these transactions in accordance with generally accepted accounting principles.

Request for Commission Approval. Since market opportunities for these interest rate management alternatives are transitory, Duke Energy Kentucky must be able to execute interest rate management transactions when the opportunity arises to obtain the most competitive pricing. Thus, Duke Energy Kentucky seeks approval to enter into any or all of the described transactions

within the parameters discussed above prior to the time Duke Energy Kentucky reaches agreement with respect to the terms of such transactions.

The authorization of the interest rate management agreements consistent with the parameters does not relieve Duke Energy Kentucky of its responsibility to obtain the best terms available for the product selected and, therefore, it is appropriate and reasonable for this Commission to authorize Duke Energy Kentucky to agree to such terms and prices consistent with said pricing parameters.

Conversion of Short-Term Debt Borrowed Under Revolving Credit Agreement.

Duke Energy Kentucky is a borrower under a revolving credit agreement for the purpose of short-term borrowing. A copy of the revolving credit agreement as amended was filed as an exhibit to the Duke Energy Corporation Form 8-K filed December 18, 2013.

Approval of this revolving credit agreement by the Kentucky Public Service Commission was not required with respect to borrowings of less than two years. Duke Energy Kentucky has not borrowed any funds under the revolving credit facility for a period longer than two years.

Request for Commission Approval. Duke Energy Kentucky requests approval to convert borrowings under the revolving credit facility to long-term debt, if Duke Energy Kentucky deems it prudent to do so. Duke Energy Kentucky does not have any borrowings under the revolving credit facility at this time, but Duke Energy Kentucky seeks advance approval to convert any such future borrowings to long term debt, in order to manage its financings in the most efficient manner. The authorization to make such conversions does not relieve Duke Energy Kentucky of its responsibility to obtain the best terms available for such borrowings because Duke Energy Kentucky may be required to demonstrate that the interest rates and transaction costs for such borrowings are reasonable in comparison to other available sources of

long-term debt financing; therefore, it is appropriate and reasonable for this Commission to authorize Duke Energy Kentucky to enter into such transactions.

Conversion of Short-Term Loans Under Utility Money Pool Agreement. Duke Energy Kentucky entered into a Utility Money Pool Agreement, for the purpose of making its funds available for short-term borrowing with its affiliated operating companies, and for borrowing funds from such affiliates. The Commission approved the Utility Money Pool Agreement in Case No. 2011-00124. The agreement only allows for short-term borrowings.

Request for Commission Approval. Duke Energy Kentucky requests approval to convert borrowings under the Utility Money Pool Agreement to long-term debt, if Duke Energy Kentucky deems it prudent to do so. Duke Energy Kentucky is contemplating the conversion of such borrowings to long-term debt, and seeks continued approval to do so, in order to manage its financings in the most efficient manner. The authorization to make such conversions does not relieve Duke Energy Kentucky of its responsibility to obtain the best terms available for such borrowings because Duke Energy Kentucky may be required to demonstrate that the interest rates and transaction costs for such borrowings are reasonable in comparison to other available sources of long-term debt financing; therefore, it is appropriate and reasonable for this Commission to authorize Duke Energy Kentucky to enter into such transactions.

4. **807 KAR 5:001 Section 18(1)(d).** The Company seeks up to \$175,000,000 principal amount of financing authority through December 31, 2016. The proceeds from the issuance of the Securities are expected to be used: (a) to repay Duke Energy Kentucky's short-term or expiring long-term indebtedness; (b) to redeem early or at maturity long-term debt of Duke Energy Kentucky, if market conditions are favorable; (c) to fund estimated future capital expenditures related to its gas delivery and electric generation, transmission and distribution

businesses of approximately \$58 million in 2014, \$77 million in 2015 and \$90 million in 2016; (d) for such additional expenditures as contemplated by KRS 278.300; or (e) for other lawful corporate purposes.

The Company currently projects that it will need to issue at least \$95,000,000 in long-term debt by the end of 2016 in order to pay for planned capital expenditures, in the normal course of the Company's business and the repayment of \$50,000,000 of maturing long-term debt in December 2016 (in addition to approximately \$40,000,000 of maturing long-term debt in December 2014). Exhibit C sets forth further details of the Company's projected capital expenditures during this period.

The financing authority requested herein is consistent with the proper performance by Duke Energy Kentucky of its services to the public, will not impair its ability to perform those services, and is reasonably necessary and appropriate for such purposes. As described above, the proceeds from the issuance of the Authority Bonds will be used to refund the Boone County Bonds.

Duke Energy Kentucky does not have any definitive plans to acquire any specific property<sup>3</sup> with the long-term debt financing authority that the Company seeks in this application. If the Commission grants Duke Energy Kentucky the financing authority it seeks, and if Duke Energy Kentucky later decides to acquire property and directly finance it by using such financing authority, Duke Energy Kentucky commits that it will provide the Commission with the details of any significant transaction.

5. **807 KAR 5:001 Section 18(1)(e).** See Exhibit C concerning estimated capital expenditures, attached hereto, and made a part hereof. Duke Energy Kentucky does not have any

---

<sup>3</sup> Duke Energy Kentucky is currently in the process of acquiring the remaining interest in the East Bend facility and expects to close by the end of 2014.

plans to acquire any specific property<sup>4</sup> with the long-term debt financing authority that the Company seeks in this application. If the Commission grants Duke Energy Kentucky the financing authority it seeks, and if Duke Energy Kentucky later decides to acquire property and directly finance it by using such financing authority, Duke Energy Kentucky commits that it will provide the Commission with the details of and significant transaction.

6. **807 KAR 5:001 Section 18(1)(f).** Duke Energy Kentucky proposes to enter into one or more Loan Agreements with the Authority to evidence and secure its obligations to repay such loan or loans. Duke Energy Kentucky will use the proceeds from any such loans to refinance existing tax-exempt Authority Bonds. The Boone County Bonds were issued for their principal amount, \$76,720,000. The proceeds of the sale of the Boone County Bonds were used to refund previously outstanding securities as further described on page 1 of the Official Statement previously provided to this Commission as Exhibit D to the Company's Application in Case No., 2012-00575 and hereby incorporated by reference. The Boone County Bonds were issued as auction rate securities, and therefore bear a rate of interest determined by the Auction Procedures described in Schedule C to the Official Statement.<sup>5</sup>

The Company does not have any other present plans to discharge or refund any specific long-term indebtedness or notes.

7. **807 KAR 5:001 Section 12(1)(g).** In Case No. 2012-00575, the Commission approved the issuance and sale of up to \$150,000,000 principal amount of Securities for general business purposes, for a period ending December 31, 2014. To date, Duke Energy Kentucky 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 5.0% Senior Notes due December 15, 2014.

---

<sup>4</sup> Duke Energy Kentucky is currently in the process of acquiring the remaining interest in the East Bend facility and expects to close by the end of 2014.

<sup>5</sup> See *Exhibit D to Application in Case No., 2012-00575*.

The Company seeks authority to issue up to \$175,000,000 principal amount of secured or unsecured indebtedness.

8. **807 KAR 5:001 Section 12 and Section 18(2)(a).** Duke Energy Kentucky is filing the following information in Exhibit D, which is incorporated herein and made a part of this application:

<u>Exhibit D</u> <u>Page</u>	<u>Description</u>	<u>807 KAR 5:001</u> <u>Section Reference</u>
	Financial Exhibit	12 and 18(2)(a)
1	Amount and kinds of stock authorized	12(2)(a)
1	Amount and kinds of stock issued and outstanding	12(2)(b)
1	Terms of preference or preferred stock	12(2)(c)
1	Brief description of each mortgage on property of Duke Energy Kentucky	12(2)(d)
1-2	Amount of bonds authorized and issued and related information	12(2)(e)
2	Notes outstanding and related information	12(2)(f)
2-3	Other indebtedness and related information	12(2)(g)
3	Dividend information	12(2)(h)
3-5	Detailed Income Statement and Balance Sheet	12(2)(i)

9. **807 KAR 5:001 Section 18(2)(b).** The requested deeds of trust or mortgage documents have been previously provided to this Commission as Exhibit F in the Company’s Application in Case No. 2012-00575 and are hereby incorporated by reference. These deeds of trust or mortgage documents include the following:

- Indenture between The Union Light, Heat and Power Company and Deutsche Bank Trust Company Americas, Trustee dated as of December 1, 2004,

- First Supplemental Indenture between The Union Light, Heat and Power Company and Deutsche Bank Trust Company Americas, Trustee dated as of March 7, 2006.
- Indenture between The Union Light, Heat and Power Company (n/k/a Duke Energy Kentucky) and The Fifth Third Bank (succeeded by The Bank of New York) dated July 1, 1995, and the two active amendments thereto.

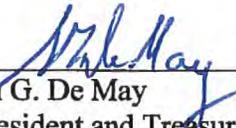
10. **807 KAR 5:001 Section 18(2)(c).** Duke Energy Kentucky does not have any plans to acquire any specific property<sup>6</sup> with the long-term debt financing authority that the Company seeks in this application. If the Commission grants Duke Energy Kentucky the financing authority it seeks, and if Duke Energy Kentucky later decides to acquire property and finance it by using such financing authority, Duke Energy Kentucky commits that it will provide the Commission with the details of such transaction.

WHEREFORE, Duke Energy Kentucky respectfully requests that the Commission issue an order authorizing Duke Energy Kentucky to issue and sell up to \$175,000,000 principal amount of its Bonds or Debentures, or any combination thereof; to utilize Interest Rate Management Techniques; to convert short-term borrowings under the revolving credit agreement and Utility Money Pool Agreement, which shall be counted toward such principal amount; to include the ability to borrow the proceeds of tax exempt bonds from the Authority; to enter into one or more Loan Agreements with the Authority to evidence and secure its obligations to repay such loan or loans; and authorizing Duke Energy Kentucky to account for such transactions in the manner as herein set forth.

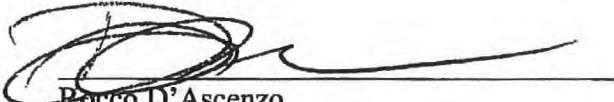
---

<sup>6</sup> Duke Energy Kentucky is currently in the process of acquiring the remaining interest in the East Bend facility and expects to close by the end of 2014.

DUKE ENERGY KENTUCKY, INC.

By:   
Stephen G. De May  
Vice President and Treasurer

Its Attorneys:

  
\_\_\_\_\_

Rocco D'Ascenzo  
Associate General Counsel  
Amy B. Spiller  
Deputy General Counsel  
Duke Energy Kentucky, Inc.  
139 East Fourth Street  
1303-Main  
Cincinnati Ohio 45202  
513-287-4320 (telephone)  
513-287-4385 (facsimile)  
Email: [rocco.d'ascenzo@duke-energy.com](mailto:rocco.d'ascenzo@duke-energy.com)

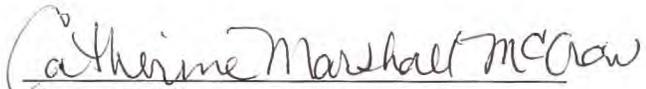
VERIFICATION

State of North Carolina     )  
  )   SS:  
County of Mecklenburg     )

Stephen G. De May, being first duly sworn, states that he is Vice President and Treasurer of Duke Energy Business Services LLC; that he has read the foregoing application; and that the contents are true to the best of his knowledge, information and belief.

  
\_\_\_\_\_  
Stephen G. De May

Subscribed and sworn to before me, this 24 day of September, 2014.

  
\_\_\_\_\_  
Notary Public

My Commission expires 7-6-2015

**Duke Energy Kentucky, Inc.**

**Summary of Bonds/Debentures Pricing Parameters**

<b>Principal Amount:</b>	Up to \$175,000,000 of first mortgage bonds (the “Bonds”) or unsecured indebtedness (the “Debentures”), or any combination thereof, in one or more series. In addition, up to \$76,720,000 of Authority’s Pollution Control Revenue Refunding Bonds (“Authority’s Bonds”) in one or more series.
<b>Maturity:</b>	Up to 50 years for the Bonds and the Debentures.
<b>Purpose:</b>	To refund outstanding obligations, for construction expenditures, or for other general purposes. Also, to refinance existing tax-exempt Authority Bonds; \$26,720,000 County of Boone, Kentucky, Pollution Control Revenue Refunding Bonds Series 2010 and \$50,000,000 County of Boone, Kentucky, Pollution Control Revenue Refunding Bonds Series 2008A.
<b>Lead Underwriters:</b>	To be named.
<b>Underwriting Commissions or Agents’ Fees:</b>	Not to exceed 3.50% of the principal amount.
<b>Price to Public:</b>	No higher than 102% nor less than 98% of the principal amount, plus accrued interest, if any.
<b>Interest Rate:</b>	Not to exceed those generally obtainable at the time of pricing or repricing of such Bonds and Debentures for securities having the same or reasonably similar maturities and having reasonably similar terms, conditions and features issued by utility companies or utility holding companies of the same or reasonably comparable credit quality.
<b>Security:</b>	The Authority’s Bonds may include credit enhancements such as letters of credit or other security.

Duke Energy Kentucky, Inc.

No. \_\_\_\_\_

\$ \_\_\_\_\_

CUSIP NO. \_\_\_\_\_

Duke Energy Kentucky, Inc., a corporation duly organized and existing under the laws of the Commonwealth of Kentucky (herein called the "Company", which term includes any successor Person under the Indenture hereinafter referred to), for value received, hereby promises to pay to \_\_\_\_\_, or registered assigns, the principal sum of \_\_\_\_\_ Dollars on \_\_\_\_\_ [if the Security is to bear interest prior to Maturity, insert: \_\_\_\_\_, and to pay interest thereon from \_\_\_\_\_ or from the most recent Interest Payment Date to which interest has been paid or duly provided for, \_\_\_\_\_ on \_\_\_\_\_ and \_\_\_\_\_ in each year, commencing \_\_\_\_\_, at the rate of ...% per annum, until the principal hereof is paid or made available for payment. The interest so payable, and punctually paid or duly provided for, on any Interest Payment Date will, as provided in such Indenture, be paid to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date for such interest, which shall be the ..... or ..... (whether or not a Business Day), as the case may be, next preceding such Interest Payment Date. Any such interest not so punctually paid or duly provided for will forthwith cease to be payable to the Holder on such Regular Record Date and may either be paid to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on a Special Record Date for the payment of such Defaulted Interest to be fixed by the Trustee, notice whereof shall be given to Holders of Securities of this series not less than 10 days prior to such Special Record Date, or be paid at any time in any other lawful manner not inconsistent with the requirements of any securities exchange on which the Securities of this series may be listed, and upon such notice as may be required by such exchange, all as more fully provided in said Indenture].

[If the Security is not to bear interest prior to Maturity, insert: The principal of this Security shall not bear interest except in the case of a default in payment of principal upon acceleration, upon redemption or at Stated Maturity and in such case the overdue principal and any overdue premium shall bear interest at the rate of ...% per annum (to the extent that the payment of such interest shall be legally enforceable), from the dates such amounts are due until they are paid or made available for payment. Interest on any overdue principal or premium shall be payable on demand. Any such interest on overdue principal or premium which is not paid on demand shall bear interest at the rate of .....% per annum (to the extent that the payment of such interest on interest shall be legally enforceable), from the date of such demand until the amount so demanded is paid or made available for payment. Interest on any overdue interest shall be payable on demand.]

Payment of the principal of (and premium, if any) and [if applicable, insert: any such] interest on this Security will be made at the office or agency of the Company maintained for that purpose in \_\_\_\_\_, in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts [if applicable, insert: ;provided, however, that at the option of the Company payment of interest may be made by check mailed to the address of the Person entitled thereto as such address shall appear in the Security Register].

Any payment on this Security due on any day which is not a Business Day in the City of New York need not be made on such day, but may be made on the next succeeding Business Day with the same force and effect as if made on the due date and no interest shall accrue for the period from and after such date.

Reference is hereby made to the further provisions of this Security set forth on the reverse hereof, [if subordinated, insert: including, without limitation, provisions subordinating the payment of the principal hereof and any premium and interest hereon to the payment in full of all Senior Debt as defined in the Indenture] which such further provisions shall for all purposes have the same effect as if set forth at this place.

Unless the certificate of authentication hereon has been executed by the Trustee referred to on the reverse hereof by manual signature, this Security shall not be entitled to any benefit under the Indenture or be valid or obligatory for any purpose.

In Witness Whereof, the Company has caused this instrument to be duly executed.

DUKE ENERGY KENTUCKY, INC.

By \_\_\_\_\_

**Duke Energy Kentucky  
Capital Expenditures  
(\$ in thousands)**

<b>Expansion</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Grid Modernization	\$ 3,700	\$ 800	\$ 800
Customer Adds	8,100	8,900	9,500
Regulated Operations	800	10,000	-
<b>Total Expansion</b>	<b>\$ 12,600</b>	<b>\$ 19,700</b>	<b>\$ 10,300</b>

<b>Maintenance</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Regulated Operations	\$ 14,000	\$ 20,400	\$ 43,700
Power Delivery	17,700	20,100	18,600
Gas Delivery	11,000	15,200	15,700
Customer Service	100	200	200
Other FE&G	2,000	1,200	900
<b>Total Maintenance</b>	<b>\$ 44,800</b>	<b>\$ 57,100</b>	<b>\$ 79,100</b>

<b>Environmental</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Environmental Control	\$ 100	\$ -	\$ 500
<b>Total Environmental</b>	<b>\$ 100</b>	<b>\$ -</b>	<b>\$ 500</b>

<b>Total Forecast Capital Expenditures</b>	<b>\$ 57,500</b>	<b>\$ 76,800</b>	<b>\$ 89,900</b>
--	------------------	------------------	------------------

Notes:

Includes all additions (account 107000) and retirements (account 108000), including all AFUDC

**FINANCIAL EXHIBIT**

**(1) Amount and kinds of stock authorized**

1,000,000 shares of Capital Stock \$15 par value amounting to \$15,000,000 par value.

**(2) Amount and kinds of stock issued and outstanding**

585,333 shares of Capital Stock \$15 par value amounting to \$8,779,995 total par value. Total Capital Stock and Additional Paid-in Capital as of June 30, 2014:

Capital Stock and Additional Paid-in Capital  
As of 6/30/2014  
(\$ per 1,000)

Capital Stock	\$8,780
Premiums thereon	18,839
Total Capital Contributions from Parent (since 2006)	8,594
Contribution from Parent Company for Purchase of Generation Assets	<u>140,061</u>
Total Capital Stock and Additional Paid-in-Capital	<u>\$176,274</u>

**(3) Terms of preference or preferred stock whether cumulative or participating, or on dividends or assets or otherwise.**

There is no preferred stock authorized, issued or outstanding.

**(4) Brief description of each mortgage on property of applicant, giving date of execution, name of mortgagor, name or mortgagee, or trustee, amount of indebtedness authorized to be secured thereby, and the amount of indebtedness actually secured, together with any sinking fund provision.**

Duke Energy Kentucky does not have any liabilities secured by a mortgage.

**(5) Amount of bonds authorized, and amount issued, giving the name of the public utility which issued the same, describing each class separately, and giving the date of issue, face value, rate of interest, date of maturity and how secured, together with the amount of interest paid thereon during the last fiscal year.**

The Company has four outstanding issues of unsecured senior debentures issued under an Indenture dated December 1, 2004, between itself and Deutsche Bank Trust Company Americas, as Trustee, as supplemented by two Supplemental Indentures. The Indenture allows the Company to issue debt securities in an unlimited amount from time to time. The Debentures issued under the Indenture are the following:

Supplemental Indenture	Date of Issue	Principal Amount Authorized and Issued	Principal Amount Outstanding	Rate of Interest	Date of Maturity	Interest Paid Year 2013
Not Applicable	12/9/2004	40,000,000	40,000,000	5.000%	12/15/2014	2,000,000
1 <sup>st</sup> Supplemental	3/10/2006	50,000,000	50,000,000	5.750%	3/10/2016	2,875,000
1 <sup>st</sup> Supplemental	3/10/2006	65,000,000	65,000,000	6.200%	3/10/2036	4,030,000
2 <sup>nd</sup> Supplemental	9/22/2009	100,000,000	<u>100,000,000</u>	4.650%	10/1/2019	<u>4,650,000</u>
			<u>255,000,000</u>			<u>13,555,000</u>

- (6) **Each note outstanding, giving date of issue, amount, date of maturity, rate of interest, in whose favor, together with amount of interest paid thereon during the last fiscal year.**

Not applicable.

- (7) **Other indebtedness, giving same by classes and describing security, if any, with a brief statement of the devolution or assumption of any portion of such indebtedness upon or by person or corporation if the original liability has been transferred, together with amount of interest paid thereon during the last fiscal year.**

The Company has two series of Pollution Control Revenue Refunding Bonds issued under a Trust Indenture dated as of August 1, 2006 and a Trust Indenture dated as of December 1, 2008, between the County of Boone, Kentucky and Deutsche Bank National Trust Company as Trustee. The Company's obligation to make payments equal to debt service on the Bonds is evidenced by a Loan Agreement dated as of August 1, 2006 and December 1, 2008 between the County of Boone, Kentucky and Duke Energy Kentucky. The Bonds issued under the Indentures are as follows:

Indenture	Date of Issue	Principal Amount Authorized and Issued	Principal Amount Outstanding	Rate of Interest	Date of Maturity	Interest Paid Year 2013
Series 2008A	12/01/2011	50,000,000	50,000,000	1.08% <sup>(1)</sup>	8/1/2027	540,446
Series 2010	11/24/2010	26,720,000	<u>26,720,000</u>	0.09% <sup>(2)</sup>	8/1/2027	<u>23,698</u>
			<u>76,720,000</u>			<u>564,144</u>

- (1) The interest rate represents the average floating-rate of interest on the bonds for 2013. The interest rate on the bonds resets every 7 days through a remarketing process.
- (2) The interest rate on the bonds resets every 35 days through an auction process. The variable-rate debt was swapped to a fixed rate of 3.86% for the life of the debt.

The Company has issued and has outstanding as of June 30, 2014 the following capital leases:

Series	Date of Issue	Principal Amount Authorized and Issued	Principal Amount Outstanding	Rate of Interest	Date of Maturity
2005	12/30/2005	2,079,031	468,532	4.893%	12/30/2014
2006	12/28/2006	2,406,336	808,733	5.000%	12/30/2015
Erlanger	12/30/2006	2,100,000	1,219,323	8.634%	09/30/2020
2007	12/31/2007	3,066,955	1,353,820	5.115%	12/31/2016
2009	04/21/2009	3,429,432	1,870,815	4.821%	04/21/2018
2010	06/18/2010	<u>955,061</u>	<u>612,547</u>	3.330%	06/18/2019
		<u>16,053,899</u>	<u>6,333,770</u>		

The Company also has outstanding as of June 30, 2014, long term debt in the amount of \$851,494 associated with the July 31, 2007 sale of a gas storage cavern carrying an interest rate of 4.77% and a maturity date of July 31, 2027.

- (8) **Rate and amount of dividends paid during the last five (5) previous fiscal years, and the amount of capital stock on which dividends were paid each year.**

**DIVIDENDS PER SHARE**

Year Ending*	Per Share	Total	No. of Shares	Par Value of Stock
December 31, 2009	0.00	0	585,333	8,779,995
December 31, 2010	0.00	0	585,333	8,779,995
December 31, 2011	230.64	135,000,000	585,333	8,779,995
December 31, 2012	17.08	10,000,000	585,333	8,779,995
December 31, 2013	68.34	40,000,000	585,333	8,779,995

- (9) **Detailed Income Statement and Balance Sheet**

See the attached pages for the detailed Income Statement for the twelve months ended June 30, 2014 and the detailed Balance Sheet as of June 30, 2014 and December 31, 2013.

DUKE ENERGY KENTUCKY, INC.  
**CONDENSED STATEMENTS OF OPERATIONS**  
(Unaudited)  
(In thousands)

	<b>Twelve Months Ended</b>	
	<b>June 30, 2014</b>	
<b>Operating Revenues</b>		
Electric	\$	357,412
Gas		123,460
Total operating revenues		480,872
<b>Operating Expenses</b>		
Fuel used in electric generation and purchased power		165,529
Natural gas purchased		57,849
Operation, maintenance and other		127,209
Depreciation and amortization		44,112
Property and other taxes		12,576
Total operating expenses		407,275
<b>Gains on Sales of Other Assets and Other, net</b>		(1,375)
<b>Operating Income</b>		72,222
<b>Other Income and Expenses, net</b>		2,149
<b>Interest Expense</b>		15,732
<b>Income Before Income Taxes</b>		58,639
<b>Income Tax Expense</b>		21,744
<b>Net Income</b>		\$ 36,895

DUKE ENERGY KENTUCKY, INC.  
Condensed Balance Sheets  
(Unaudited)

(in thousands, except share amounts)	June 30, 2014	December 31, 2013
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 12,145	\$ 13,038
Receivables (net of allowance for doubtful accounts of \$216 at June 30, 2014 and \$229 at December 31, 2013)	12,877	4,246
Receivables from affiliated companies	17,538	25,999
Notes receivable from affiliated companies	—	1,267
Inventory	50,929	41,667
Regulatory assets	15,671	4,038
Other	12,644	10,906
Total current assets	121,804	101,161
<b>Investments and Other Assets</b>		
Intangibles, net	56	115
Other	7,630	7,983
Total investments and other assets	7,686	8,098
<b>Property, Plant and Equipment</b>		
Cost	1,761,175	1,741,308
Accumulated depreciation and amortization	(739,237)	(728,396)
Net property, plant and equipment	1,021,938	1,012,912
<b>Regulatory Assets and Deferred Debits</b>		
Regulatory Assets	43,122	41,437
Other	2,067	2,138
Total regulatory assets and deferred debits	45,189	43,575
<b>Total Assets</b>	<b>1,196,617</b>	<b>1,165,746</b>
<b>LIABILITIES AND COMMON STOCKHOLDER'S EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable	16,200	25,536
Accounts payable to affiliated companies	6,461	18,204
Notes payable to affiliated companies	30,084	—
Taxes accrued	11,576	10,306
Interest accrued	3,561	3,442
Current maturities of long-term debt	41,623	41,688
Regulatory liabilities	3,269	2,390
Other	21,584	18,462
Total current liabilities	134,358	120,028
<b>Long-term Debt</b>	<b>296,798</b>	<b>297,365</b>
<b>Deferred Credits and Other Liabilities</b>		
Deferred income taxes	261,228	257,220
Investment tax credits	1,200	1,304
Accrued pension and other post-retirement benefit costs	10,138	10,776
Asset retirement obligations	6,389	6,253
Regulatory liabilities	65,894	69,495
Other	25,149	25,351
Total deferred credits and other liabilities	369,998	370,399
<b>Commitments and Contingencies</b>		
<b>Common Stockholder's Equity</b>		
Common Stock, \$15.00 par value, 1,000,000 shares authorized and 585,333 shares outstanding at June 30, 2014 and December 31, 2013	8,780	8,780
Additional paid-in-capital	167,494	167,494
Retained earnings	219,189	201,680
Total common stockholder's equity	395,463	377,954
<b>Total Liabilities and Common Stockholder's Equity</b>	<b>\$ 1,196,617</b>	<b>\$ 1,165,746</b>

See Notes to Condensed Financial Statements