

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

|  |   |            |
|--|---|------------|
| APPLICATION OF DUKE ENERGY KENTUCKY,   | ) |            |
| INC. FOR AN ORDER SEEKING AN AMENDMENT | ) |            |
| TO ITS EXISTING FINANCING AUTHORITY    | ) |            |
| AUTHORIZING THE ISSUANCE OF UNSECURED  | ) | CASE NO.   |
| DEBT AND LONG-TERM NOTES, EXECUTION    | ) | 2019-00238 |
| AND DELIVERY OF LONG-TERM LOAN         | ) |            |
| AGREEMENTS, AND USE OF INTEREST RATE   | ) |            |
| MANAGEMENT INSTRUMENTS                 | ) |            |

ORDER

On July 3, 2019, Duke Energy Kentucky, Inc. (Duke Kentucky), filed an application requesting authority to amend Duke Kentucky’s current financing authority so that it has the ability to issue up to \$280 million in total securities through 2020 instead of \$200 million. Duke Kentucky’s current financing authority was approved by the Commission in Case No. 2018-00323, which granted Duke Kentucky authority for the issuance and sale of up to \$200 million principal amount of “Securities”<sup>1</sup> through December 31, 2020.<sup>2</sup> Duke Kentucky is requesting authority to issue the additional \$80 million in securities because it has been able to obtain very favorable pricing in a recent private placement.<sup>3</sup> Lastly, Duke Kentucky requests that no changes be made to the other authority granted in Case

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<sup>1</sup> Duke Kentucky uses the term “Securities” to refer to secured indebtedness in the form of bonds or unsecured indebtedness in the form of debentures or other long-term unsecured indebtedness, including but not limited to, bank loans in the form of long term notes in any combination thereof. The use of these Securities was authorized in Case No. 2018-00323.

<sup>2</sup> Case No. 2018-00323, *Electronic 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 Nov. 26, 2018).

<sup>3</sup> Application at 12.

No. 2018-00323. Duke Kentucky responded to one round of requests for information from Commission Staff. There are no intervenors in this proceeding, and the matter now stands submitted to the Commission for a decision.

Subsequent to the final Order in Case No. 2018-00323, Duke Kentucky closed on \$40 million of securities due in 2049 with a coupon rate of 4.32 percent on July 17, 2019.<sup>4</sup> It also priced two additional tranches of unsecured indebtedness. Tranche one is for \$95 million due in 2025 at 3.23 percent, and tranche two is for \$75 million due in 2049 at 3.56 percent.<sup>5</sup> Summing to \$210 million, the three fund allotments are above the \$200 million limit authorized in Case No. 2018-00323.

Duke Kentucky states that it plans to use the proceeds to (1) repay short-term debt or expiring long-term indebtedness; (2) if conditions are favorable, redeem early or at maturity long-term debt; (3) to fund estimated future capital expenditures related to gas delivery and electric generation, transmission and distribution of approximately \$279 million in 2018, \$240 million in 2019, and \$206 million in 2020; (4) 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 at least \$260 million in long-term debt by the end of 2020 to pay for planned capital expenditures in the normal course of its utility business.<sup>6</sup>

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

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<sup>4</sup> Duke Kentucky's response to Commission Staff's First Request for Information, Item 1.

<sup>5</sup> *Id.*, Item 4.

<sup>6</sup> Application at 10 and Exhibit C.

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 requests continued 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 has been granted since 2004 and most recently in Case No. 2018-00323.

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 \$280 million as set forth in its application for the period ending December 31, 2020.

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 50 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, 2020.

3. Duke Kentucky is authorized to continue to classify \$25 million of Utility Money Pool Agreement borrowings as long-term debt if it deems it prudent to do so.

4. 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.

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

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

7. 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.

8. Any documents filed in the future pursuant to ordering paragraphs 4 or 7 herein shall reference this case number and shall be retained in the post-case correspondence file.

9. This case is closed and removed from the Commission's docket.

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.

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By the Commission

ENTERED  
SEP 09 2019  
KENTUCKY PUBLIC  
SERVICE COMMISSION

ATTEST:

  
Executive Director

Case No. 2019-00238

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