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**VIA OVERNIGHT DELIVERY**

October 22, 2010

RECEIVED

OCT 25 2010

PUBLIC SERVICE  
COMMISSION

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

Re: Case No. 2010-369

Dear Mr. Derouen:

Enclosed please find an original and twelve copies each of *Duke Energy Kentucky, Inc.'s Responses to Commission Staff's First Set of Data Requests* in the above captioned case.

Please date-stamp the extra two copies of the filing and return to me in the enclosed envelope.

Sincerely,

Kristen Cocanougher

cc: Hon. Larry Cook



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**Duke Energy Kentucky  
Case No. 2010-00369  
Staff First Set Data Requests  
Date Received: October 15, 2010**

**STAFF-DR-01-001**

**REQUEST:**

Clarify whether Duke Kentucky is requesting Commission Approval to issue up to a total of \$100 million in debt or up to a total of \$126.72 million in debt.

**RESPONSE:**

Duke Energy Kentucky is requesting approval to issue up to \$100 million of long term debt and \$26.72 million to refinance existing tax-exempt bonds for a total of \$126.72 million. Answering further, see response to STAFF-DR-01-002.

**PERSON RESPONSIBLE:** Stephen De May



**Duke Energy Kentucky**  
**Case No. 2010-00369**  
**Staff First Set Data Requests**  
**Date Received: October 15, 2010**

**STAFF-DR-01-002**

**REQUEST:**

Refer to page 2 of the Application. Duke Kentucky is requesting authorization 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 forty years, up to a maximum of \$26.72 million. Duke Kentucky states that this loan is to be used to refinance existing tax-exempt Authority Bonds. Duke Kentucky is requesting this authority to commence upon approval by the Commission through December 31, 2012. Duke Kentucky has been granted similar authorization in Case No. 2008-00503<sup>1</sup> through December 31, 2010.

- a. Explain why Duke Kentucky has not exercised this authority since receiving it in 2009.
- b. State whether the authorization sought in this case, as described at page 2 of the Application, is identical to that authorized by the Commission in Case No. 2008-00503, with the exception being that Duke is requesting that the time to complete the transactions be extended to December 31, 2012. If no, explain other differences, if any.

**RESPONSE:**

- a. At time of issuance of the \$26.72 million auction-rate bonds, Duke Energy Kentucky entered into a fixed-rate swap (i.e., pay fixed/receive floating) at a rate of 3.86%. While these bonds continue to experience failed auctions, the bonds are long-term in nature and cannot be put back to Duke Energy Kentucky prior to maturity (August 1, 2027). Duke Energy Kentucky continues to evaluate refunding options (i.e., fixed-rate term bonds or variable-rate demand bonds), taking into account the potential swap impacts and other refunding costs. From a historical perspective, the tax-exempt market has continued to remain wide compared to the taxable debt capital markets (i.e., indicative tax-exempt financing

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<sup>1</sup> 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).

rates are very similar to taxable financing rates). While Duke Energy Kentucky continues to have plans to refund and refinance the \$26.72 million auction rate tax-exempt bonds, the timing of such refinancing activities is uncertain and subject to market conditions.

- b. The authorization requested in this case 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.

**PERSON RESPONSIBLE:** Stephen De May





**Duke Energy Kentucky**  
**Case No. 2010-00369**  
**Staff First Set Data Requests**  
**Date Received: October 15, 2010**

**STAFF-DR-01-003**

**REQUEST:**

Refer to page 3 of the Application at paragraph 5. Duke Kentucky is requesting authority to issue secured or unsecured debt or any combination thereof.

- a. Explain how Duke Kentucky will determine which type of debt to issue.
- b. Provide an estimate of the difference between secured and unsecured debt as it pertains to this specific financing request.

**RESPONSE:**

- a. Depending on market conditions, secured debt is generally issued at a more favorable interest rate than unsecured debt due to the security of the credit enhancement. Duke Energy Kentucky does not currently have an active First Mortgage Bond Indenture, therefore any secured debt issuance will require the creation of a mortgage indenture. In addition, secured debt tends to give rise to greater administrative and compliance requirements. At time of issue, Duke Energy Kentucky will consider the costs and benefits associated with secured versus unsecured debt and select the overall most cost effective method of raising debt financing.
- b. Under current market conditions, the interest rate cost difference between issuing secured debt versus unsecured debt is estimated to be approximately 15 to 20 basis points. On a historical basis, this interest rate differential has been as low as 10 basis points. Given that Duke Energy Kentucky does not currently have any secured debt outstanding, this interest rate differential may be reduced by enhancing the unsecured debt covenants (i.e., include negative pledge covenant), as was done for the \$100 million of 4.65% Debentures issued September 17, 2009. In addition, issuing unsecured debt avoids the costs associated with the creation of a mortgage indenture and the added administrative costs associated with managing mortgage indenture compliance.

**PERSON RESPONSIBLE:** Stephen De May



**Duke Energy Kentucky  
Case No. 2010-00369  
Staff First Set Data Requests  
Date Received: October 15, 2010**

**STAFF-DR-01-004**

**REQUEST:**

Refer to page 12, paragraph 9, of the Application. Duke Kentucky states that, in Case No. 2008-00503, the Commission authorized the issuance of up to \$100 million of securities for a period ending December 31, 2010. State whether the authorization sought in this case, as described at page 12, paragraph 9, of the Application, is identical to the authorization granted by the Commission in Case No. 2008-00503, with the exception being that Duke is requesting that the time to complete the transaction be extended to December 31, 2012. If no, explain other differences, if any.

**RESPONSE:**

The authorization requested and approved by the Commission in Case No. 2008-000503 was used to support the issuance of \$100 million of 4.65% Debentures on September 17, 2009. The authorization sought in this request is to support the issuance of securities totaling \$100 million to be issued through December 31, 2012.

**PERSON RESPONSIBLE:** Stephen De May