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VIA OVERNIGHT DELIVERY

November 29, 2016

RECEIVED

NOV 30 2016

PUBLIC SERVICE
COMMISSION

Talina Rose Mathews
Executive Director
Kentucky Public Service Commission
211 Sower Blvd
Frankfort, KY 40602-0615

Re: Case No. 2016-00379
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

Dear Ms. Mathews:

Duke Energy Kentucky, Inc. hereby submits its responses to *Staff's First Set of Data Requests*. In compliance with the Commission's November 21, 2016 Order, the original and twelve (12) paper copies are enclosed.

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

Respectfully submitted,

Rocco D'Ascenzo (92796)
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Enclosures

cc: Rebecca Goodman (w/enclosures)

609726

KYPSC CASE NO. 2016-00379
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VERIFICATION

STATE OF NORTH CAROLINA)
) **SS:**
COUNTY OF MECKLENBURG)

The undersigned, John L. Sullivan III, Director of Corporate Finance, being duly sworn, deposes and says that he has personal knowledge of the matters set forth in the foregoing data requests, and that the answers contained therein are true and correct to the best of his knowledge, information and belief.

John L. Sullivan, III

John L. Sullivan III, Affiant

Subscribed and sworn to before me by John L. Sullivan III on this 22 day of November, 2016.

Angela Hunter

NOTARY PUBLIC

My Commission Expires:

My Commission Expires
05-30-2018

NOTARY PUBLIC
GASTON COUNTY
NORTH CAROLINA

Duke Energy Kentucky
Case No. 2016-00379
Staff's First Set Data Requests
Date Received: November 21, 2016

STAFF-DR-01-001

REQUEST:

Provide the expected cost of secured and unsecured borrowing represented by authority requested in this application.

RESPONSE:

The cost of borrowing under the application will be dependent on market conditions at the time of the borrowing. Generally, the cost is composed of an underlying index (e.g. US Treasuries and/or LIBOR) and a credit spread. In 2016, Duke Energy Kentucky priced three long-term borrowings on an unsecured basis as described below:

In January 2016, Duke Energy Kentucky issued two tranches of unsecured debt consisting of a $45 million 10-year tranche and a $50 million 30-year tranche. The underlying treasury rates (locked on October 7, 2015), credit spreads and resulting coupons are reflected in the following table:

	10-Year Senior Unsecured Debentures	30-Year Senior Unsecured Debentures
Treasury yield	2.07%	2.90%
Credit spread	135 bps	155 bps
Coupon	3.42%	4.45%

Duke Energy Kentucky's third financing in 2016 included the refinancing of $50 million of existing Authority Bonds in November, 2016. This debt had a mandatory put date of December 1, 2016 requiring the refinancing. As with the previous structure, the floating interest rate is equal to one-month LIBOR plus an applicable margin of 112.5 basis points (based on Duke Energy Kentucky's credit ratings). That total amount is then multiplied by 70% to account for the tax-exempt status of the bonds. The initial bond rate was 1.16%, but may fluctuate in the future primarily driven by changes in future LIBOR rates.

Short-term and long-term benchmark rates have increased in the weeks following the presidential election with the 10-year and 30-year US Treasury yields resting at approximately 2.30% and 3.00%, respectively, as of November 21, 2016.

PERSON RESPONSIBLE: John L. Sullivan III

STAFF-DR-01-002

REQUEST:

Explain why Duke Kentucky is requesting an increase to a maximum amount of $200 million from the $175 million long-term debt financing currently authorized by the Commission.

RESPONSE:

Duke Energy Kentucky currently forecasts capital expenditures of approximately $190 million in each of 2017 and 2018 as shown in Exhibit C of the financing application. The forecast may change over this two-year period due to a variety of factors. The $200 million financing request will allow for some of these changes while maintaining ready access to the capital markets as needed to finance the business.

PERSON RESPONSIBLE: John L. Sullivan III

Duke Energy Kentucky
Case No. 2016-00379
Staff's First Set Data Requests
Date Received: November 21, 2016

STAFF-DR-01-003

REQUEST:

Refer to the Application, page 3, paragraph 3, which states that Duke Kentucky expects to continue to classify $25 million of borrowings under the Utility Money Pool Agreement as long-term debt via allocation of Duke Energy Corporation's borrowing capacity under its master credit facility.

a. Provide an explanation of the classification of the specified $25 million of Utility Money Pool Agreement borrowings as long-term debt.

b. State when Duke Kentucky began the referenced classification, given that the application in Case No. 2014-00343[1] requested permission to convert to long-term debt an unspecified amount of loans under the Utility Money Pool Agreement.[2]

c. Provide any quantification of benefit of the referenced classification of the $25 million to long-term debt.

RESPONSE:

a. Duke Energy has a master credit facility (MCF) that expires in January 2020. The facility backstops commercial paper (CP) issuances. Duke Energy can issue CP and loan the proceeds to Duke Energy Kentucky and other utility subsidiaries

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[1] Case No. 2014-00343, *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 No. 20, 2014).
[2] *Id.*, Application at 3, paragraph 3.

through the money pool. A portion of these borrowings can be classified as long-term because Duke Energy Kentucky has the intent and ability (under the MCF) to utilize such borrowings on a long-term basis. Accordingly, Duke Energy Kentucky currently has $25 million of CP classified as long-term debt.

b. This classification began in the fourth quarter of 2014.

c. The benefit would be the difference between the short-term commercial paper (CP) interest rate and an alternative long-term financing rate. Short-term rates (less than one year tenor) are generally lower than long-term rates, even as CP rates and long-term rates vary over time.

The table below provides a summary of interest expense benefits by utilizing short-term (CP) borrowings instead of long-term borrowings of various tenors:

	Compare to 10-Year Senior Unsecured Debentures discussed in question 1	Compare to 30-Year Senior Unsecured Debentures discussed in question 1	Compare to $50 million Pollution Control Bond due 8/1/27 (floating rate as of 9/30/16)
CP rate as of 9/30/16	0.805%	0.805%	0.805%
Rate of long-term instrument	3.42%	4.45%	1.330%
Difference in rates	2.615%	3.645%	0.525%
Amount of long-term CP	$25 million	$25 million	$25 million
Annualized interest savings	**$653,750**	**$911,250**	**$131,250**

PERSON RESPONSIBLE: John L. Sullivan III

STAFF-DR-01-004

REQUEST:

Refer to the Application, pages 6-7. Describe Duke Kentucky's use of interest rate management techniques since first approved by the Commission, the products used, and the annual impact on Duke Kentucky's interest cost. The information provided should include, but not be limited to, annual fees and commissions associated with interest rate management techniques and an analysis of whether the use of such techniques has provided positive net benefits.

RESPONSE:

There has been no new interest rate management activity by Duke Energy Kentucky, or any associated costs, since the Commission's previous approval. An interest rate swap executed on August 2, 2006 continues to be in place. Duke Energy Kentucky entered into a floating-to-fixed interest rate swap on its $26.7 million tax-exempt bond. The swap was entered into at the time of the debt issuance and there were no incremental fees associated with the swap. This transaction swapped Duke Energy Kentucky's floating rate payments to fixed, with Duke Energy Kentucky paying a fixed rate payment equivalent to 3.86% and receiving a floating rate payment based on 1-month LIBOR.

Given historically low interest rates, Duke Energy Kentucky's 2016 net payments to the swap counterparty are estimated to be $950,000. The purpose of the swap was to limit Duke Energy Kentucky's exposure to interest rate volatility, as the Company's floating rate exposure had risen to 27% at the time of the transaction. As a result of the swap, the percentage of variable rate debt at Duke Energy Kentucky fell to 18% at the time.

PERSON RESPONSIBLE: John L. Sullivan III