

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF DUKE ENERGY KENTUCKY, )	
INC. FOR AN ORDER AUTHORIZING THE )	CASE NO.
ISSUANCE OF UNSECURED DEBT AND LONG- )	2012-00575
TERM NOTES, EXECUTION AND DELIVERY OF )	
LONG-TERM LOAN AGREEMENTS, AND USE OF )	
INTEREST RATE MANAGEMENT )	
INSTRUMENTS )	

ORDER

On December 17, 2012, Duke Energy Kentucky, Inc. ("Duke Kentucky") filed an application for authority to issue and sell a principal amount of up to \$150 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 \$26.72 million of Authority Tax Exempt Revenue Bonds ("Authority Bonds") that may be issued in one or more series. Duke Kentucky requested in its application that the Commission issue an Order granting an extension of the Company's existing authority approved in Case No. 2010-00369,<sup>1</sup> which was set to expire December 31, 2012, until the Commission issues an Order granting the new authority requested in its application.

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<sup>1</sup> Case No. 2010-00369, 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. 10, 2010).

On December 21, 2012, the Commission issued an Order approving the requested extension pending the Commission's final Order in this proceeding. On January 10, 2013, Commission Staff issued a request for information to which Duke Kentucky supplied responses on January 17, 2013. On February 5, 2013, Duke Kentucky supplemented its response to Item 8.b. of Commission Staff's Information Request. Duke Kentucky requests approval to issue and sell up to \$150 million of any combination of secured or unsecured debt instruments over a period ending December 31, 2014. Authorization to issue \$100 million in long-term debt was previously granted in Case No. 2010-00369, and as previously indicated, that authority would have expired December 31, 2012 had the Commission, on December 21, 2012, not extended the authority pending the Commission's Final Order in this proceeding.

Duke Kentucky estimates the interest cost difference between issuing secured versus unsecured debt to be approximately 10 to 20 basis points. Duke 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 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 \$41.4 million in 2012; \$51.3 million in 2013; and \$99.6 million in 2014;
- (4) To fund such additional expenditures as are contemplated by KRS 278.300; or

(5) For other lawful corporate purposes.

Duke Kentucky also requests authority to issue up to a maximum of \$26.72 million in Authority Bonds. As with the aforementioned authorization to issue \$100 million in long-term debt, the Commission previously granted Duke Kentucky this authorization to issue \$26.72 million in Authority Bonds in Case No. 2010-00369.

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. Duke Kentucky states that the authorization it seeks in this case is identical to that authorized in Case No. 2010-00369, except for extending the time to complete the transactions through December 31, 2014.

Duke Kentucky also requests approval to use interest-rate management techniques and to enter into interest-rate management agreements. This authority will allow Duke Kentucky to react to market fluctuations that will result in better management of its interest cost. This authority was also granted in Case No. 2010-00369.

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. Duke Kentucky confirms that there have been no changes in its interest-rate management techniques or costs since its previous approval in Case No. 2010-00369, and likewise no new interest-rate management activity since that time.

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 \$150 million as set forth in its application for the period ending December 31, 2014.
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 \$26.72 million aggregate principal amount of Authority Bonds that may be issued in one or more series, for the period ending December 31, 2014.
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 that 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.

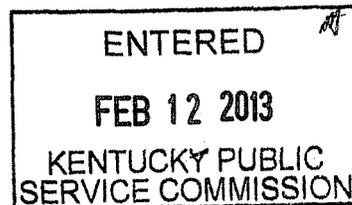
5. Duke Kentucky shall agree only to such terms and prices as are consistent with this Order.

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.

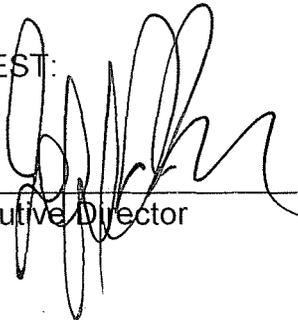
7. Any documents filed in the future pursuant to ordering paragraphs 3 or 6 herein shall reference this case number and shall be retained in the utility's general correspondence file.

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



ATTEST:

  
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Executive Director

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