VERIFICATION

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

The undersigned, John L. Sullivan, III, Director, Corporate Finance and Assistant Treasurer, 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.

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John L. Sullivan, III Affiant

Subscribed and sworn to before me by John L. Sullivan, III on this 5 day of November, 2018.

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NOTARY PUBLIC

My Commission Expires: **My Commission Expires 05-30-2023**

ANGELA HUNTER
NOTARY PUBLIC
GASTON COUNTY
NORTH CAROLINA

KyPSC Case No. 2018-00323
TABLE OF CONTENTS

Duke Energy Kentucky
Case No. 2018-00323
STAFF's First Set Data Request
Date Received: November 1, 2018

STAFF-DR-01-001

REQUEST:

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

RESPONSE:

The cost of borrowing under the application will be dependent on market conditions at the time of the debt offering. Generally, the cost is composed of an underlying index (e.g., US Treasuries) and a credit spread.

Indicative pricing for Duke Energy Kentucky as of November 5, 2018:

	10-Year Senior Unsecured Notes	30-Year Senior Unsecured Notes
Treasury yield	3.20%	3.43%
Credit spread	110 bps	140 bps
Yield	4.30%	4.83%

PERSON RESPONSIBLE: John L. Sullivan, III

Duke Energy Kentucky
Case No. 2018-00323
STAFF's First Set Data Request
Date Received: November 1, 2018

STAFF-DR-01-002

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:

The goal of Duke Energy Kentucky's interest rate management program is to maintain a conservative mix of fixed and floating rate debt. Floating rate instruments allow issuers the possibility of participating in declining interest rates; however, they also expose issuers to periods of increasing interest rates, thereby increasing uncertainty and volatility.

On August 2, 2006, Duke Energy Kentucky entered into two floating rate revenue refunding tax-exempt bonds for the County of Boone, Kentucky: Series A for $50 million and Series B for $26.72 million. Prior to the debt issuances, Duke Energy Kentucky had no floating rate debt. With the issuance of the bonds, the floating rate exposure grew from 0% to 27%. To rebalance the floating rate exposure in Duke Energy Kentucky's debt portfolio, the Company entered into an interest rate derivative on the smaller debt issuance, swapping floating rate payment obligations to fixed rate payment obligations. The swap was entered into at the time of debt issuance and there were no incremental fees associated with the swap. At the time of the tax-exempt debt issuances, Duke Energy Kentucky was able to obtain a 20 year 3.86% fixed rate by swapping the Series B issue. At the time of issuance, the one month Libor rate (floating rate) was approximately 3.67%. As the Series A issue continued to be a floating rate instrument, Duke Energy Kentucky maintained some floating rate exposure.

Duke Energy Kentucky's 2018 net payments (actual and forecasted) to the swap counterparty are estimated to be $670,000.

PERSON RESPONSIBLE: John L. Sullivan, III

STAFF-DR-01-003

REQUEST:

In Case No. 2016-00379[1] Duke Kentucky requested and was granted authority to borrow up to $76,720,000 principal amount of proceeds of tax-exempt Authority Bonds and Duke Energy Kentucky planned to use the proceeds from any such loans to refinance existing tax-exempt financings.

a. Confirm that Duke Kentucky did or did not refinance the bonds under the authority granted in Case No. 2016-00379. If so, state all the terms and conditions.
b. Explain why Duke Kentucky now seeks the same authority.
c. Under what circumstances would compel Duke Kentucky to refinance the existing tax-exempt bonds.

RESPONSE:

a. In 2016, prior to the Commission issuing its order in Case No. 2016-00379, and in accordance with authority granted in Case No. 2014-00343, Duke Kentucky refinanced its $50 million, series 2008A, tax-exempt bond. On November 4, the bond was refinanced into a 5-year, floating-rate, tax-exempt bond purchase facility, with a mandatory put date of November 1, 2021. The floating rate coupon will be equal to one-month LIBOR plus an applicable margin based on Duke Energy

[1] Case No. 2016-00379 *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 Dec. 16, 2016).

Kentucky's unsecured credit rating. That total will then be multiplied by 70% to account for the tax-exempt status of the bond. Following the passage of the Tax Cut and Jobs Act of 2017, the multiplier was adjusted to 85% to account for the change in the tax rate.

b. By seeking the same authority to refinance the bonds, Duke Kentucky goal is to maintain its financial flexibility.

c. In the event that market conditions were to change whereby refinancing was to the benefit of customers, having the appropriate authority would be necessary to execute the refinancing.

PERSON RESPONSIBLE: John L. Sullivan, III

STAFF-DR-01-004

REQUEST:

The Commission granted Duke Kentucky to use Interest Management Techniques (IMT) in Case 2016-00379, explain if Duke Kentucky has exercised its authority to do so. Provide an explanation as to why Duke Kentucky chose to use IMT.

RESPONSE:

There has been no new interest rate management activity by Duke Energy Kentucky since the Commission's previous approval.

PERSON RESPONSIBLE: John L. Sullivan, III