KyPSC Case No. 2020-00321
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AG-DR-01-001

REQUEST:

Provide the interest rates applicable to both the Deutsche Bank Indenture, and the Bank of New York Indenture.

a. Explain whether these interest rates are fixed or variable.

RESPONSE:

Duke Energy Kentucky has no outstanding debt pursuant to the Bank of New York Indenture. All interest rates are applicable to the Indenture between Duke Energy Kentucky and Deutsche Bank Trust Company dated as of December 1, 2004. See Financial Exhibit D, part 5 attached to the Financing Authority application for outstanding interest rates under the current indenture. All interest rates issued under this indenture are fixed.

PERSON RESPONSIBLE: John L. Sullivan, III

Duke Energy Kentucky
Case No. 2020-00321
Attorney General's First Set Data Requests
Date Received: October 23, 2020

AG-DR-01-002

REQUEST:

Identify all long-term debt ("LTD") issuances which will be expiring in the next five (5) years.

RESPONSE:

USD Balance	Rate	Type	Maturity Date
$ 25,000,000	4.01%	Fixed	10/15/2023
$ 95,000,000	3.23%	Fixed	10/1/2025
$ 50,000,000 *	1.09%	Floating	8/1/2027

*Original maturity date is August 2027, but the security has a mandatory put in November 2021 and it is Duke Energy Kentucky's expectation that these bonds will need to be refinanced.

PERSON RESPONSIBLE: John L. Sullivan, III

Duke Energy Kentucky
Case No. 2020-00321
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AG-DR-01-003

REQUEST:

Identify and LTD which could be redeemable early if conditions are favorable enough to warrant such early redemption.

RESPONSE:

None of the Company's outstanding debentures are callable at par at the election of the Company. Duke Energy Kentucky's outstanding debentures do contain optional redemption provisions, but these provisions contain make-whole premiums which make the early redemption of outstanding bonds expensive and cost-prohibitive, especially during periods of low prevailing interest rates. For example, make whole premiums generally require the repayment of principal owed along with the present value of all future interest payments. This additional cash outlay would need to be financed, resulting in additional leverage and dampening benefits potentially achieved from lower rates. Tender offers require making investors whole for the fair value of the outstanding debt and would be expected to settle at a premium to the fair value of the outstanding bonds. Such early redemption can be costly and result in impairment charges for the premium paid above par. Given that Duke Energy Kentucky's weighted average cost of long-term debt is less than 5%, it tends to be more efficient to retire Duke Energy Kentucky debt on its stated maturity date at par instead of retiring it early with a make-whole premium payment. Over the last several years, the Company has been taking advantage of low interest rates, steadily decreasing the weighted average cost of long-term debt as older bonds are replaced with new, lower cost, issuances.

PERSON RESPONSIBLE: John L. Sullivan, III

AG-DR-01-004

REQUEST:

Reference Case No. 2012-00575, DEK's response to Staff DR-1-4 (a), wherein DEK stated that it ". . . does not currently have an active First Mortgage Bond Indenture, therefore any secured debt issuance will require the creation of a mortgage indenture." Reference also Exhibit A ("Summary of Bonds/Debentures Pricing Parameters") to the application in the instant case, in which DEK identifies" . . . [u]p to $250,000,000 of first mortgage bonds (the "Bonds") or unsecured indebtedness (the "Debentures"), or any combination thereof, in one or more series."

a. Explain whether DEK now has a first mortgage bond indenture in effect. If not, is it seeking authority to create that indenture in the instant case, or will it do so in a future case?

RESPONSE:

Duke Energy Kentucky does not currently have a first mortgage bond indenture in effect. No, Duke Energy Kentucky is not seeking authority to create that indenture in this case.

PERSON RESPONSIBLE: John L. Sullivan, III

AG-DR-01-005

REQUEST:

Reference Case No. 2012-00575, DEK's responses to Staff-DR-1-4 (a), wherein DEK stated, ". . . secured debt tends to give rise to greater administrative and compliance requirements. At time of issue Duke 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." Explain whether DEK currently has any secured debt financing, and if not, whether such issuances might be possible in the future. Include in your response: (i) a discussion of the administrative and compliance requirements associated with secured debt financing, and (ii) whether secured debt financing could be favorable under current market conditions.

RESPONSE:

(i) Duke Energy Kentucky does not have secured debt outstanding and has no near-term plans to issue secured debt. If the Company did pursue a secured debt offering, examples of compliance requirements specific to such secured debt would likely include:

- Officer, Accountant and Engineer's certificate for bondable property;
- Opinion of Counsel certificate for compliance with specific secured compliance covenants;
- Property Release Certificates for the sale of bondable property; and,
- Officer certificate for insurance coverage of bondable property.

(ii) Under current market conditions, the interest rate cost difference between issuing secured debt versus unsecured debt is not expected to be meaningful for Duke Energy Kentucky.

PERSON RESPONSIBLE: John L. Sullivan, III

Duke Energy Kentucky
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AG-DR-01-006

REQUEST:

Regarding DEK's request for permission to use interest rate management instruments:

a. Identify the last case in which DEK obtained Commission approval to use such instruments.

b. Provide a discussion and explanation of all uses of such instruments since DEK's last case in which it obtained Commission approval to use such instruments;

c. Provide an analysis of all cost savings achieved as a result of using such instruments, together with the costs of utilizing these instruments.

RESPONSE:

a. Duke Energy Kentucky was granted commission approval to use such instruments in KyPSC Case No. 2019-00238.

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

c. 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. Execution of this swap reduced the floating rate exposure for Duke Kentucky below the 25% internal guideline thus limiting exposure to interest rate volatility. As of September 30, 2020, the impact of the swap has increased Duke Energy Kentucky's interest expense by a cumulative amount of ~$10.2 million since the swap was originated in 2006 (i.e., less than $1 million annually on average).

PERSON RESPONSIBLE: John L. Sullivan, III

AG-DR-01-007

REQUEST:

Explain whether the issuance of new debt will affect DEK's equity position, and if so, how.

RESPONSE:

Duke Energy Kentucky funds its obligations using a balanced funding mix of debt and equity. Immediately following the issuance of debt securities, the debt component of the capital structure may be slightly higher, but over the long run, the financing objective is to manage the utility's capital structure within a reasonable range of its approved regulatory capital structure.

PERSON RESPONSIBLE: John L. Sullivan, III

Duke Energy Kentucky
Case No. 2020-00321
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AG-DR-01-008

REQUEST:

Explain whether the Covid-19 crisis will: (i) lead to increased short-term debt borrowing activity; and (ii) affect DEK's ability to access capital markets, and if so, how.

RESPONSE:

The COVID-19 crisis initially resulted in incremental short-term borrowings at elevated borrowing rates for Duke Energy Kentucky due to extreme market volatility and less liquidity in the short-term lending market in the March-April timeframe. Duke Energy Kentucky did not attempt to access the long-term capital markets during this time, electing to wait until later in the year when market conditions were expected to improve. There were examples where companies of similar size and credit-quality struggled to raise capital in initial months of the COVID-19 crisis. Market conditions ultimately improved after the federal government implemented various funding programs, which helped restore liquidity and improve investor confidence. This allowed Duke Energy Kentucky to proceed with a $70 million long-term debt issuance, which closed on September 15, 2020 at very favorable pricing terms. By October 2020, the surge in COVID cases and the polarizing political landscape in the weeks heading into the Presidential election has resulted in increased levels of market volatility.

PERSON RESPONSIBLE: John L. Sullivan, III

Duke Energy Kentucky
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AG-DR-01-009

REQUEST:

Reference Exhibit C. Provide a comprehensive explanation and breakdown of the proposed capital expenditures, by year, in the following areas. Include in your explanation an explanation of any retirements:

	2020	2021	2022
Grid Modernization	$22.361 M	$19.629 M	$21.093 M
Major Projects	$55.538 M	$32.289 M	$83.715 M
Maintenance	$96.745 M	$75.574 M	$72.514 M

RESPONSE:

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Grid	2020	2021	2022
Reliability Projects	11,902	15,169	16,206
Communications	9,183	4,318	3,504
Other	1,276	142	1,383
	22,361	19,629	21,093

Maintenance	2020	2021	2022
Distribution	7,558	9,668	9,765
EastBend	16,478	19,480	19,011
Woodsdale	80	4,559	5,024
Gas Operations	27,594	21,733	16,937
Transmission	20,976	6,360	6,400
Removal	12,004	7,807	9,507
Other	12,054	5,967	5,870
	96,745	75,574	72,514

Major Projects	2020	2021	2022
New Generation	20,070	7,000	74,000
UL60 forecast (gas pipeline)	27,779	21,299	150
Other	7,689	3,990	9,565
	55,538	32,289	83,715

PERSON RESPONSIBLE: John L. Sullivan, III