

KyPSC Case No. 2020-00321
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Duke Energy Kentucky
Case No. 2020-00321
Staff First Set Data Requests
Date Received: October 23, 2020

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 borrowing. Generally, the cost is composed of an underlying index (e.g. US Treasury yield and/or LIBOR) plus a credit spread.

In September 2020, Duke Energy Kentucky issued two tranches of unsecured debt consisting of a \$35 million 10-year tranche and a \$35 million 30-year tranche. The underlying treasury rates (locked on June 18, 2020), credit spreads, and resulting coupons are reflected in the following table:

	10-Year Senior Unsecured Debentures	30-Year Senior Unsecured Debentures
Treasury yield	0.70%	1.46%
Credit spread	195 bps	220 bps
Coupon	2.65%	3.66%

Treasury yields have increased approximately 15 to 20 basis points since the Company's last debt transaction. Accordingly, we would expect borrowing costs in the future to be slightly higher than the coupons of this year's transactions.

PERSON RESPONSIBLE: John L. Sullivan, III

Duke Energy Kentucky
Case No. 2020-00321
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Date Received: October 23, 2020

STAFF-DR-01-002

REQUEST:

In Case No. 2018-00323,² Duke Kentucky requested and was granted authority to borrow up to \$76.720 million principal amount of proceeds of tax-exempt Authority Bonds. Duke Kentucky proposed 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. 2018-00323. If so, state all the terms and conditions.
- b. Explain why Duke Kentucky now seeks the same authority.
- c. Describe what circumstances would compel Duke Kentucky to refinance the existing tax-exempt Bonds.

RESPONSE:

- a. Duke Energy Kentucky did not refinance any tax-exempt bonds.
- b. Duke Energy Kentucky is seeking this authority consistent with previous financing authorization requests in order to maintain flexibility in accessing the tax-exempt bond market. The \$26.72m is a note puttable to Duke Energy Kentucky at the option of the investors at any time. The \$50m note has a mandatory put option of November 2021; therefore, Duke Energy Kentucky needs authority to refinance its tax-exempt bonds on a continuous basis.

² Case No. 2018-00323 *Electronic 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. 26, 2018).

c. See response to (b). Duke Energy Kentucky monitors the market conditions and this authority provides flexibility to refinance these bonds if more favorable market terms were available.

PERSON RESPONSIBLE: John L. Sullivan, III

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

REQUEST:

The Commission granted Duke Kentucky authority to use Interest Management Techniques (IMT) in Case 2018-00323. Explain whether Duke Kentucky has exercised its authority to do so. Provide an explanation as to why Duke Kentucky chose to use IMT.

RESPONSE:

Duke Energy Kentucky has not entered into any interest rate management transactions since Case No. 2018-00323 and there have been no changes in Duke Energy Kentucky's interest rate management techniques and associated costs since then. However, the Company would like to retain the ability to implement such techniques in the future.

PERSON RESPONSIBLE: John L. Sullivan, III