

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE ELECTRONIC APPLICATION OF DUKE)
ENERGY KENTUCKY, INC. FOR AN ORDER TO) CASE NO.
ENTER INTO UP TO \$25,000,000 PRINCIPAL) 2024-00320
AMOUNT OF CAPITAL LEASE OBLIGATIONS)

APPLICATION FOR CAPITAL LEASE AUTHORITY

Pursuant to KRS 278.300 and 807 KAR 5:001 Sections 12 and 18, Duke Energy Kentucky, Inc. (Duke Energy Kentucky) respectfully requests that the Commission authorize Duke Energy Kentucky to issue capital leases and enter into all necessary agreements and other documents relating thereto, as more fully described herein. In support of this Application, Duke Energy Kentucky states as follows:

1. **807 KAR 5:001 Section 18(1)(a).** Pursuant to 807 KAR 5:001, Section 14(2), Duke Energy Kentucky is a Kentucky Corporation that was originally incorporated on March 20, 1901, is in good standing, and, as a public utility, as that term is defined in KRS 278.010(3), is subject to the Commission’s jurisdiction. Duke Energy Kentucky is engaged in the business of providing retail gas and electric service to its customers in Northern Kentucky in various municipalities and unincorporated areas of Kenton, Campbell, Boone, Gallatin, Grant, and Pendleton Counties. Duke Energy Kentucky is thus subject to the Commission’s jurisdiction. Duke Energy Kentucky’s business address is 139 East Fourth Street, Cincinnati, Ohio 45202. The Company’s local office in Kentucky is the Duke Energy Erlanger Operations Center, 1262 Cox Road, Erlanger, Kentucky 41018. Duke Energy Kentucky’s email address is KYfilings@duke-energy.com. Duke Energy

Kentucky's articles of incorporation are on file with the Commission in Case No. 2013-00097 and are hereby incorporated by reference.

2. **807 KAR 5:001 Section 18(1)(b).** As of June 30, 2024, the original cost of Duke Energy Kentucky's property was \$3,483,645,000. The Company's principal properties consist of electric generating plants, and gas and electric distribution facilities.

3. **807 KAR 5:001 Section 18(1)(c).** Duke Energy Kentucky proposes, with the necessary consent and authority of this Commission, to enter into from time to time over a period ending December 31, 2026, up to \$25 million principal amount of capital lease obligations (Capital Leases). Duke Energy Kentucky proposes to utilize Capital Leases purely as another form of financing its capital requirements. The Capital Leases will have structures and terms similar to other forms of debt financing, but with the potential, in certain instances, to lower the overall cost associated with financing property acquisitions.

Capital Leases will be used to finance new property, including construction, or re-finance existing property, in order to optimize the cost of financing commensurate with such property's expected life (such property being more fully described in "Property Expected to be Leased" below).

Advantages of Leasing. Leasing can allow Duke Energy Kentucky to access lower cost funds. One reason for this is because lessors may have a higher credit rating than Duke Energy Kentucky, and therefore, may secure capital at a lower cost. Capital leasing may also deliver lower cost funds because the lessor may be better able to use the tax depreciation benefits than the lessee, thus lowering the cost of financing. Some portion of this lower cost may be passed on to Duke Energy Kentucky, along with a spread for profit

to the lessor, which usually is at a cost below what Duke Energy Kentucky could have obtained otherwise.

Established financing practices are employed to determine whether ownership or lease (including sale/leaseback) of certain assets is the appropriate method of financing. The impact on earnings and cash flow for available financing alternatives are analyzed.

Capital lease financing is similar to debt except that for certain acquisitions it can be more easily tailored to match the useful life of the acquisition. It is often more effective to enter into a capital lease whose maturity is concurrent with an asset's useful life than to issue a large amount of bonds for a basket of assets having various useful lives. When compared to bonds, the effective cost of capital lease financing may be lower due to reduced transaction costs. And, in the case of variable rate leases, small interest spreads over short-term borrowing indexes such as Secured Overnight Financing Rate (SOFR) may be negotiated, thus making Capital Leases a cost-effective source of financing which may lower overall utility costs.

Property Expected to be Leased. The property expected to be leased will consist of equipment used in Duke Energy Kentucky's operations including, but not limited to, meters, computers, and office equipment, and intangible property such as software and site licenses (collectively, the Property). The Property may also include office buildings, land, plant or equipment in service, plant under construction or land, plant or equipment to be acquired or constructed.

Accounting. Duke Energy Kentucky proposes to account for the Capital Leases as prescribed by the Federal Energy Regulatory Commission Uniform System of Accounts as currently in effect.

The amount financed under each Capital Lease, excluding transaction costs, is not expected to be more than the net capitalized cost of the Property or the appraised value of the Property (in the event more than the capitalized cost is financed).

In accordance with generally accepted accounting principles, the net capitalized cost of property usually includes installation, training, allowance for funds, administrative overhead and other costs capitalized in connection with acquiring and placing the property in service. Such costs are expected to be included in the Property cost financed under a Capital Lease.

Method of Transacting Capital Leases. To effectuate the lease transactions, Duke Energy Kentucky will: (1) obtain third-party lease financing for Property acquisitions; or (2) in the case of existing Property, sell the Property to a third-party finance lessor (Lessor), and simultaneously therewith Duke Energy Kentucky will lease the Property back from the Lessor. In connection therewith, the terms of each Capital Lease will be approved by Duke Energy Kentucky's Board of Directors, or by such persons authorized by the Board, and it is anticipated that an agreement setting forth the terms of each Capital Lease will be executed.

In the case of new Property that is acquired or constructed, the Lessor will either: (a) pay the vendor and Duke Energy Kentucky for their respective costs associated with the acquisition; or (b) reimburse Duke Energy Kentucky for the capitalized cost of the property, with Duke Energy Kentucky concurrently paying the vendor the invoice cost; this latter option being undertaken solely to allow for administrative efficiencies.

Related Agreements. Duke Energy Kentucky may enter into one or more participation agreements with its affiliates and the Lessor in connection with the Capital

Leases, with such agreements defining Duke Energy Kentucky's role as principal and, as applicable, agent on behalf of its affiliates for billing and payment remittance purposes. Such arrangements will be undertaken solely for administrative efficiencies and convenience of the parties involved.

End of Term Options. At the end of each initial or renewal lease term, it is anticipated that Duke Energy Kentucky will have an option to either: (a) renew each Capital Lease pursuant to arm's length negotiation with the then existing Lessor or other lessors; (b) purchase the Property; or (c) terminate the Capital Lease.

Pricing Parameters. Duke Energy Kentucky has parameters within which the final negotiated Capital Leases, including sale and leasebacks, and rental obligations will fall, and requests authority to execute Capital Leases of the Property within such parameters. The parameters, as set forth in Exhibit A, would allow Duke Energy Kentucky to consummate transactions when it believes it is prudent to do so provided the terms are within the parameters.

Commission Authorization. Duke Energy Kentucky requests that the Commission issue its order authorizing the Capital Leases now, prior to the time Duke Energy Kentucky reaches specific agreement with respect to the terms of such lease transactions, to provide the Company flexibility in entering into the leases. Such Commission approval will not relieve Duke Energy Kentucky of its responsibility to obtain the best terms available for the structure selected and, therefore, it is appropriate and reasonable for this Commission to authorize Duke Energy Kentucky to agree to such terms and prices consistent with said parameters.

4. **807 KAR 5:001 Section 18(1)(d).** The proceeds from the Capital Lease obligations are expected to be used in part: (a) for necessary acquisitions of property, and estimated capital expenditures of approximately \$228 million in 2024, \$281 million in 2025, and \$223 million in 2026; (b) for re-financing existing property; (c) for such additional expenditures as contemplated by KRS 278.300; or (d) for other lawful corporate purposes. Therefore, Capital Lease transactions are necessary and appropriate for and consistent with the proper performance by Duke Energy Kentucky of its services to the public, will not impair its ability to perform those services, and are reasonably necessary and appropriate for such purposes.

5. **807 KAR 5:001 Section 18(1)(e).** See Exhibit B concerning estimated capital expenditures, attached hereto, and made a part hereof. Duke Energy Kentucky does not currently have any specific agreements other than those entered into under the existing authority and as reported to the Commission in 2022-00335. Duke Energy Kentucky requests that the Commission issue its order authorizing the Capital Leases now, prior to the time Duke Energy Kentucky reaches specific agreement with respect to the terms of such lease transactions, to provide the Company flexibility in entering into the leases. Duke Energy Kentucky will notify the Commission of the terms of any such agreements if and when the Company enters into a Capital Lease.

6. **807 KAR 5:001 Section 12(1)(f).** This section is not applicable, since no specific discharge of obligations is contemplated at this time from transacting the Capital Leases.

7. **807 KAR 5:001 Section 12(1)(g).** In Case No. 2022-00335, the Commission approved up to \$25 million in principal amount of Capital Lease obligations

for the period ending December 31, 2024. As of June 30, 2024, there remained approximately \$25 million of available authority.

8. **807 KAR 5:001 Section 12 and Section 18(2)(a).** Duke Energy Kentucky is filing the following information in Exhibit C, which is incorporated herein and made a part of this application:

<u>Exhibit C</u> <u>Page</u>	<u>Description</u>	<u>807 KAR 5:001</u> <u>Section Reference</u>
	Financial Exhibit	12 and 18(2)(a)
1	Amount and kinds of stock authorized	12(2)(a)
1	Amount and kinds of stock issued and outstanding	12(2)(b)
1	Terms of preference or preferred stock	12(2)(c)
1	Brief description of each mortgage on property of Duke Energy Kentucky	12(2)(d)
1-2	Amount of bonds authorized and issued and related information	12(2)(e)
2	Notes outstanding and related information	12(2)(f)
3	Other indebtedness and related information	12(2)(g)
4	Dividend information	12(2)(h)
4-6	Detailed Income Statement and Balance Sheet	12(2)(i)

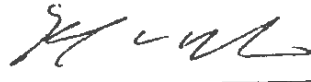
9. **807 KAR 5:001 Section 18(2)(b).** This section is not applicable, as there are no related deeds of trust or mortgage documents relevant to this application.

10. **807 KAR 5:001 Section 18(2)(c).** The proposed construction is primarily comprised of installations, improvements and extensions in the ordinary course of business as a utility. It is therefore impractical to submit maps and plans pertaining thereto.

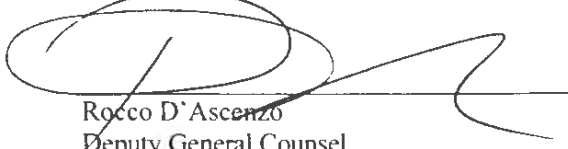
WHEREFORE, Duke Energy Kentucky respectfully requests that the Commission issue an order authorizing Duke Energy Kentucky to enter into up to \$25 million principal amount of Capital Leases, including sale and leasebacks, for the purposes herein stated and

in a manner as herein set forth, and authorizing Duke Energy Kentucky to account for such Capital Leases in the manner as herein set forth.

DUKE ENERGY KENTUCKY, INC.

By: 
Karl W. Newlin
Senior Vice President,
Corporate Development and Treasurer

Its Attorney:


Rocco D'Ascenzo
Deputy General Counsel
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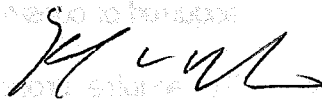
VERIFICATION

State of North Carolina)

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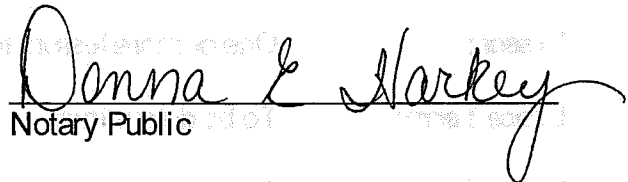
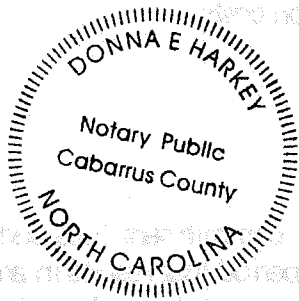
County of Mecklenburg)

Karl W Newlin, being first duly sworn, states that he is Senior Vice President, Corporate Development and Treasurer of Duke Energy Business Services LLC; that he has read the foregoing application; and that the contents are true to the best of his knowledge, information, and belief.



Karl W. Newlin

Subscribed and sworn to before me, this 26 day of September 2024.



Notary Public

Duke Energy Kentucky, Inc.

Capital Lease Parameter Summary

Property Description:	The property expected to be leased will consist of equipment used in Duke Energy Kentucky’s operations including, but not limited to, meters, computers and office equipment, and intangible property such as software and site licenses (collectively, the “Property”). The Property may also include office buildings, land, plant or equipment in service, plant under construction or land, plant or equipment to be acquired or constructed.
Use of Proceeds:	To acquire property, fund construction expenditures, refinance existing property or for other general corporate purposes.
Principal Amount:	Up to \$25 million, depending on the capitalized cost or appraised value of the property, plus transaction costs.
Lessor:	One or more lessors to be named.
Lease Term:	To be determined.
Lease Cost:	Aggregate cost of rental payments, commitment fees and closing costs during each initial or renewal period that results in an interest rate (implicit or otherwise) that is equal to or less than those generally obtainable on capital lease financing having the same or reasonably similar terms offered to, or entered into, by utility companies or utility holding companies of the same or reasonably comparable credit quality.

Duke Energy Kentucky**Capital Expenditures***(\$ in thousands)*

	2024	2025	2026
Electric – Production	\$ 46,590	\$ 76,596	\$ 57,241
Electric – Distribution	72,419	80,416	85,349
Electric – Transmission	18,200	30,093	11,688
Electric – General & Intangible	7,605	7,853	5,233
Gas – Distribution	79,493	82,001	58,663
Gas – General & Intangible	3,756	3,921	4,754
Total Forecasted Capital Expenditures	\$ 228,063	\$ 280,880	\$ 222,928

FINANCIAL EXHIBIT

(1) **Section 12(2)(a) Amount and kinds of stock authorized.**

1,000,000 shares of Capital Stock \$15 par value amounting to \$15,000,000 par value.

(2) **Section 12(2)(b) Amount and kinds of stock issued and outstanding.**

585,333 shares of Capital Stock \$15 par value amounting to \$8,779,995 total par value. Total Capital Stock and Additional Paid-in Capital as of June 30, 2024:

Capital Stock and Additional Paid-in Capital
As of June 30, 2024
(\$ per 1,000)

Capital Stock	\$8,780
Premiums thereon	18,839
Total Capital Contributions from Parent (since 2006)	334,311
Contribution from Parent Company for Purchase of Generation Assets	<u>140,061</u>
Total Capital Stock and Additional Paid-in-Capital	<u>\$501,991</u>

(3) **Section 12(2)(c) Terms of preference or preferred stock, cumulative or participating, or on dividends or assets or otherwise.**

There is no preferred stock authorized, issued or outstanding.

(4) **Section 12(2)(d) Brief description of each mortgage on property of applicant, giving date of execution, name of mortgagor, name or mortgagee, or trustee, amount of indebtedness authorized to be secured, and the amount of indebtedness secured, together with any sinking fund provision.**

Duke Energy Kentucky does not have any liabilities secured by a mortgage.

(5) **Section 12(2)(e) Amount of bonds authorized, and amount issued, giving the name of the public utility which issued the same, describing each class separately, and giving the date of issue, face value, rate of interest, date of maturity and how secured, together with the amount of interest paid thereon during the last fiscal year.**

The Company has 16 outstanding issues of unsecured senior debentures issued under an Indenture dated December 1, 2004, between itself and Deutsche Bank Trust Company Americas, as Trustee, as supplemented by eight Supplemental Indentures.

The Indenture allows the Company to issue debt securities in an unlimited amount from time to time. The Debentures issued and outstanding under the Indenture are the following:

Supplemental Indenture	Date of Issue	Principal Amount Authorized and Issued	Principal Amount Outstanding	Rate of Interest	Date of Maturity	Interest Paid Year 2023
1 st Supplemental	3/7/2006	65,000,000	65,000,000	6.200%	3/10/2036	4,030,000
3 rd Supplemental	1/5/2016	45,000,000	45,000,000	3.420%	1/15/2026	1,539,000
3 rd Supplemental	1/5/2026	50,000,000	50,000,000	4.450%	1/15/2046	2,225,000
4 th Supplemental	9/7/2027	30,000,000	30,000,000	3.350%	9/15/2029	1,005,000
4 th Supplemental	9/7/2017	30,000,000	30,000,000	4.110%	9/15/2047	1,233,000
4 th Supplemental	9/7/2017	30,000,000	30,000,000	4.260%	9/15/2057	1,278,000
5 th Supplemental	10/3/2018	40,000,000	40,000,000	4.180%	10/15/2028	1,672,000
5 th Supplemental	12/12/2018	35,000,000	35,000,000	4.620%	12/15/2048	1,617,000
6 th Supplemental	7/17/2019	40,000,000	40,000,000	4.320%	7/15/2049	1,728,000
7 th Supplemental	9/26/2019	95,000,000	95,000,000	3.230%	10/01/2025	3,068,500
7 th Supplemental	9/26/2019	75,000,000	75,000,000	3.560%	10/01/2029	2,670,000
8 th Supplemental	9/15/2020	35,000,000	35,000,000	2.650%	9/15/2030	927,500
8 th Supplemental	9/15/2020	35,000,000	35,000,000	3.660%	9/15/2050	1,281,000
9 th Supplemental	6/28/2024	80,000,000	80,000,000	5.900%	7/15/2031	-
9 th Supplemental	6/28/2024	95,000,000	95,000,000	6.000%	7/15/2034	-
9 th Supplemental	6/28/2024	50,000,000	50,000,000	6.170%	7/15/2039	-
			830,000,000			24,274,000

(6) **Section 12(2)(f) Each note outstanding, giving date of issue, amount, date of maturity, rate of interest, in whose favor, together with amount of interest paid thereon during the last fiscal year.**

Not applicable.

(7) **Section 12(2)(g) Other indebtedness, giving same by classes and describing security, if any, with a brief statement of the devolution or assumption of any portion of such indebtedness upon or by person or corporation if the original liability has been transferred, together with amount of interest paid thereon during the last fiscal year.**

The Company has two series of Pollution Control Revenue Refunding Bonds issued under a Trust Indenture dated as of August 1, 2006 and a Trust Indenture dated as of December 1, 2008, between the County of Boone, Kentucky and Deutsche Bank National Trust Company as Trustee. The Company's obligation to make payments equal to debt service on the Bonds is evidenced by a Loan Agreement dated as of August 1, 2006 and December 1, 2008 between the County of Boone, Kentucky and Duke Energy Kentucky. The Bonds issued under the Indentures are below. On November 1, 2021, the Company bought in the Series 2008A bond, and remarketed the bond in June 2022.

Indenture	Date of Issue	Principal Amount Authorized and Issued	Principal Amount Outstanding	Rate of Interest	Date of Maturity	Interest Paid Year 2023
Series 2010	2/1/2012	26,720,000	26,720,000	3.86% ⁽¹⁾	8/1/2027	1,031,392
Series 2008A	6/27/2022	50,000,000	50,000,000	3.70%	8/1/2027	1,850,000
			76,720,000			2,881,392

⁽¹⁾ The bonds were issued at a variable-rate and were swapped to a fixed rate of 3.86% for the life of the debt. The average floating-rate of interest on the bonds for 2021 was 3.41%.

The Company has no outstanding financing leases as of June 30, 2024.

The Company also has \$25,000,000 of money pool borrowings outstanding as of June 30, 2024, \$25,000,000 of which is classified as Long-Term Debt payable to affiliated companies. This obligation, which is short-term by nature, is classified as long-term due to Duke Energy Kentucky's intent and ability to utilize such borrowings as long-term financing.

- (8) Section 12(2)(h) Rate and amount of dividends paid during the last five (5) previous fiscal years, and the amount of capital stock on which dividends were paid each year.

DIVIDENDS PER SHARE

Year Ending	Per Share	Total	No. of Shares	Par Value of Stock
December 31, 2019	0	0	585,333	8,779,995
December 31, 2020	0	0	585,333	8,779,995
December 31, 2021	0	0	585,333	8,779,995
December 31, 2022	0	0	585,333	8,779,995
December 31, 2023	0	0	585,333	8,779,995

- (9) Section 12(2)(i) Detailed Income Statement and Balance Sheet

See the attached pages for the detailed Income Statement for the six months ended June 30, 2024, and twelve months ended December 31, 2023, and the detailed Balance Sheet as of June 30, 2024.

FINANCIAL STATEMENTS

DUKE ENERGY KENTUCKY, INC.
Condensed Statements of Operations
(Unaudited)

(in thousands)	Six Months Ended June 30,	
	2024	2023
Operating Revenues		
Electric	\$ 252,819	\$ 213,535
Natural gas	76,560	76,772
Total operating revenues	329,379	290,307
Operating Expenses		
Fuel used in electric generation and purchased power	80,700	75,865
Cost of natural gas	27,942	29,624
Operation, maintenance and other	78,537	70,814
Depreciation and amortization	54,752	52,206
Property and other taxes	11,614	4,096
Impairment of assets and other charges	—	55
Total operating expenses	253,545	232,660
Gains on Sales of Other Assets and Other, net	96	400
Operating Income	75,930	58,047
Other Income and Expenses, net	4,144	4,796
Interest Expense	14,822	16,945
Income Before Income Taxes	65,252	45,898
Income Tax Expense	12,931	9,051
Net Income	\$ 52,321	\$ 36,847

FINANCIAL STATEMENTS

DUKE ENERGY KENTUCKY, INC.
STATEMENTS OF OPERATIONS

(In thousands)	Years Ended December 31,	
	2023	2022
Operating Revenues		
Electric	\$ 454,832	\$ 512,319
Natural gas	130,848	155,810
Total operating revenues	585,680	668,129
Operating Expenses		
Fuel used in electric generation and purchased power	157,670	240,849
Cost of natural gas	47,837	70,707
Operation, maintenance and other	152,311	140,987
Depreciation and amortization	106,542	90,912
Property and other taxes	15,513	22,427
Impairment of assets and other charges	55	6,910
Total operating expenses	479,928	572,792
Gains on Sales of Assets and Other, net	718	180
Operating Income	106,470	95,517
Other Income and Expenses, net	8,801	3,856
Interest Expense	34,783	28,815
Income Before Income Taxes	80,488	70,558
Income Tax Expense	15,326	12,006
Net Income	\$ 65,162	\$ 58,552

FINANCIAL STATEMENTS

DUKE ENERGY KENTUCKY, INC.
Condensed Balance Sheets
(Unaudited)

(in thousands, except share amounts)	June 30, 2024	December 31, 2023
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,261	\$ 3,067
Receivables (net of allowance for doubtful accounts of \$4,018 at 2024 and \$746 at 2023)	90,800	18,423
Receivables from affiliated companies	107	88,411
Notes receivable from affiliated companies	178,171	—
Inventory	73,111	67,144
Regulatory assets	16,929	21,018
Other	10,110	40,926
Total current assets	370,489	238,989
Property, Plant and Equipment		
Cost	3,483,645	3,393,659
Accumulated depreciation and amortization	(1,173,431)	(1,138,125)
Net property, plant and equipment	2,310,214	2,255,534
Other Noncurrent Assets		
Regulatory assets	103,323	109,530
Operating lease right-of-use assets, net	5,632	7,430
Other	22,037	20,579
Total other noncurrent assets	130,992	137,539
Total Assets	\$ 2,811,695	\$ 2,632,062
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable	\$ 45,563	\$ 62,341
Accounts payable to affiliated companies	18,312	16,752
Notes payable to affiliated companies	—	92,903
Taxes accrued	23,249	28,814
Interest accrued	7,897	7,678
Asset retirement obligations	7,101	6,363
Regulatory liabilities	20,932	14,554
Other	15,720	16,230
Total current liabilities	138,774	245,635
Long-Term Debt	903,780	679,562
Long-Term Debt Payable to Affiliated Companies	25,000	25,000
Other Noncurrent Liabilities		
Deferred income taxes	308,138	308,905
Asset retirement obligations	79,242	81,655
Regulatory liabilities	100,910	103,577
Operating lease liabilities	5,786	7,491
Accrued pension and other post-retirement benefit costs	28,030	26,906
Other	23,653	22,984
Total other noncurrent liabilities	545,759	551,518
Commitments and Contingencies		
Equity		
Common stock, \$15.00 par value, 1,000,000 shares authorized and 585,333 shares outstanding	8,780	8,780
Additional paid-in capital	493,211	477,494
Retained earnings	696,391	644,073
Total equity	1,198,382	1,130,347
Total Liabilities and Equity	\$ 2,811,695	\$ 2,632,062