

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF DUKE ENERGY KENTUCKY, INC. )  
FOR AN ORDER AUTHORIZING THE ISSUANCE OF )  
UNSECURED DEBT AND LONG-TERM NOTES, ) CASE NO.  
EXECUTION AND DELIVERY OF LONG-TERM LOAN ) 2008-00503  
AGREEMENTS, AND USE OF INTEREST RATE )  
MANAGEMENT INSTRUMENTS )

O R D E R

On December 8, 2008, Duke Energy Kentucky, Inc. ("Duke Kentucky") filed an application for authority to issue and sell up to \$100 million principal amount of 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 State of Kentucky ("Authority"), for a term not to exceed 40 years, the proceeds of up to a maximum of \$76.72 million aggregate principal amount of Authority Tax Exempt Revenue Bonds ("Authority Bonds") that may be issued in one or more series. Commission Staff issued a data request on January 8, 2009 and Duke Kentucky filed its responses on January 21, 2009. The case stands submitted for decision.

Long-Term Debt of \$100 Million

Duke Kentucky requests approval to issue and sell up to \$100 million of any combination of secured or unsecured debt instruments over a period ending December 31, 2010. The authorization to issue \$100 million in long-term debt was previously

granted to Duke Kentucky in Case No. 2006-00563<sup>1</sup>. However, the authorization granted in that case extended only until December 31, 2008. Duke Kentucky states that, “[t]he authorization requested in this case is identical to what the Commission authorized in Case No. 2006-00563, except for extending the time to complete the transactions through December 31, 2010.”<sup>2</sup>

Duke Kentucky estimates the interest rate cost difference between issuing secured versus unsecured debt to be approximately 50 basis points. It states that, at the time of issuance, it will consider the costs and benefits of issuing secured versus unsecured debt and will select the overall most cost-effective method.

Duke Kentucky will use the proceeds to repay short-term or expiring long-term indebtedness; to redeem early long-term debt if market conditions are favorable; to fund estimated future capital expenditures; for such other additional purchases as contemplated by KRS 278.300; or for other lawful corporate purposes.

#### Authority Bonds of \$76.72 Million

In its application, Duke Kentucky requested authority to issue up to a maximum of \$76.72 million in Authority Bonds. The Commission previously granted this

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<sup>1</sup> Case No. 2006-00563, The 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 April 17, 2007).

<sup>2</sup> Response to Commission Staff's Data Request, Item 4.

authorization in Case No. 2008-00118<sup>3</sup> through the period ending December 31, 2008. Prior to filing the immediate case, Duke Kentucky had not issued any bonds under the authority granted in Case No. 2008-00118. Subsequently, however, Duke Kentucky refinanced \$50 million of the tax exempt bonds in December 2008.<sup>4</sup> Duke Kentucky states that it did not complete the entire refinancing in 2008 due to market conditions. Duke Kentucky further states that, “[t]he authorization may now be reduced from \$76.72 million to \$26.72 million since \$50 million of the tax-exempt bonds were refinanced in 2008.”<sup>5</sup> The Commission considers this statement an amendment to Duke Kentucky’s application, which reduces the amount of the requested authorization from \$76.72 million to \$26.72 million.

The proceeds from the issuance of the Authority Bonds will be used to refund existing obligations on currently outstanding tax exempt bonds. In particular, the proceeds will be used to refund the remaining \$26.72 million County of Boone, Kentucky Pollution Control Revenue Refunding Bonds which were issued on June 26, 2006 and are due August 1, 2027.

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<sup>3</sup> Case No. 2008-00118, The Application of Duke Energy Kentucky, Inc. for an Order Amending its Financing Authority to Authorize Loan Agreements, 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 April 29, 2008).

<sup>4</sup> Response to Commission Staff’s Data Request, Item 2.

<sup>5</sup> Response to Commission Staff’s Data Request, Item 1.

Duke Kentucky states that, “[t]he authorization requested in this case is identical to what the Commission authorized in Case No. 2008-00118 except for extending the time to complete the transactions through December 31, 2010.”<sup>6</sup>

#### Interest Rate Management

Duke Kentucky also requests approval to use interest rate management techniques and to enter into interest rate management agreements. Duke Kentucky states that any net fees and commissions in connection with these interest rate management agreements will not exceed 10 percent of the underlying obligation.

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, as amended in its response to Commission Staff’s data request, should be approved. The Commission also finds that the proposed financing, as amended, 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 \$100 million as set forth in its application for the period ending December 31, 2010. Duke Kentucky is also authorized to borrow from Boone County, Kentucky, or another authorized issuer of tax exempt bonds in the State of Kentucky, for

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<sup>6</sup> Response to Commission Staff’s Data Request, Item 2.

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, 2010.

2. 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 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.

3. The proceeds from the transactions authorized herein shall be used only for the lawful purposes set out in the application.

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

5. Duke Kentucky shall, within 30 days of the date of issuance, file with the Commission a statement setting forth the date or dates of issuance and terms 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.

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.

Done at Frankfort, Kentucky, this 5th day of February, 2009.

By the Commission

ATTEST:

  
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Executive Director

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