



**Public Utilities  
Commission**

Asim Z. Haque, Chairman

Commissioners

M. Beth Trombold  
Thomas W. Johnson  
Lawrence K. Friedeman  
Daniel R. Conway

FILE

August 8, 2017

Docketing Division  
Public Utilities Commission of Ohio  
180 East Broad Street  
Columbus OH 43215

RE: *In the Matter of the Application of Duke Energy Ohio, Inc. for Authority to Issue and Sell First Mortgage Bonds, Unsecured Debt, Long-Term Notes; Enter Into Capital Lease Obligations; and Enter Into Interest Rate Management Agreements.*

Dear Docketing Division:

Enclosed please find Staff's Review and Recommendation on the application of Duke Energy Ohio, Inc. for Authority to Issue Long-term Debt, in Case No. 17-0730-GE-AIS.

Doris McCarter  
Division Chief, Capital Recovery and Financial Analysis  
Rates and Analysis Department  
Public Utilities Commission of Ohio

Enclosure

Cc: Parties of Record

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BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Duke	)	
Energy Ohio, Inc., for Authority to Issue and	)	Case No. 17-730-GE-AIS
Sell First Mortgage Bonds, Unsecured Debt,	)	
Long-Term Notes; Enter Into Capital Lease	)	
Obligations; and Enter Into Interest Rate	)	
Management Agreements.	)	

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**Staff Review and Recommendation**

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**APPLICATION DESCRIPTION:**

On March 31, 2017, Duke Energy Ohio Inc. ("Duke Ohio") filed an application and exhibits ("Application") with the Public Utilities Commission of Ohio ("Commission"), pursuant to Ohio Revised Code ("R.C.") 4905.40 and 4905.41, requesting Commission authorization to: (a) sell and/or issue from time to time over a period ending June 30, 2018, up to a \$600 million principal amount of first mortgage bonds ("Bonds"), senior unsecured indebtedness or junior subordinated unsecured indebtedness (collectively, "Debentures"), or other long-term unsecured indebtedness including commercial paper classified as long-term ("Long-term Notes"), or any combination thereof (collectively, "Debt Securities") provided that the aggregate amount of the Debt Securities shall not exceed \$600 million; (b) enter into additional capital lease obligations ("Capital Leases") up to \$100 million principal amount over a period ending June 30, 2018; and (c) enter into Interest Rate Management Agreements ("Interest Agreements") to manage the interest cost of its financial obligations.

On July 11, 2017, Duke Ohio filed an amendment to the Application to limit the aggregate amount of its request for debt issuance authority through June 30, 2018. The amendment reduces the authority to issue Debt Securities and enter into Capital Leases (collectively "Securities") to \$500 million in aggregate of which not more than \$100 million shall comprise of Capital Leases. The amendment does not affect the request for authority for Interest Agreements.

Duke Ohio proposes to use the proceeds from the Securities for: (a) the acquisition of property; (b) construction, completion, extension, or improvements of its facilities; (c) the management of its capital structure, including the refinancing of its securities; (d) the discharge or lawful refunding of its obligations or to reimburse its treasury, in part, for monies expended for such purposes; and, (e) other general corporate purposes.

## REVIEW AND ANALYSIS:

The Debt Securities will be issued within the following parameters: a) a maturity of not more than 60 years; (b) an interest rate that is either fixed with a maximum coupon rate of 9% or a variable rate with a maximum spread of 5% over London Interbank Offered Rate ("LIBOR") and will not exceed 9% at the time of issuance; (c) the Bonds and Debentures will be issued no higher than 102% nor less than 98% of the principal amount, plus accrued interest; and (d) the commission payable will not exceed 3.5% of the principal amount of the Debt Securities.

The Staff anticipates that that when issued, the actual terms of the Securities will be much lower than the requested parameters. The LIBOR rates (currently one-year LIBOR is approximately 1.74%) plus the credit spreads appear to be below the requested parameters. The interest rate for future issuances contemplated by Duke Ohio will not exceed those generally obtainable at the time of pricing for securities of comparable nature in terms of principal amount, maturity and credit quality. The actual parameters achieved will be based on market conditions at the time of pricing and issuance and not by the rate parameters granted by the Commission. Duke Ohio's senior unsecured debt ratings are A- by Standard and Poor's, and Baa1 by Moody's Investors Service.

The Capital Leases will have the structures and terms similar to other forms of debt financing, but with the potential to lower the overall cost associated with financing property acquisition. The term for the Capital Leases will not be more than 40 years. The lease cost will be comparable to other financing alternatives with similar terms and maturities by utility companies of comparable credit quality and would not exceed a rate of 9%.

Duke Ohio anticipates to spend approximately \$475 million and \$579 million in capital expenditures during the years 2017 and 2018 respectively. Duke Ohio also anticipates that a portion of these planned capital expenditures will be met with cash flow from operations. The proposed authorization of \$500 million Securities is expected to provide Duke Ohio with flexibility in the event its financing requirements increase due to changes in capital expenditures related to timing and/or cost change as well as changes in operating revenues due to weather, load or other factors. During 2017 and 2018, Duke Ohio has maturing debts in an aggregate amount of \$4 million.

The following table summarizes Duke Ohio's current capitalization and shows the anticipated impact of the full issuance of the Securities:

	<b>Actual 03/31/2017 (\$MM's)</b>	<b>(%)</b>	<b>Pro forma (\$MM's)</b>	<b>(%)</b>
Long Term Debt	\$1,972	48.1%	\$2,472	53.7%
Common Equity	\$2,129	51.9%	\$2,129	46.3%
Total Capitalization	\$4,101	100.0%	\$4,601	100.0%

Duke Ohio also requests Commission authorization to enter into Interest Agreements to manage its overall effective interest costs and interest rate risks. In general, these transactions will not impact the capitalization of Duke Ohio as there are no proceeds associated with the Interest Agreements since no new obligations are created during the process. Duke Ohio was previously authorized by this Commission on June 8, 2016, in Case No. 16-0637-GE-AIS to enter into Interest Agreements.

#### RECOMMENDATION:

Upon review of the Application, Staff believes that the Application appears to be reasonable and recommends its approval.