

# THE PUBLIC UTILITIES COMMISSION OF OHIO

IN THE MATTER OF THE APPLICATION OF  
DUKE ENERGY OHIO, INC. FOR  
AUTHORITY TO ISSUE AND SELL FIRST  
MORTGAGE BONDS, UNSECURED DEBT,  
AND LONG-TERM NOTES, AND ENTER  
INTO CAPITAL LEASE OBLIGATIONS AND  
INTEREST RATE MANAGEMENT  
AGREEMENTS.

CASE No. 17-730-GE-AIS

## FINDING AND ORDER

Entered in the Journal on September 6, 2017

### I. SUMMARY

{¶ 1} The Commission approves Duke Energy Ohio, Inc.'s application, as amended, for authority to issue and sell first mortgage bonds, unsecured debt, and long-term notes, and enter into capital lease obligations and interest rate management agreements.

### II. DISCUSSION

{¶ 2} Duke Energy Ohio, Inc. (Duke or the Company) is a public utility as defined in R.C. 4905.02 and, as such, is subject to the jurisdiction of this Commission.

{¶ 3} R.C. 4905.40 permits public utilities to "issue stocks, bonds, notes, and other evidences of indebtedness, payable at periods of more than twelve months after their date of issuance, when necessary" as authorized by the Commission. Pursuant to R.C. 4905.40(A)(2), an authorized company may issue notes or other evidences of indebtedness when it is necessary for, among other things, reorganization or readjustment of its indebtedness and capitalization. The application process for obtaining Commission authorization is outlined in R.C. 4905.41. The application must include the amount, purpose, and terms of the financial arrangement, as well as the total assets and liabilities of the utility.

{¶ 4} On June 8, 2016, in Case No. 16-637-GE-AIS, the Commission authorized Duke to issue and sell first mortgage bonds, unsecured debt, and long-term notes, as well as enter

into loan agreements, capital lease obligations, and interest rate management agreements, for a period of 12 months ending June 30, 2017.

{¶ 5} On March 31, 2017, Duke filed an application pursuant to R.C. 4905.40 and 4905.41. In the application, the Company proposes, from time to time, over a period ending June 30, 2018, to execute a financing program consisting of one or a combination of the following: (a) issue and sell up to \$600 million principal amount of first mortgage bonds, senior and junior unsecured indebtedness, or issue other long-term unsecured indebtedness, including commercial paper classified as long-term, or any combination thereof (collectively, debt securities), provided the aggregate amount of debt securities shall not exceed \$600 million; (b) enter into additional capital lease obligations (capital leases) of up to \$100 million principal amount; and (c) enter into interest rate management agreements (interest agreements), within the terms and conditions set forth in the application.

{¶ 6} Duke proposes that the debt securities will be issued and sold directly to one or more purchasers, or indirectly through one or more underwriters, dealers, or agents. The terms of the debt securities will be determined through negotiated offerings or through a competitive bidding process.

{¶ 7} Duke states that the capital leases will have the structure and terms similar to other forms of debt financing. Duke asserts that the capital leases will provide access to lower-cost funds for financing property acquisition.

{¶ 8} Duke is requesting Commission authorization to enter into interest agreements to utilize interest rate management techniques to lower its overall effective interest cost, within the parameters described in the application. Duke avers that the interest agreements are intended to provide sufficient alternatives and flexibility to manage interest rate risk.

{¶ 9} Duke proposes, pursuant to R.C. 4905.40, to use the proceeds from the issuance of the debt securities, and the capital leases (collectively, securities) to provide

funds for: the acquisition of property; its construction program; the management of its capital structure; the discharge or lawful refunding of its obligations, or to reimburse its treasury, in part, for monies spent for such purposes; and other general corporate purposes.

{¶ 10} According to Duke, the effect on the Company's revenue requirements resulting from the securities and interest agreements will be considered in the determination of required revenue in rate proceedings in which all factors affecting rates will be taken into account according to law.

{¶ 11} Thereafter, on July 11, 2017, Duke amended its application to limit the aggregate amount of its request for debt issuance authority. Duke requests to reduce its authority to issue debt securities and enter into capital leases to \$500 million in aggregate, of which not more than \$100 million shall comprise of capital leases.

{¶ 12} On August 8, 2017, Staff filed a review and recommendation. In its review, Staff states Duke's requests are reasonable and are necessary for the utility to continue operating successfully.

{¶ 13} Upon review of the application and Staff's recommendations, the Commission finds that the aggregate amount of the securities, and the terms thereof, and the probable cost to Duke, within the parameters set forth in the application, as amended, do not appear to be unjust or unreasonable. In addition, based on the information contained in the application, the purposes to which the proceeds from the securities shall be applied, and the use of the interest agreements appear to be reasonably required by Duke to meet its present and prospective obligations to provide utility service. Therefore, the Commission finds that the application, as amended, should be approved, subject to the following conditions:

- (a) Duke shall report to the Commission, as soon as practicable, but in any event no later than 60 days after executing the securities, the terms and full particulars regarding the issuances, including any interest agreements entered into pursuant to the authority granted

under this Finding and Order. In particular, Duke shall report full details of each capital lease transaction in excess of \$5 million, pursuant to the authority granted under this Finding and Order. The report shall include, but not be limited to, a detailed description of the transaction, the rationale for the transaction, and a quantification of the benefits of the transaction.

- (b) Duke shall account for the issuance of the securities as prescribed in the Federal Energy Regulatory Commission Uniform System of Accounts as currently in effect.
- (c) Duke, for the purposes of the capital leases authorized by this Finding and Order, shall not include any existing property that is currently in Duke's jurisdictional rate base. Duke's future revenue requirement associated with the capital leases should be no greater than if this property had been financed with alternative long-term securities.
- (d) The authorization to consummate these financial transactions, within the parameters set forth in the application, as amended, in no way relieves Duke of its responsibility to negotiate and obtain the best terms available.

### III. ORDER

{¶ 14} It is, therefore,

{¶ 15} ORDERED, That the application, as amended, is approved for a period ending June 30, 2018, subject to the conditions set forth above. It is, further,

{¶ 16} ORDERED, That the authority granted through this Finding and Order shall replace any existing unused authority granted in Case No. 16-637-GE-AIS. It is, further,

{¶ 17} ORDERED, That Duke shall apply the proceeds from the securities for the purposes set forth in this Finding and Order and otherwise pursuant to the provisions of R.C. 4905.40. It is, further,

{¶ 18} ORDERED, That the authorization granted by this Finding and Order shall not be construed as limiting the Commission's determination of the appropriateness of the securities for future ratemaking treatment. It is, further,

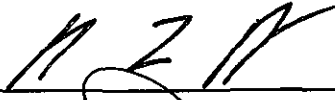
{¶ 19} ORDERED, That nothing in this Finding and Order shall be construed to imply any guaranty or obligation by the Commission to assure completion of any specific construction projects of Duke. It is, further,

{¶ 20} ORDERED, That nothing in this Finding and Order shall be deemed to be binding upon this Commission in any future proceeding or investigation involving the justness or reasonableness of any rate, charge, rule, or regulation. It is, further,

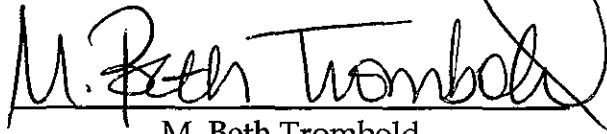
{¶ 21} ORDERED, That nothing in this Finding and Order shall be construed to imply any guaranty or obligation as to the securities on the part of the state of Ohio. It is, further,

{¶ 22} ORDERED, That a copy of this Finding and Order be served upon all parties of record.

THE PUBLIC UTILITIES COMMISSION OF OHIO



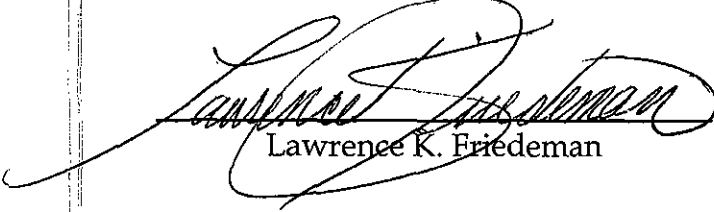
Asim Z. Haque, Chairman



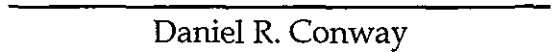
M. Beth Trombold



Thomas W. Johnson



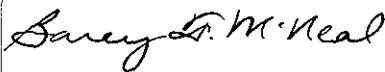
Lawrence K. Friedeman



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