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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 (1) Issue and Sell First ) Case No. 12-905-GE-AIS  
Mortgage Bonds, Unsecured Debt, )  
Long-Term Notes, (2) Execute and Deliver )  
Long-Term Loan Agreements, (3) Enter Into )  
Capital Lease Obligations, and (4) Enter Into )  
Interest Rate Management Agreements )

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APPLICATION

To the honorable Public Utilities Commission of Ohio (Commission):

Duke Energy Ohio, Inc. (Duke Energy Ohio or the Company), a public utility as defined by R.C. 4905.02 and 4905.03, respectfully states as follows:

1. On March 31, 2011, Duke Energy Ohio filed an Application under R.C. Sections 4905.40 and 4905.41 to (a) issue and sell, from time to time over a period ending April 30, 2012, up to \$500 million principal amount of first mortgage bonds (Bonds), senior unsecured indebtedness (Debentures), or issue other long-term unsecured indebtedness (Long-Term Notes) or any combination thereof (Debt Securities), provided the aggregate amount of Debt Securities shall not exceed \$500 million; (b) borrow, from time to time over a period ending April 30, 2012, from the Ohio Air Quality Development Authority and/or the Ohio Water Development Authority, any statutory successor thereto or other authorized issuer of tax exempt bonds in the State of Ohio (collectively,

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the Authority), the proceeds of a maximum of \$400 million aggregate principal amount of Authority revenue bonds that may be issued in one or more series (Authority's Bonds); (c) enter into, from time to time over a period ending April 30, 2012, up to \$100 million principal amount of additional capital lease obligations (Capital Leases); and, (d) enter into interest rate management agreements to manage the interest costs of its financial obligations (Interest Rate Management Agreements).

2. On May 19, 2011-, this Commission issued a Finding and Order authorizing the activity described above. This Finding and Order will expire on April 30, 2012.

Duke Energy Ohio thus respectfully represents and requests that the Commission grant it the necessary authority to:

1. Sell and/or issue, from time to time over a period ending April 30, 2013, up to \$800 million principal amount of first mortgage bonds (Bonds), senior unsecured debt securities or junior subordinated unsecured debt securities (collectively, Debentures), or other long-term unsecured indebtedness (Long-Term Notes), or any combination thereof (collectively, Debt Securities), provided the aggregate amount of Debt Securities shall not exceed \$800 million;
2. Borrow, from time to time over a period ending April 30, 2013, from the Authority, the proceeds of a maximum of \$450 million aggregate principal amount of Authority Bonds (Loan Agreements). Duke Energy Ohio proposes to enter into one or more Loan Agreements with the Authority to evidence and secure its obligations to repay such loans;

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3. Enter into, from time to time over a period ending April 30, 2013, up to \$100 million principal amount of additional Capital Lease obligations (Capital Leases); and,
4. Enter into Interest Rate Management Agreements to manage the interest costs of its financial obligations.

## **I. CAPITAL AND FINANCING REQUIREMENT DISCUSSION**

In 2012 and 2013, Duke Energy Ohio anticipates capital expenditures for its regulated business (excluding Duke Energy Kentucky) will total approximately \$335 million and \$330 million, respectively. In addition, Duke Energy Ohio has debt maturities of approximately \$500 million and \$260 million in 2012 and 2013, respectively. The total of these potential capital financing requirements is approximately \$1.43 billion.

## **II. USE OF PROCEEDS**

Duke Energy Ohio proposes, subject to the authorization of this Commission, to issue the Debt Securities or enter into Loan Agreements or Capital Leases in order to provide funds necessary for: (i) the acquisition of property; (ii) the construction, completion, extension, or improvement of its plant and facilities; (iii) the management of its capital structure, including the refinancing of securities; (iv) the discharge or lawful refunding of its obligations, or to reimburse its treasury, in part, for monies expended for such purposes; or, (v) other general corporate purposes, all pursuant to R.C. 4905.40. Duke Energy Ohio states that the issuance of the Debt Securities, Loan Agreements, Capital Leases, and Interest Rate Management agreements will be in compliance with the Commission's Order in Case 11-3549-EL-SSO, et al. approving Duke Energy Ohio's electric security plan (ESP). Among other things, said ESP makes provision for Duke

Energy Ohio to transfer its generating assets to an affiliate or subsidiary no later than December 31, 2014.

### **III. ISSUANCE OF THE DEBT SECURITIES**

#### **A. Method of Issuance**

Duke Energy Ohio proposes to issue and sell the Bonds and Debentures directly to one or more purchasers or indirectly through one or more underwriters, dealers or agents. The terms for the issuance of such Bonds and Debentures would be established through negotiated offerings or through a competitive bidding process. In the event that the Bonds and Debentures are issued through a negotiated offering, Duke Energy Ohio will negotiate the terms of each offering with such underwriters, purchasers or agents. If the Bonds and Debentures are sold through competitive bidding, such Bonds and Debentures will be sold to the bidder(s) whose proposal results in the lowest annual cost of money, with Duke Energy Ohio having the right to reject any or all bids. After approval of the terms for each offering by Duke Energy Ohio's Board of Directors, by an authorized committee thereof or by persons authorized by Duke Energy Ohio's Board of Directors, it is anticipated that the parties would sign an underwriting or purchase agreement setting forth the terms of the Bonds and Debentures. Duke Energy Ohio proposes to issue the Long-Term Notes directly to one or more qualified financial institutions or investors in conformity with generally accepted market conventions.

#### **B. Pricing Parameters**

Duke Energy Ohio has developed parameters under which the Debt Securities are to be sold and/or issued. The parameters for the Debt Securities, which are set forth in Exhibit A, are designed to provide a reasonable allowance for potential changes in financial market conditions between the time of the Commission authorization and the

actual issuance of the Debt Securities. The inclusion of the parameters within the Order would allow Duke Energy Ohio to issue Debt Securities on any day when it believes it is prudent to do so, provided the terms are within the parameters.

### **C. Security and Other Agreements**

If Bonds are issued, they will be issued under, and secured by, the First Mortgage dated August 1, 1936, between Duke Energy Ohio and The Bank of New York Mellon Trust Company, N.A., as First Mortgage trustee, as previously amended, restated and supplemented and to be supplemented by one or more supplemental indentures. If Debentures are issued, they will be issued under the Indenture dated May 15, 1995, between Duke Energy Ohio and The Bank of New York Mellon Trust Company, N.A. (successor Trustee to Fifth Third Bank), as Debenture trustee, as previously supplemented, and to be supplemented by one or more supplemental indentures as may be determined by Duke Energy Ohio and the Debenture trustee. Alternatively, the Debentures may be issued pursuant to a new debenture indenture entered into between Duke Energy Ohio and The Bank of New York Mellon Trust Company, N.A. or other qualified trustee. If Long-Term Notes are issued, the obligations will be evidenced by one or more promissory notes and/or loan agreements or similar document under terms mutually agreeable to Duke Energy Ohio and one or more qualified financial institutions or investors in conformity with generally accepted market conventions.

### **D. Accounting**

For the issuance of Debt Securities, Duke Energy Ohio proposes to credit premiums or charge discounts, if any, and to charge the expense to be incurred in connection with each issue to the proper deferred accounts and amortize such amounts over the respective lives of the Debt Securities in equal annual amounts to current

income. Duke Energy Ohio proposes to reflect any premium paid on purchased or redeemed securities in the going-forward cost of the newly issued Debt Securities.

**E. Revenue Requirement Impact**

Duke Energy Ohio states that the effect on its revenue requirements resulting from the issuance of Debt Securities 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.

As a result of selling the maximum amount of the Debt Securities and the possible redemption of outstanding obligations, Duke Energy Ohio's annual long-term interest charges are expected to change. The effect of any change in the cost on future revenue requirements can be determined only in rate proceedings in which all factors relating to Duke Energy Ohio's revenue requirements are taken into account according to law.

**F. Filings with the Securities and Exchange Commission**

Duke Energy Corporation has filed with the Securities and Exchange Commission (SEC), under the Securities Act of 1933, as amended (Act), a Registration Statement on Form S-3 (Registration No. 333-169633-01) relating to securities issuable by Duke Energy Corporation and certain of its subsidiaries, including Duke Energy Ohio. The Securities and such Registration Statement became automatically effective when filed, under the SEC's rules. Duke Energy Ohio is authorized under such Registration Statement to issue and sell an unspecified principal amount of Bonds and Debentures. Duke Energy Ohio may also choose to issue and sell Bonds and Debentures through private placements. In addition, Duke Energy Ohio expects that the issuance of Long-Term Notes will be exempt from registration under the Act.

#### **IV. EXECUTION OF LOAN AGREEMENTS**

Duke Energy Ohio proposes to refinance existing loans or borrow new funds from the Authority, from time to time over a period ending April 30, 2013, for terms not to exceed 40 years, in an aggregate principal amount of up to a maximum of \$450 million. The principal amount of the loans would be equal to the aggregate principal amount of the Authority's Bonds. Duke Energy Ohio will enter into one or more Loan Agreements with the Authority to evidence and secure its obligations to repay such loans. Duke Energy Ohio will use the proceeds from the loans to finance or reimburse the costs of acquiring and constructing certain solid waste disposal facilities, related facilities and other qualifying facilities and projects, or refund and refinance the Authority's Bonds that have been previously approved and issued in order to enable Duke Energy Ohio to better manage its interest costs, update terms and agreements to correspond with Duke Energy Ohio's current documents, and/or extend the maturity of the bonds.

##### **A. Loan Obligations**

Duke Energy Ohio's obligations under each Loan Agreement will be to provide the Authority with sufficient revenues to enable it to pay the entire principal of, premium, if any, and interest on the Authority's Bonds as and when any and all payments are due. Duke Energy Ohio may issue Bonds to secure its obligations under each individual Loan Agreement or secure a letter of credit for such purpose. Alternatively, the Loan Agreements may be unsecured. Each Loan Agreement will stand alone, allowing Duke Energy Ohio the option of securing or not securing its obligations under each Loan Agreement.

## **B. The Authority's Bonds**

The Authority's Bonds will be issued pursuant to one or more Indentures of Trust (Indentures) to be entered into between the Authority and a trustee to be determined, which Indentures establish the terms of each series of the Authority's Bonds. The Authority's Bonds will be special obligations payable solely out of revenues derived from the payments by Duke Energy Ohio under the respective Loan Agreements.

The Authority's Bonds or any series thereof may be entitled to the benefits of one or more letters of credit or may be issued without the benefit of such letters of credit.

If a letter of credit is obtained, Duke Energy Ohio would enter into a reimbursement agreement with one or more qualified financial institutions issuing the letter of credit, or utilize existing arrangements allowing for the issuance of letters of credit. Such agreements would require Duke Energy Ohio to reimburse the financial institutions for all drawings made under the letter of credit, together with the institutions' expenses related thereto, and to pay reasonable annual fees under the letter of credit, not to exceed 3.50% per annum. The existence of a letter of credit securing payment of the Loan Agreements from a highly rated financial institution would be expected to allow the sale or remarketing of the Authority's Bonds with a lower interest rate than would exist without such a letter of credit.

Duke Energy Ohio may also secure its payment obligations to the Authority directly with Bonds. Bonds issued in connection with the Authority's Bonds would be issued in aggregate principal amounts equal to the aggregate principal amounts of the Authority's Bonds to which they relate. Payments made by Duke Energy Ohio with respect to Bonds pledged as security for a series of the Authority's Bonds would also be considered as payments under the Loan Agreement relating to such series of the



Authority's Bonds. Accordingly, a Loan Agreement secured by Bonds would not be separately counted as debt of Duke Energy Ohio in that such debt would be represented by the corresponding Bonds. As a result, Duke Energy Ohio proposes that Bonds issued as security in relation to a series of the Authority's Bonds should not be counted against Duke Energy Ohio's financing authority for Bonds, but instead should be considered as part of the financing authority for the Authority's Bonds. Thus, for clarity, if Duke Energy Ohio borrows \$100 million of the proceeds from a series of the Authority's Bonds that is secured by Bonds, such transaction would be counted as using \$100 million of Duke Energy Ohio's capacity for borrowing the proceeds of the Authority's Bonds and would not be counted against or reduce Duke Energy Ohio's capacity for the issuance of Bonds that are sold directly to an underwriter or other investors outside the context of security related to the Authority's Bonds.

It is expected that bond counsel will render an opinion that, under existing laws, including regulations and official rulings by the Internal Revenue Service, interest on the Authority's Bonds will be excluded from gross income of the recipient thereof for federal income tax purposes, except for interest on any bond held by a substantial user or a related person as those terms are used in Section 147(a) of the Internal Revenue Code of 1986 as amended. Therefore, Duke Energy Ohio expects the interest rate on the Authority's Bonds will be less than the interest rate Duke Energy Ohio would be able to obtain on taxable bonds that Duke Energy Ohio could issue with similar terms and conditions in the capital markets.

The terms of each offering of the Authority's Bonds will be negotiated by Duke Energy Ohio with one or more purchasers or with one or more underwriters, dealers or agents (such purchasers, underwriters, dealers and agents being referred to herein,

collectively, as the Tax-Exempt Purchasers). After approval of the terms by Duke Energy Ohio and the Authority, Duke Energy Ohio proposes to arrange for the sale of each series of the Authority's Bonds to the Tax-Exempt Purchasers pursuant to one or more bond purchase agreements between the Authority and the Tax-Exempt Purchasers and pursuant to one or more representation letters from Duke Energy Ohio to the Authority and the Tax-Exempt Purchasers.

Duke Energy Ohio proposes that the Commission issue its order authorizing Duke Energy Ohio to execute and deliver the Loan Agreements and any reimbursement agreements prior to the time Duke Energy Ohio and the Tax-Exempt Purchasers reach agreement with respect to the terms of the Authority's Bonds. Duke Energy Ohio will agree to a price to the Tax-Exempt Purchasers that is neither higher than 102% nor less than 98% of the principal amount of the Authority's bonds, plus accrued interest, at an interest rate that may be either fixed or subject to adjustment at varying periods, but in either case not to exceed those generally obtainable at the time of pricing or re-pricing of the Authority's Bonds for securities having the same or reasonably similar maturities and having reasonably similar terms, conditions and features issued by utility companies or utility holding companies of the same or reasonably comparable credit quality and does not exceed 8.5% per annum at the time of issuance and 13% thereafter. If a series of the Authority's Bonds bears interest at a rate that is subject to adjustment, the same will also contain a feature that will allow the interest rate to become fixed under certain circumstances. Duke Energy Ohio also will agree to underwriting discounts and commissions or placement agent fees not in excess of 1.25% of the principal amount of the Authority's Bonds for issuances to primarily institutional investors and not in excess of 3.50% of the principal amount of the Authority's Bonds for issuances to primarily

retail investors. Duke Energy Ohio proposes the Commission include such limits in its order.

**C. Accounting**

Duke Energy Ohio proposes to charge the expense to be incurred in connection with each executed Loan Agreement to the proper deferred accounts and amortize such amounts over the respective term of the Loan Agreement in equal annual amounts to current income.

**D. Revenue Requirement Impact**

Duke Energy Ohio states that the effect on its revenue requirements resulting from the transaction described herein 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. Although Duke Energy Ohio expects the interest rate on the Authority's Bonds will be less than the interest rate Duke Energy Ohio would be able to obtain on taxable bonds that Duke Energy Ohio could issue with similar terms and conditions in the capital markets, the effect of such interest rates on future revenue requirements can be determined only in rate proceedings in which all factors relating to Duke Energy Ohio's revenue requirements are taken into account according to law.

**E. Filings with the Securities and Exchange Commission**

Duke Energy Ohio expects that the sale of the Authority's Bonds and the possible issuance and delivery of Bonds as security in connection therewith will be exempt from registration under the Act.

**V. CAPITAL LEASE FINANCINGS**

Duke Energy Ohio also requests authorization to enter into Capital Lease transactions. Duke Energy Ohio proposes to utilize Capital Leases purely as another

form of financing the capital requirements discussed in the "Capital and Financing Requirement Discussion" above. 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 the acquisition of new property, including construction, or refinance existing property in Duke Energy Ohio's jurisdictional rate base, 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).

**A. Property Expected to be Leased**

The property expected to be leased will consist of equipment used in Duke Energy Ohio's operations and may include, but not be limited to, meters, landfill and coal yard heavy equipment, transportation equipment, turbines, transformers, water pumps, exhaust stacks, substations, computers and office equipment, and intangible property such as software and site licenses (collectively, the Property).

**B. Accounting**

Duke Energy Ohio will account for the Capital Leases as prescribed in the Federal Energy Regulatory Commission uniform system of accounts and in accordance with generally accepted accounting principles.

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 each Capital Lease.

**C. Method of Transacting Capital Leases**

To effectuate the lease transactions, Duke Energy Ohio will obtain third-party lease financing for Property acquisitions. In connection therewith, the terms of each Capital Lease will be approved by Duke Energy Ohio's Board of Directors or by such persons authorized by the Board or otherwise under Duke Energy Corporation's internal controls policies, and it is anticipated that an agreement setting forth the terms of each Capital Lease will be executed.

The Lessor will either (1) pay the vendor and Duke Energy Ohio for their respective costs associated with the acquisition or (2) reimburse Duke Energy Ohio for the capitalized cost of the Property, with Duke Energy Ohio concurrently paying the vendor the invoice cost. This latter option would be undertaken solely to allow administrative efficiencies.

**D. Related Agreements**

Duke Energy Ohio 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 Ohio'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 the convenience of the parties involved and will be subject to Commission jurisdiction pursuant to the Duke Energy Ohio's Affiliate Guidelines.

**E. End of Term Options**

At the end of each initial or renewal lease term, it is anticipated that Duke Energy Ohio 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.

**F. Pricing Parameters**

Duke Energy Ohio has furnished in Exhibit B, attached hereto and incorporated herein by this reference, parameters within which the final negotiated Capital Leases and rental obligations will fall and requests authority to execute Capital Leases of the Property within such parameters. The inclusion of the parameters within the Order would allow Duke Energy Ohio to consummate transactions when it believes it is appropriate to do so provided the terms are within the parameters.

**G. Revenue Requirement Impact**

Duke Energy Ohio states that the effect on its revenue requirements resulting from Capital Lease transactions 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.

As a result of transacting the Capital Leases, including the financing of certain existing property through sale and leaseback, Duke Energy Ohio's plant-in-service, depreciation, operating and annual long-term interest charges are expected to change. The effect of any change in the cost on future revenue requirements can be determined only in rate proceedings in which all factors relating to Duke Energy Ohio's revenue requirements are taken into account according to law. In any event, Duke Energy Ohio would agree that the future revenue requirement associated with property financed under

the Capital Leases would be no greater than if this property had been financed with alternative Debt Securities.

## **VI. USE OF INTEREST RATE MANAGEMENT TECHNIQUES**

Duke Energy Ohio respectfully requests that this Commission grant it authority to utilize interest rate management techniques and enter into Interest Rate Management Agreements to manage its interest costs. Such authority will allow Duke Energy Ohio sufficient alternatives and flexibility when striving to effectively manage interest rate risk.

### **A. Description of the Interest Rate Management Agreements**

Interest Rate Management Agreements will include products commonly used in today's capital markets. Those products include, but are not limited to, interest rate swaps, caps, collars, floors, options, or other hedging products such as forwards or futures. Duke Energy Ohio expects to enter into these agreements with counterparties that are highly rated financial institutions. The transactions will be for a fixed period and a stated notional amount and may be for underlying fixed or variable obligations of Duke Energy Ohio.

### **B. Pricing Parameters**

Duke Energy Ohio proposes that the pricing parameters for Interest Rate Management Agreements be established through negotiated offerings or through a competitive bidding process.

Fees and commissions in connection with any Interest Rate Management Agreement will be in addition to the above parameters and will not exceed 2.00% of the amount of the underlying obligation involved.

**C. Accounting**

Duke Energy Ohio proposes to account for these transactions in accordance with generally accepted accounting principles.

**D. Revenue Requirement Impact**

As a result of utilizing Interest Rate Management Agreements, Duke Energy Ohio's annual long-term interest charges are expected to change. The effect of any change in cost on future revenue requirements can be determined only in rate proceedings in which all factors relating to Duke Energy Ohio's revenue requirements are taken into account according to law.

**VII. FINANCIAL STATEMENTS**

A balance sheet of Duke Energy Ohio showing its assets and liabilities as of December 31, 2011, and an income statement of Duke Energy Ohio for the 12 months ended December 31, 2011, are attached and marked Exhibit C. The Company's adjusted regulatory capital structure as of December 31, 2011 is 41% debt, 59% equity. Long-term debt excludes current maturities and equity has been adjusted to remove the impact of purchase accounting, eliminate the impact of the generation assets contributed to Duke Energy Ohio by Duke Energy North America (DENA), and eliminate the impact of the impairment related goodwill write-offs.

**WHEREFORE**, Duke Energy Ohio, Inc., respectfully requests that this Commission issue an Order finding that:

1. Applicant is a public utility as defined in Section 4905.02, Ohio Revised Code, and as such is subject to the jurisdiction of this Commission;
2. The Application is filed under provisions of Section 4905.41, Ohio Revised Code;




3. Applicant is authorized through April 30, 2013: (a) to sell and/or issue, from time to time up to \$800 million principal amount of first mortgage bonds (Bonds), senior unsecured debt securities or junior subordinated unsecured debt securities (collectively Debentures), or issue other long-term indebtedness (Long-Term Notes) or any combination thereof (Debt Securities), in the form of fixed or floating rate, in one or more series; (b) to borrow from time to time from the Ohio Air Quality Development Authority and/or the Ohio Water Development Authority, any statutory successor thereto or other authorized issuer of tax exempt bonds in the State of Ohio (collectively, the Authority), the proceeds of a maximum of \$450 million aggregate principal amount of the Authority's revenue bonds that may be issued in one or more series (Authority's Bonds) and to enter into one or more Loan Agreements with the Authority to evidence and secure its obligations to repay such loans; and, (c) to enter into from time to time additional capital lease transactions totaling in the aggregate up to \$100 million, to account for such transactions and to apply the proceeds from such transactions, all as proposed in this Application.
4. Applicant is authorized to enter into interest rate management agreements to manage the interest costs of its financial obligations (Interest Rate Management Agreements), and to account for such Interest Rate Management Agreements, all as proposed in this Application.
5. The issuance of the Debt Securities, the execution of the Loan Agreements, and the Capital Lease transactions are reasonably required and the money to be procured therefrom is necessary for Applicant's lawful corporate purposes; the use of Interest Rate Management Agreements is reasonably justified; and the Commission is satisfied that consent and authority should be granted accordingly.
6. When the transactions authorized by this Order have occurred, Applicant shall report to this Commission the terms and full particulars regarding each transaction or, in lieu of that where applicable, Applicant may submit a copy of: (a) each prospectus as filed with the Securities and Exchange Commission setting forth each sale of the Debt Securities; (b) the Official Statement and Loan Agreement issued in connection with the issuance of the Authority's Bonds; or, (c) each Capital Lease agreement or summary that provides the terms and full particulars of the transaction.
7. The cash proceeds procured from the aforesaid transactions are to be used for the purposes specified in the Application as provided in Section 4905.40, Ohio Revised Code.
8. Applicant is hereby authorized to account for the transactions and the Interest Rate Management Agreements as specified in the Application.


9. Nothing in this Order shall be construed to imply any guaranty or obligation as to the transactions, Interest Rate Management Agreements, or the interest thereon, on the part of the State of Ohio.

Respectfully submitted this 12<sup>th</sup> day of March 2012.

DUKE ENERGY OHIO, INC.

  
\_\_\_\_\_  
Stephen G. De May  
Senior Vice President, Investor Relations  
and Treasurer  
Duke Energy Ohio, Inc.  
c/o Duke Energy  
550 South Tryon Street  
Duke Energy Center, 40A  
Charlotte, North Carolina 28202

DUKE ENERGY OHIO, INC.

  
\_\_\_\_\_  
Amy B. Spiller  
Deputy General Counsel  
Elizabeth Watts  
Associate General Counsel  
139 East Fourth Street  
P.O. Box 960 – 1303-Main  
Cincinnati, Ohio 45201  
(513) 287-4359 (telephone)  
(513) 287-4385 (facsimile)

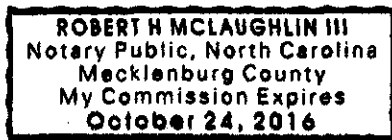
*Attorneys for Duke Energy Ohio, Inc.*

STATE OF NORTH CAROLINA   )  
COUNTY OF MECKLENBURG   )

Personally appeared before me Stephen G. De May, who being first duly sworn, says that he is the Senior Vice President, Investor Relations and Treasurer of Duke Energy Ohio, Inc., that he did sign the foregoing Application, and that the statements contained therein are true as he verily believes.

Sworn to and subscribed before me this 9 day of March 2012.

(Seal)



Robert H. McLaughlin III  
NOTARY PUBLIC

My Commission Expires: 10/24/16

**Duke Energy Ohio, Inc.**

**Debt Security Parameter Summary**

Principal Amount:	Up to \$800 million of first mortgage bonds (Bonds), senior unsecured debt securities or junior subordinated unsecured debt securities (collectively Debentures) or other long-term indebtedness (Long-Term Notes), or any combination thereof, in the form of fixed or floating rate, in one or more series.
Maturity:	Up to 40 years.
Redemption Premiums:	Redemption premiums, if any, with respect to the securities will be established as a result of the negotiations with the underwriters, purchasers or agents; or as part of a competitive bidding process.
Underwriting Commissions or Agents Fees:	Not to exceed 3.50% of the principal amount.
Price to the Purchasers:	No higher than 102% nor less than 98% of the principal amount, plus accrued interest, if any, for the Bonds and Debentures.
Interest Rate:	Not to exceed those generally obtainable at the time of pricing or re-pricing of such Bonds, Debentures, and Long-Term Notes for securities having the same or reasonably similar maturities and having reasonably similar terms, conditions and features issued by utility companies or utility holding companies of the same or reasonably comparable credit quality and does not exceed a rate of 10% for fixed rate debt securities (exclusive of any increases in interest rates payable during a default). The interest rate on floating rate debt (exclusive of any increases in interest rates payable during a default) will not exceed the London Interbank Offered Rate (LIBOR) for U.S. dollar deposits of similar duration at the time of pricing by more than 500 basis point, and the initial interest rate on any floating rate debt (exclusive of any increases in interest rates payable during a default) will not exceed 10% per annum at the time of issuance.

**Duke Energy Ohio, Inc.**

**Capital Lease Parameter Summary**

Principal Amount:	Up to \$100 million, depending on the capitalized cost or appraised value of the Property, plus transaction costs.
Lease Term:	Will depend on available pricing but shall be for a maximum term of not more than 40 years for each initial or renewal term.
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 reasonably comparable to other financing alternatives with similar terms and maturities by utility companies or utility holding companies of the same or reasonably comparable credit quality and does not exceed a rate of 9%.

Duke Energy Ohio, Inc.  
Consolidated Balance Sheet  
(dollars in millions)

	December 31, 2011
<b>ASSETS</b>	
<b>Current Assets</b>	
Cash and cash equivalents	\$ 99
Receivables (net of allowance for doubtful accounts of \$16 at December 31, 2011)	681
Inventory	243
Other	220
Total current assets	1,243
<b>Investments and Other Assets</b>	
Goodwill	921
Intangibles, net	143
Other	58
Total investments and other assets	1,122
<b>Property, Plant and Equipment</b>	
Cost	10,632
Less accumulated depreciation and amortization	2,594
Net property, plant and equipment	8,038
<b>Regulatory Assets and Deferred Debits</b>	
Regulatory assets	520
Other	16
Total regulatory assets and deferred debits	536
<b>Total Assets</b>	<b>\$ 10,939</b>

Duke Energy Ohio, Inc.  
Consolidated Balance Sheet  
(dollars in millions)

	December 31, 2011
<b>LIABILITIES AND COMMON STOCKHOLDER'S EQUITY</b>	
<b>Current Liabilities</b>	
Accounts payable	\$ 402
Taxes accrued	180
Interest accrued	23
Current maturities of long-term debt	507
Other	122
Total current liabilities	1,234
<b>Long-term Debt</b>	2,048
<b>Deferred Credits and Other Liabilities</b>	
Deferred income taxes	1,853
Investment tax credits	8
Accrued pension and other post-retirement benefit costs	147
Asset retirement obligations	27
Regulatory liabilities	273
Other	182
Total deferred credits and other liabilities	2,490
<b>Commitments and Contingencies</b>	
<b>Common Stockholder's Equity</b>	
Common Stock, \$8.50 par value, 120,000,000 shares authorized; 89,663,086 shares outstanding at December 31, 2011	762
Additional paid-in capital	5,085
Retained deficit	(652)
Accumulated other comprehensive loss	(28)
Total common stockholder's equity	5,167
<b>Total Liabilities and Common Stockholder's Equity</b>	\$ 10,939

Duke Energy Ohio, Inc.  
Consolidated Statement of Operations  
(dollars in millions)

	December 31,
	2011
<b>Operating Revenues</b>	
Regulated electric	\$ 1,518
Non-regulated electric and other	1,105
Regulated natural gas	558
Total operating revenues	3,181
<b>Operating Expenses</b>	
Fuel used in electric generation and purchased power - regulated	380
Fuel used in electric generation and purchased power - non-regulated	653
Cost of natural gas sold	209
Operation, maintenance and other	885
Depreciation and amortization	335
Property and other taxes	260
Goodwill and other impairment charges	89
Total operating expenses	2,811
<b>Gains on Sales of Other Assets and Other, net</b>	5
<b>Operating Income (Loss)</b>	375
<b>Other Income and Expenses, net</b>	19
<b>Interest Expense</b>	104
<b>Income (Loss) Before Income Taxes</b>	290
<b>Income Tax Expense</b>	96
<b>Net Income (Loss)</b>	\$ 194

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