



**Public Utilities
Commission**

Asim Z. Haque, Chairman

Commissioners

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

FILE

June 7, 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 Not in Excess of \$600,000,000 at Any One Time of Short-term Unsecured Notes and Other Evidences of Indebtedness.*

Dear Docketing Division:

Enclosed please find Staff's Review and Recommendation on the application of Duke Energy Ohio, Inc. for Authority to Issue Short-term Debt, in Case No. 17-0729-GE-AIS.

Doris McCarter
Division Chief, Forecasting, Markets and Corporate Oversight
Rates and Analysis Department
Public Utilities Commission of Ohio

Enclosure

Cc: Parties of Record

PUCO

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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 Not in Excess of)	
\$600,000,000 at Any One Time of Short-term)	Case No. 17-0729-GE-AIS
Unsecured Notes and Other Evidences of)	
Indebtedness)	

Staff Review and Recommendation

APPLICATION DESCRIPTION:

The Public Utilities Commission of Ohio (the "Commission") authorized Duke Energy Ohio, Inc. ("Duke Ohio") on June 15, 2016, in Case No. 16-0638-GE-AIS ("2016 Order"), to have short-term debt outstanding in the aggregate principal amounts of not more than \$600 million at any one time through June 30, 2017, and to participate in the Duke Energy Utility Money Pool ("Money Pool"). Duke Ohio had no short-term borrowings through the Money Pool during its current authorization period as of March 31, 2017.

On March 31, 2017, Duke Ohio filed its application and exhibits ("Application"), pursuant to R.C. 4905.401, requesting Commission authorization to: a) issue and/or renew short-term promissory notes and other evidences of indebtedness (collectively, "Debt") in an aggregate total not to exceed \$600 million at any one time; and b) continue as a participant in the Money Pool.

Pursuant to R.C. 4905.401, Ohio electric utilities are permitted to borrow up to 5 percent of the par value of all outstanding long-term securities without prior approval of the Commission ("Statutory Exemption"). Under the Statutory Exemption, Duke Ohio could borrow up to approximately \$121 million as of March 31, 2017, without the Commission's prior approval. Any Ohio electric utility wishing to incur short-term obligations in excess of the Statutory Exemption must seek Commission authorization.

REVIEW AND ANALYSIS:

Duke Ohio proposes to use the proceeds from the Debt for the discharge or refund of its obligations, the acquisition of property, capital expenditures associated with plant facilities, improvement and maintenance of its service, and working capital and other general corporate

purposes. Duke Ohio's capital expenditure budget is \$475 million in 2017 and \$579 million in 2018.

Under current authority, Duke Ohio has the ability to borrow on short-term from the Money Pool. Besides its ability to borrow from the Money Pool, Duke Ohio currently has a credit capacity of \$300 million under its parent Duke Energy Corporation's \$8 billion Master Credit Facility.

The Money Pool is an inter-company short-term financing arrangement by Duke Energy Corp. ("Duke Energy"), Duke Ohio's ultimate parent company; Duke Energy Business Services LLC ("DEBS") as a participant and Money Pool administrator; and the regulated utility subsidiaries of Duke Energy ("Participating Companies"). In past short-term debt authorization requests, the Staff has recommended certain conditions be placed around Duke Ohio's participation in the Money Pool. One such condition is that funds provided by Duke Ohio to the Money Pool should only be loaned to those Participating Companies who are regulated public utilities or such utilities' subsidiaries. This condition created a hardship for Duke Ohio's participation in the Money Pool as DEBS is not a utility nor is it a subsidiary of a utility. DEBS provides necessary utility support services on a shared basis to all of Duke Energy's utility subsidiaries, consisting of both regulated and non-regulated businesses. Under the current authority, the Commission allowed Duke Ohio's participation in the Money Pool along with DEBS provided that DEBS maintain a 3 percent maximum limit for non-regulated billed services out of the total annual billed services by DEBS. The billed services by DEBS during 2016 totaled \$2.901 billion. Of this total, \$52 million was billed by DEBS for nonregulated services (not including non-recurring charges related to the December 2016 sale of the Duke Energy Corporation Latin American Generation business). None of the non-regulated charges were related to activities in Ohio. Thus, 1.8 percent of DEBS's billed services during 2016 related to ongoing non-regulated services. There was a non-recurring charge associated with the December 2016 sale of Duke Energy's Latin American Generation Business, which, when combined with the \$52 million above, resulted in a 3.38 percent level of DEBS's billed services during 2016 that related to ongoing non-regulated services. The Staff notes that this is above the 3 percent maximum limit established by the Commission in the current Order. Although the Staff had not anticipated the magnitude of the non-recurring charges associated with the sale of the Latin American business, the Staff views that its sale will result in an increased ability of DEBS to maintain its non-regulated billed services below the 3 percent maximum limit authorized by the Commission in the future.

STAFF RECOMMENDATION:

Upon review of the Application, the Staff believes it to be reasonable and recommends its approval with the following conditions:

1. Funds provided by Duke Ohio to the Money Pool and borrowed therefrom by the Participating Companies shall not exceed \$600 million at any one time through June 30,

2018, and should only be loaned to those Participating Companies who are regulated public utilities or such utilities' direct subsidiaries;

2. Loans to the Participating Companies made through the Money Pool should be made only to those Participating Companies that have, or whose direct parent company has, investment grade or higher credit ratings from at least one nationally recognized credit rating agency, or in the absence of such rating, investment grade or higher credit ratings on their corporate credit rating from at least one nationally recognized credit rating agency. In the event the credit rating of any Participating Company, or its parent company in the case of an unrated company, falls below investment grade, Duke Ohio shall file the full details of such condition(s) in this case docket within 10 days of such a ratings change;
3. If any regulatory agency having jurisdiction over one or more of the Participating Companies imposes any condition limiting the amount of short-term debt that may be loaned to any Participating Company in the Money Pool, Duke Ohio shall report to the Commission in this case docket the full particulars of such condition(s) within 10 days of the imposition of the condition(s), so that the Commission may consider whether to impose similar condition(s) on Duke Ohio; and
4. Duke Ohio shall file in this case docket information relating to its participation in the Money Pool on a quarterly basis.

In order to permit Duke Ohio to continue participating in the Money Pool with DEBS as a Participating Company, the Staff recommends the following conditions in addition to those conditions imposed by the 2016 Order:

5. Duke Ohio may continue to participate in the Money Pool along with DEBS provided DEBS maintains a de minimis amount of non-regulated billed services. For the purpose of determining a de minimis amount in this case, the Staff recommends that the Commission establish a limit of less than 3 percent for non-regulated billed services out of the total annual billed services by DEBS. The Staff would consider an amount less than 3 percent as de minimis.
6. Duke Ohio shall provide an annual update of DEBS's billed services to the Staff by May 15, 2018, in order to verify a de minimis status for DEBS's amount of non-regulated billed services.