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May 23, 2018

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, Case No. 18-237-GE-AIS*

Dear Docketing Division:

Enclosed please find the Staff's Review and Recommendations in regard to the Application of Duke Energy Ohio, Inc., for Authority to issue Short-term Debt, Case No. 18-237-GE-AIS.



Doris McCarter
Chief, Capital Recovery and Financial Analysis Division
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 Not in Excess of) Case No. 18-237-GE-AIS
\$600,000,000 at Any One Time of Short-term)
Unsecured Notes and Other Evidences of)
Indebtedness)

Staff Review and Recommendation

APPLICATION DESCRIPTION

On June 21, 2017, The Public Utilities Commission of Ohio (the "Commission") authorized Duke Energy Ohio, Inc. ("Duke Ohio") in Case No. 17-729-GE-AIS ("Current Authority") to have Short-term debt outstanding in the aggregate principal amounts of not more than \$600 million at any one time through June 30, 2018, and to participate in the Duke Energy Utility Money Pool ("Money Pool").¹ Duke Ohio had \$24 million of short-term borrowings as of April 30, 2018.

On March 28, 2018, Duke Ohio filed its application and exhibits ("Application"), pursuant to Ohio Revised Code ("R.C.") 4905.401, requesting the Commission authorization to: a) issue and/or renew short-term promissory notes and other evidences of indebtedness (collectively, "Debt") in an aggregate amount not to exceed \$600 million at any one time; b) continue as a participant in the Money Pool.

R.C. 4905.401 provides a statutory exemption permitting Ohio electric utilities to borrow up to five percent of the par value of all outstanding long-term securities without the Commission's prior approval ("Statutory Exemption"). Any Ohio electric utility wishing to incur short-term obligations in excess of the exempted amount must seek Commission authorization.

REVIEW AND ANALYSIS

As of March 31, 2018, the Statutory Exemption allows Duke Ohio to borrow up to approximately \$121 million without the Commission's prior approval. Duke Ohio anticipates the need for short-term funding over the forthcoming authorization period in excess of the amount allowed under the Statutory Exemption.

¹ See *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*, Case No. 17-729-GE-AIS, Finding and Order (Jun. 21, 2017).

Duke Ohio proposes to use the proceeds from the Debt to discharge or refund its obligations, for the acquisition of property, for capital expenditures associated with plant facilities, for improvement and maintenance of its service, and for working capital and other general corporate purposes. Duke Ohio's capital expenditure budget is \$550 million in 2018 and \$625 million in 2019. In addition to its ability to borrow from the Money Pool, Duke Ohio has a credit capacity of \$300 million under the Duke Energy Corporation's ("Duke Energy") \$8.0 billion Master Credit Facility.

The Money Pool is an inter-company short-term financing arrangement by 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 previous short-term debt authorization requests, 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 three percent maximum limit for non-regulated billed services out of the total annual billed services by DEBS. The billed services by DEBS during 2017 totaled approximately \$3.2 billion. Of this total, approximately \$33 million was billed by DEBS for non-regulated services. Thus 1.03% of DEBS' billed services during 2017 were related to ongoing non-regulated services, which is under the Commission authorized limit for such services. Staff believes Duke Ohio's continued participation in the Money Pool is reasonable and economically beneficial for Duke Ohio to manage its cash flows for the provision of utility services.

STAFF RECOMMENDATION

Upon review of the Application, Staff believes it appears 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, 2019, 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 rating 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 participate in the Money Pool with DEBS as a Participating Company, Staff recommends the following conditions:

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, Staff recommends that the Commission reaffirm a limit of less than three percent for non-regulated billed services out of the total annual billed services by DEBS, which is consistent with the Commission's determination in the Current Authority.
6. Duke Ohio shall file an annual update of DEBS billed services in this case docket, prior to the expiration of any financing authority granted in this case, in order to verify a de minimis status for DEBS's amount of non-regulated billed services.